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FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2021 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 US\$'000	2020 US\$'000
Revenue	2	8,582,559	8,934,746
Cost of sales		(8,358,154)	(8,839,541)
Gross profit		224,405	95,205
Other income, gains and losses	3	161,768	159,161
Impairment loss recognised for property, plant and equipment		(12,171)	(29,650)
Selling expenses		(13,564)	(15,159)
General and administrative expenses		(173,924)	(178,212)
Research and development expenses		(106,362)	(172,412)
Interest expenses		(8,877)	(12,184)
Share of (loss) profit of associates		(1,117)	4,274
Profit (loss) before tax	4	70,158	(148,977)
Income tax expense	5	(13,735)	(24,859)
Profit (loss) for the year		56,423	(173,836)

	<i>Note</i>	2021 US\$'000	2020 US\$'000
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value gain on investments in equity instruments at fair value through other comprehensive income		16,887	40,589
Remeasurement of defined benefit pension plans		335	241
		17,222	40,830
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		30,256	122,417
Reclassification of cumulative translation reserve upon deemed disposal of subsidiaries		(173)	–
Share of translation reserve of associates		(1,379)	2,030
		28,704	124,447
Other comprehensive income for the year, net of income tax		45,926	165,277
Total comprehensive income (expense) for the year		102,349	(8,559)
Profit (loss) for the year attributable to:			
Owners of the Company		56,328	(173,939)
Non-controlling interests		95	103
		56,423	(173,836)
Total comprehensive income (expense) attributable to:			
Owners of the Company		102,165	(9,081)
Non-controlling interests		184	522
		102,349	(8,559)
Earnings (loss) per share			
Basic	7	US0.70 cent	(US2.13 cents)
Diluted		US0.70 cent	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 US\$'000	2020 <i>US\$'000</i>
Non-current assets			
Property, plant and equipment		813,658	887,955
Right-of-use assets		60,210	79,825
Investment properties		14,655	17,142
Financial assets at fair value through profit or loss			
— Equity instruments		1,900	—
Financial assets at fair value through other comprehensive income	8		
— Equity instruments		225,339	205,549
Interests in associates		20,891	34,244
Interests in joint ventures		40,000	—
Deferred tax assets	9	22,132	20,383
Deposit for acquisition of right-of-use assets		29,881	29,214
		1,228,666	1,274,312
Current assets			
Inventories		850,592	608,697
Trade and other receivables	10	2,001,387	2,354,227
Bank deposits		14,327	15,506
Bank balances and cash		1,884,719	1,779,332
		4,751,025	4,757,762
Current liabilities			
Trade and other payables	11	2,732,383	2,760,474
Contract liabilities		105,207	115,668
Lease liabilities		5,033	4,773
Bank borrowings	12	857,490	929,068
Provision	13	6,323	9,499
Tax payable		71,849	89,804
		3,778,285	3,909,286
Net current assets		972,740	848,476
Total assets less current liabilities		2,201,406	2,122,788

	<i>Notes</i>	2021 US\$'000	2020 US\$'000
Capital and reserves			
Share capital		320,400	325,800
Reserves		1,839,560	1,749,632
		<hr/>	<hr/>
Equity attributable to owners of the Company		2,159,960	2,075,432
Non-controlling interests		7,309	6,636
		<hr/>	<hr/>
Total equity		2,167,269	2,082,068
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities	9	6,715	11,504
Deferred income	14	9,279	9,778
Lease liabilities		18,143	19,438
		<hr/>	<hr/>
		34,137	40,720
		<hr/>	<hr/>
		2,201,406	2,122,788
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Notes:

1. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 16	COVID-19-Related Rent Concession
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the IASB issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on internal reports reviewed by the chief operating decision maker, the Chief Executive Officer, for the purpose of allocating resources to the segment and to assess its performance.

The Group’s operations are organised into three operating segments based on the location of customers — Asia, Europe and America.

Segment revenue and results

The Group’s revenue is from contracts with customers and mainly arising from the manufacturing services (including sales of goods and processing service) amounting to US\$8,582,559,000 (2020: US\$8,934,746,000) to its customers in connection with the production of handsets.

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

As at 1 January 2020, contract liabilities amounted to US\$140,249,000. All the contract liabilities at the beginning of the reporting period were included in the revenue recognised in the reporting period.

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Segment revenue (external sales)		
Asia	6,576,070	7,890,795
Europe	794,437	537,306
America	1,212,052	506,645
	<hr/>	<hr/>
Total	8,582,559	8,934,746
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Segment profit		
Asia	126,312	78,081
Europe	39,545	14,602
America	50,720	21,426
	<hr/>	<hr/>
	216,577	114,109
Other income, gains and losses	156,032	125,098
Impairment loss recognised for property, plant and equipment	(12,171)	(29,650)
General and administrative expenses	(173,924)	(178,212)
Research and development expenses	(106,362)	(172,412)
Interest expense	(8,877)	(12,184)
Share of (loss) profit of associates	(1,117)	4,274
	<hr/>	<hr/>
Profit (loss) before tax	70,158	(148,977)
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Segment profit represents the gross profit earned by each segment and the service income and certain gains and losses (included in other income, gains and losses) after deducting all selling expenses. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Segment assets		
Allocated		
Asia	1,495,677	1,938,352
Europe	96,431	67,738
America	336,174	275,506
	<hr/>	<hr/>
Total	1,928,282	2,281,596
Unallocated		
Property, plant and equipment	800,907	873,061
Inventories	837,692	597,135
Cash and bank deposits	1,704,332	1,593,116
Others	391,949	419,945
Corporate assets	316,529	267,221
	<hr/>	<hr/>
Consolidated total assets	5,979,691	6,032,074
	<hr/>	<hr/>
Segment liabilities		
Allocated		
Europe	291	763
America	23,706	28,966
	<hr/>	<hr/>
Total	23,997	29,729
Unallocated		
Trade and other payables	2,707,817	2,732,024
Others	143,775	159,021
Corporate liabilities	936,833	1,029,232
	<hr/>	<hr/>
Consolidated total liabilities	3,812,422	3,950,006
	<hr/>	<hr/>

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

3. OTHER INCOME, GAINS AND LOSSES

	2021 US\$'000	2020 US\$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank deposits and bank balances	35,552	34,732
Service income	10,432	34,063
Sales of materials and scraps	20,531	9,565
Repairs and modifications of mouldings	28,746	28,421
Net foreign exchange gain (loss)	2,393	(34)
Government subsidies (<i>note</i>)	28,237	56,764
Rental income	10,103	8,819
Loss on disposal and write-off of property, plant and equipment	(7,268)	(12,945)
Gain on disposal of investment properties	–	626
Gain on liquidation of investment in a joint venture	–	2,356
Impairment loss recognised in respect of trade receivable, net	(4,679)	(5,956)
Net fair value gain (loss) on financial assets at fair value through profit or loss (“FVTPL”)		
— short-term investments	–	2,383
— equity instruments	1,900	1,585
— other financial assets	(496)	(355)
Dividend income from equity instruments at fair value through other comprehensive income (“FVTOCI”)	2,203	–
Gain on deemed disposal of subsidiaries (<i>note 15</i>)	34,915	–
Others	(801)	(863)
	<u>161,768</u>	<u>159,161</u>

Note: This mainly represented subsidies granted for the Group's operations in the PRC. During the year, the Group recognised government grants of US\$2,593,000 (2020: US\$19,455,000) in respect of COVID-19-related subsidies, of which are mainly employment support scheme provided by local government.

4. PROFIT (LOSS) BEFORE TAX

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Profit (loss) before tax for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	177,453	186,271
Depreciation of right-of-use assets	9,192	8,398
Depreciation of investment properties	2,715	1,609
	<hr/>	<hr/>
Total depreciation and amortisation	189,360	196,278
Less: Amount capitalised in inventories	(154,027)	(158,594)
Amount included in research and development expenses	(10,188)	(9,647)
	<hr/>	<hr/>
	25,145	28,037
	<hr/>	<hr/>
Staff costs		
Directors' emoluments	2,338	1,263
Retirement benefit scheme contributions (excluding directors)	20,980	19,618
Other staff costs	420,616	454,771
	<hr/>	<hr/>
Total staff costs	443,934	475,652
Less: Amount capitalised in inventories	(305,896)	(269,662)
Amount included in research and development expenses	(48,159)	(105,552)
	<hr/>	<hr/>
	89,879	100,438
	<hr/>	<hr/>
Auditor's remuneration	1,009	982
Cost of inventories recognised as expense	8,323,763	8,776,876
Provision for warranty	6,058	3,376
Write-down of inventories to net realisable value	28,333	59,289
	<hr/> <hr/>	<hr/> <hr/>

5. INCOME TAX EXPENSE

	2021 US\$'000	2020 US\$'000
Current tax		
— Hong Kong	—	—
— Other jurisdictions	28,252	33,823
	<u>28,252</u>	<u>33,823</u>
Overprovision in prior years		
— Hong Kong	—	—
— Other jurisdictions	(7,565)	(5,708)
	<u>(7,565)</u>	<u>(5,708)</u>
	<u>20,687</u>	<u>28,115</u>
Deferred tax		
— Current year	(6,952)	(3,256)
	<u>(6,952)</u>	<u>(3,256)</u>
	<u><u>13,735</u></u>	<u><u>24,859</u></u>

No provision for Hong Kong Profits Tax has been made as the Group does not have assessable profits in Hong Kong.

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2020: 25%). Two of the Company's PRC subsidiaries were awarded with the Advanced — Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for a period of 3 years, i.e. effective from 2019 and 2020 respectively. Besides, two of the Company's PRC subsidiaries was entitled to a concessionary tax rate of 15% under the China's "Great Western Expansion" campaign. Except these subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2020: 25%).

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

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

6. DIVIDENDS

No dividend was declared or proposed for the years ended 31 December 2021 and 31 December 2020, and during the reporting period, a special cash dividend from the Company was proposed upon completion of the proposed spin-off of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH").

7. EARNINGS (LOSS) PER SHARE

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Profit (loss) attributable to the owners of the Company		
Profit (loss) for the purposes of basic earnings (loss) per share	56,328	(173,939)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of subsidiaries on dilution of their earnings per share	<u>–</u>	<u>N/A</u>
Earnings for the purpose of diluted earnings per share	<u>56,328</u>	<u>N/A</u>
	2021	2020
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (2020: basic loss) per share	<u>8,047,477,551</u>	<u>8,149,199,475</u>

The calculation of diluted earnings per share for the year ended 31 December 2021 does not assume the anti-dilutive impact from the share options issued by its subsidiary. No diluted loss per share was presented in 2020 as there was no potential ordinary shares in issue.

8. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 US\$'000	2020 US\$'000
Equity securities listed in Taiwan (<i>note a</i>)	7,149	8,312
Equity securities listed in USA (<i>note a</i>)	4,365	1,755
Unlisted equity securities (<i>note b</i>)	213,825	195,482
	<u>225,339</u>	<u>205,549</u>

Notes:

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

As at 31 December 2021 and 2020, included in unlisted equity securities above, there is the Group's investment in HMD Global Oy ("HMD"), a company incorporated in Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services of approximately US\$184,600,000 (2020: US\$169,500,000).

In determining the fair value of unlisted equity investment in relation to HMD, the Group engages independent professional valuers to perform such valuation. The amount is determined based on the cash flow projection for the estimated future cash flow discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin taking into account the relevant industry growth forecasts and financial budgets approved by HMD's management and the Group's management's expectation for the market development.

9. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables US\$'000	Warranty provision US\$'000	Accelerated tax depreciation US\$'000	Tax losses US\$'000	Others US\$'000 (note)	Total US\$'000
At 1 January 2020	(3,357)	(599)	9,336	(7,426)	(4,415)	(6,461)
Charge (credit) to profit or loss for the year	1,090	205	(2,404)	58	(2,205)	(3,256)
Exchange adjustments	(42)	(24)	387	409	108	838
At 31 December 2020	(2,309)	(418)	7,319	(6,959)	(6,512)	(8,879)
(Credit) charge to profit or loss for the year	(618)	(19)	(3,506)	2,763	(5,572)	(6,952)
Exchange adjustments	5	(6)	88	210	117	414
At 31 December 2021	(2,922)	(443)	3,901	(3,986)	(11,967)	(15,417)

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

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2021 US\$'000	2020 US\$'000
Deferred tax assets	(22,132)	(20,383)
Deferred tax liabilities	6,715	11,504
	(15,417)	(8,879)

Deferred tax assets were recognised for other deductible temporary differences of approximately US\$62,566,000 (2020: US\$37,356,000) on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses.

At 31 December 2021, the Group has not recognised deductible temporary differences on allowances for inventories and trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US\$101,194,000 (2020: US\$98,539,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of approximately US\$2,060,513,000 (2020: US\$2,060,635,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US\$13,286,000 (2020: US\$23,196,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US\$2,047,227,000 (2020: US\$2,037,439,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. Included in unrecognised tax losses are losses at approximately US\$356,292,000 (2020: US\$343,426,000) which will expire by 5 consecutive years. Other losses may be carried forward indefinitely.

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

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US\$914,615,000 (2020: US\$986,276,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

10. TRADE AND OTHER RECEIVABLES

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Trade receivables	1,708,217	2,049,158
Less: Allowance for credit losses	(12,642)	(7,883)
	1,695,575	2,041,275
Other taxes recoverable	181,870	189,480
Other receivables, deposits and prepayments	123,942	123,472
Total trade and other receivables	2,001,387	2,354,227

As at 1 January 2020, trade receivables from contracts with customers amounted to US\$2,858,806,000.

The Group generally would issue the invoices to the customers when the goods are passed to the customers, except for certain orders that the Group may also collect advance payments from customers. The Group normally allows an average credit period ranged from 30 to 90 days to its trade customers, except certain customers with a good track record which may be granted a longer credit period.

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
0–90 days	1,574,028	1,940,908
91–180 days	95,205	85,514
181–360 days	26,158	6,328
Over 360 days	184	8,525
	1,695,575	2,041,275

Due to the COVID-19 pandemic and lockdowns in various countries, the payments from certain customers have been deferred. As at 31 December 2021, included in the Group's trade receivables balances are debtors with aggregate carrying amount of US\$139,934,000 (2020: US\$100,367,000) which are past due as at the reporting date. Out of the past due balances, US\$26,342,000 (2020: US\$9,580,000) has been past due 90 days or more and is not considered as in default based on the credit quality of the debtors. The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

	2021 US\$'000	2020 US\$'000
Trade payables	2,038,092	1,904,474
Other tax payables	118,587	155,568
Accrued staff costs and employee benefits	136,285	168,218
Others	439,419	532,214
	<u>2,732,383</u>	<u>2,760,474</u>

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

	2021 US\$'000	2020 US\$'000
0–90 days	1,950,662	1,823,058
91–180 days	57,682	54,523
181–360 days	18,334	11,404
Over 360 days	11,414	15,489
	<u>2,038,092</u>	<u>1,904,474</u>

12. BANK BORROWINGS

	2021 US\$'000	2020 US\$'000
Bank loans	<u>857,490</u>	<u>929,068</u>
Analysis of bank borrowings by currency:		
US\$	816,280	927,300
RMB	39,200	–
Indian Rupee (“INR”)	<u>2,010</u>	<u>1,768</u>

The bank borrowings as at 31 December 2021 are unsecured, obtained with original maturity of one to six months (2020: one to two months) and carry interest at fixed interest rate ranging from 0.61% to 5.90% (2020: 0.72% to 5.90%) per annum. Out of total bank borrowing, bank borrowing of US\$97,010,000 (2020: US\$65,168,000) contains a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 0.80% per annum (2020: 0.79% per annum).

13. PROVISION

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
At 1 January	9,499	13,185
Exchange adjustments	135	472
Provision for the year	6,058	3,376
Utilisation of provision/upon expiry of the warranty period	(9,369)	(7,534)
At 31 December	6,323	9,499

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

14. DEFERRED INCOME

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Government subsidies	9,279	9,778

Government subsidies granted to the Company's subsidiaries in the PRC are released to income over the useful lives of the related depreciable assets.

15. DEEMED DISPOSAL OF SUBSIDIARIES

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

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

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

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

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

	31 December 2021 US\$’000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	2,452
Right-of-use assets	516
Inventories	2,208
Trade and other receivables	13,389
Bank balances and cash	2,066
Trade and other payables	(12,950)
Lease liabilities	(517)
Provisions	(1)
Income tax payable	(1)
Other liabilities and accruals	(3,188)
	<u>3,974</u>
Gain on deemed disposal of subsidiaries:	
Interest in a joint venture	40,000
Net assets disposed of	(3,974)
Reclassification of cumulative translation reserve upon deemed disposal of Mobile Drive to profit or loss	173
Transaction costs	(1,284)
	<u>34,915</u>
Net cash outflow arising on deemed disposal:	
Bank balances and cash disposed of	<u>(2,066)</u>

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

The disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's consolidated statement of financial position.

The Group currently has a legally enforceable right to set off certain bank balances with bank borrowings at the same bank that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

Financial assets/liabilities subject to offsetting	As at 31 December 2021		
	Gross amounts of recognised financial assets (liabilities) US\$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US\$'000	Net amounts of financial assets presented in the consolidated statement of financial position US\$'000
Bank balances	534,850	(534,850)	–
Bank borrowings	(534,850)	534,850	–
Interest receivables	4,304	(3,714)	590
Interest payables	(3,714)	3,714	–
Financial assets/liabilities subject to offsetting	As at 31 December 2020		
	Gross amounts of recognised financial assets (liabilities) US\$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US\$'000	Net amounts of financial assets presented in the consolidated statement of financial position US\$'000
Bank balances	893,404	(893,404)	–
Bank borrowings	(893,404)	893,404	–
Interest receivables	11,543	(10,740)	803
Interest payables	(10,740)	10,740	–

During the year, interest income of US\$1,853,000 (2020: US\$21,505,000) relating to the above arrangement was included in interest income.

IMPORTANT

The consolidated final results of the Group for the current period as set out in this announcement have been reviewed and audited in accordance with the relevant financial standards. The Group's results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group's results of operations for any period should not be considered to be indicative of the results to be expected for any future period. In particular, as there is the Chinese New Year holiday (especially a long break in the PRC and Taiwan) in the first quarter of each year which is generally a low season post-Chinese New Year for the industry in which the Group operates, the Group's performance in the first quarter is usually not comprehensive and representative, compared with that in the other quarters.

The Company refers to its announcements of 12 May 2021, 23 July 2021, 11 November 2021 and 3 December 2021 respectively, which in turn referred to (among other things) the novel coronavirus (COVID-19) pandemic and other challenging conditions that the Group has been facing, together with their adverse impacts on the Group and its operations, as well as the various factors attributable to the Group's consolidated net profit for the current period. In this respect, please also refer to "2022 Outlook" below.

This announcement contains forward-looking statements regarding the Company's expectations and outlook on the Group's order book, business operations, opportunities, threats and prospects. Such forward-looking statements are subject to risks and uncertainties and do not constitute guarantees of the future performance and order book of the Group and are subject to factors that could cause the Group's actual results and order book to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but may not be limited to, anticipated and potential adverse impacts resulting from the COVID-19 pandemic, the scope and duration of the COVID-19 pandemic and its impact on our sites, customers, supply chain and operations, the anticipated impact of COVID-19-related government relief measures, and our intention to apply for, and the anticipated receipt of COVID-19-related government relief packages, changes in general industry and macro-economic environment (such as intensifying tensions and political conditions), changes in money markets (such as interest rate hikes and volatility in foreign exchange rates), changes in capital markets, competition, shifts in customers' demand and preferences, customer outsourcing, competitive challenges affecting our customers, managing fluctuations in customer demand and other related customer challenges that may occur, seasonality of sales, shifting of end-user preferences and higher revenue volatility, changes in sales and product mix and asset utilisation, changes in commodity price, shortage of components (like chipsets and displays), and materials constraints and prolonged delivery lead time and rises in prices, our growth and diversification strategies and plans (and potential hindrances thereto), our credit risk, risks associated with international sales and operations, pace of technology advancement, and changes in market/legal/regulatory/government/tax policy (e.g. government's blacklisting, export controls and bans against the Group's major customer), the potential adverse impacts of events outside of our control. In addition, new unpredictable risks emerge from time to time and it is not possible for the management to predict all such risk factors or to assess the impacts of such risk factors on the Group's business. For more details, please see "Outlook"

(particularly “2022 Outlook”) below. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Listing Rules and the SFO.

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

DISCUSSION AND ANALYSIS

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader in the handset industry worldwide providing leading-edge manufacturing technology and vertically integrated manufacturing services to its customers with improved product quality, increased flexibility, faster time to market, and overall value. The Company offers solutions that span from initial design and product development through ramp-up and volume manufacturing and this business model offers a comprehensive range of end-to-end manufacturing and engineering services to its customers tailored to meet specific market and customer product lifecycle requirements in respect of handsets and other wireless communication devices and consumer electronic products and this full range and array of capabilities provide our customers with expertise across the entire value chain. The products and services include unique and innovative product development and design, casings (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly, supply chain services and solutions, and repair and refurbishment and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as e-Readers, tablets, and voice interaction products like smart speakers. Within design and development, the Group provides customers with a broad spectrum of OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturing) capabilities and our strength lies in delivering product and software development and manufacturing solutions of high complexity that require strong engineering and technical and design proficiency. The Group’s ODM offering includes developing hardware and software platforms and design solutions in collaboration with customers, as well as management of the program’s design and development and aspects of the supply chain and manufacturing and cost optimisation. Technology innovation is at the center of our ability to deliver these end-to-end capabilities. Our customers leverage our services to meet their requirements throughout the entire lifecycle of their products. The Group operates a network of sites and centers of excellence strategically located in China, India, Vietnam, Taiwan, Mexico and America.

Handset manufacturing industry is highly dynamic and competitive and a majority of the market participants face challenges with respect to the operating margin as component prices are on an average and key focus lies on the labour costs. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans and currently this is viewed as a significant restraining factor for the market. Keen market competition makes it difficult to predict order book and aggressive pricing is a common business dynamic as entry barrier is low, especially when the excess manufacturing supply emerged due to the restriction been imposed to a major Chinese mobile brand company and restricted recovery in different countries due to COVID-19 and the extent and severity and duration of the impact remain uncertain. The rapid spread of the virus in 2020 prompted shutdowns of industries around the world and, while most of us were in lockdown, there was lower consumer demand and reduced industrial activity. One year on, the world is learning to co-exist with the virus. Not only do those disruptions impact the economy, businesses, and people, they also have direct implications for financial markets. Border controls and mobility restrictions, unavailability of a global vaccine pass, and pent-up demand from being stuck at home have combined for a perfect storm where global production has been hampered because deliveries are not made in time, costs and prices have risen, logjams at ports and GDP growth worldwide has not been as robust as a result. Amid higher consumer demand for goods that have been in short supply, freight rates for merchandise coming from China to the U.S. and Europe have soared, while a shortage of truck drivers across both the latter regions has exacerbated the problem of getting goods to their final destinations, and has led to high prices once those products hit store shelves.

Other than handset business, with the goal to continuously maintain its competitiveness, the Group has invested in diversification and transformation in product mix starting from 2019. By leveraging our over decades of experience in wireless communication technology and software and hardware integration experience, the Group established a wholly-owned subsidiary Mobile Drive Netherlands B.V., and its subsidiaries (hereinafter collectively referred to as the “Mobile Drive Group”) to step into the automotive business. It is worth mentioning that Mobile Drive Group made several impressive achievements and reached a major milestone in 2021. On 23 November 2021, Mobile Drive Group has received ASIL-D, the highest level of ISO 26262 automotive functional safety certificate. With ISO 26262 certification, Mobile Drive Group aims to leverage its great practice in software and hardware integration to roll out disruptive products with highest safety standard for automotive industry. Most significantly, at the end of December 2021, Mobile Drive Group became jointly owned by the Group and Stellantis N.V. (“Stellantis”), one of the world’s leading automakers and a mobility provider, combining with wide resource and solid experience from both sides, Mobile Drive Group would leverage its expertise in wireless communication and automotive industry to focus on the software and hardware integration to develop a smart cockpit solution for in-vehicle infotainment system while the Group would become the strongest anchor partner to provide all the supports from the hardware manufacturing side. Besides, the Group has been closely working with the top OEMs, first or second tier suppliers across Asia and Europe, and received several quotations already, and it is expected that ADAS solution, smart cockpit solution and multi-functional IVI (In-Vehicle Infotainment) system will be a promising business driver in the near future.

On 31 December 2021, the Group ceased to have control over the entities in Mobile Drive Group it previously owned and which were then become jointly owned by the Group and Stellantis, and hence those entities originally owned by the Group ceased to be the subsidiaries of the Group and their respective financial results, assets and liabilities shall no longer be consolidated into the Group's financial statements. The joint venture, which wholly owns the Mobile Drive Group, became owned by Wonderful Stars Pte. Ltd. (subsidiary of the Group) as to 50% of the joint venture's total equity interest, and thus the investment in the joint venture and the subsequent share of profits/losses of the joint venture will be accounted for by equity method in the Group's consolidated financial statements after 31 December 2021. There was a derecognition of assets and liabilities of approximately US\$20.6 million and US\$16.6 million respectively and recognition of an investment in a joint venture of US\$40 million on the Group's consolidated statement of financial position, and a recognition on the Group's consolidated statement of profit or loss and other comprehensive income of a gain of approximately US\$34.9 million (before taxation, if any), calculated by (1) the difference upon completion of joint venture formation between the carrying amount of the assets and liabilities of the joint venture of US\$4 million and the fair value of the Group's equity interest in the joint venture of US\$40 million, and (2) the transaction costs directly attributable to the transaction of approximately US\$1.3 million, (3) the gain from reclassification of cumulative translation reserve of approximately US\$0.2 million. The consideration for the Group's disposal of its interests in the assets and liabilities of the Mobile Drive Group is the Group's share of equity interest in the joint venture upon completion of the joint venture formation. The Group currently intends to hold the investment in Mobile Drive Group as a long-term strategic deployment into the joint venture's business objectives and activities.

Customers may shift production between EMS (Electronic Manufacturing Services) providers for a number of reasons. They include changes in competition landscape and demand for their products, reshoring plans of suppliers, pricing concessions, more favorable payment terms and conditions, outsourcing strategies and their preference to consolidate their supply chain capacity or rotating their supply chain partners, enterprise risk management, optimisation of logistics costs, quality of engineering and product development services, on-time delivery and tax benefits. Customers may also change the amount of business they outsource in order to integrate vertically and consolidate through the value chain or increase specialisation through further contracting, or the concentration of location of their EMS suppliers. COVID-19 and the trade war between the United States and China starting from last few years have forced companies all over the world to re-evaluate their supply-chain arrangements, several reports have discussed an exodus from China, either to neighboring countries, such as Vietnam and India, or back to their home countries as part of a process known as "reshoring". As a result, customer and segment revenue and mix and geographical performance, as well as overall earnings, may fluctuate. Countries with large number of domestic consumers would witness home grown manufactures of OEMs and ODMs, mainly driven by initiatives of the respective governments. In the long term, if overall demand increases, market participants will be able to expand through technological investments. Thus, the impact maybe lower in the mid to long terms.

In regards to the global consumer electronics industry, the COVID-19 challenge has catalysed the acceleration of digital transformations, and demand for consumer electronics spiked, causing an urgent need for devices supporting activities such as work from home and remote learning. PC & tablet are two of the significant beneficiaries of COVID-19 outbreak. According to International Data Corporation (IDC) report released on 12 January 2022, global shipments of traditional PCs reached 348.8 million units in 2021, up 14.8% year over year, marking the highest level of shipments in the PC market since 2012. Another IDC report released on 31 January 2022, stated that worldwide tablet shipments reached 168.8 million units in 2021, up 3.2% year over year, which also represented the market's highest level since 2016. As consumer spending shifted to adjacent markets like PCs and tablets, it unavoidably exerted a profound impact on smartphone business. In terms of global smartphone market, according to IDC report on 27 January 2022, despite that the total shipments reached 1.35 billion in 2021, the extent of growth was still confined under persistent component shortages and increased cost of logistics, with a conservative 5.7% annual growth over 2020 which was heavily pinned down by the outbreak of COVID-19. In the meanwhile, easing restrictions across many countries led consumers to increase spending in the categories other than handsets, especially to the countries have approached mobile phone market saturation. These all caused fierce price competition and shrinking profit margins throughout the smartphone industry.

As business spans multiple end markets, the Group strives to provide its customers on a global basis with not only product development and manufacturing support and solutions, but also vertical integration and a full range of cost-competitive services including repair services on a global basis. The Group's repair services provide comprehensive capabilities of return management and services and product repair/refurbish solutions in mobile device industry. The repair service centers are proximity close to market and are scalable with ability to ramp up in a rapid manner and end-to-end manufacturing capabilities allow the handling of high-mix-low-volume customers. The Group believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycles and reduce the lead time required to ramp up the production and bring the products to the highly dynamic and competitive market and fosters long-term business relationships with customers. This can allow the customers to successfully navigate through difficult economic times such as the current COVID-19 pandemic and global economy slowdown. The extensive global expertise provided a solid foundation for serving existing and potential clients disregard national boundaries. Weak global economic situations, geopolitical uncertainty and instability in financial markets will definitely have negative implications of the business of the Group and financial conditions and business of our customers. Uncertainty in the global economy and financial markets triggered by COVID-19 may impact current and future demand for the Group's customers' products and services, and consequently, our operations. The Group continues to monitor the dynamics and impacts of the global economic and financial environment and chipset and component shortage and supply chain constraints and work to manage our strategies, priorities, costs, overheads, footprint, capital expenditures and resources to anticipate and prepare for any changes we deem necessary and make continuous improvements. To ensure that the Group has been prepared for an uncertain demand environment, it has aggressively eliminated the obsolete, redundant and surplus assets to become an asset-light corporate group and optimised headcounts and cut costs and expenses to maintain and preserve cash. With the Research and Development ("R&D") capabilities and competencies and know-how in working with a wide range of materials and craftsmanship and

provide manufacturing solutions ranging from traditional metal stamping and plastic injection to system assembly solutions, the Group is able to fulfill its customers' changing and diverse needs and product design requirements and offer comprehensive and competitive one-stop-shopping solutions to its customers worldwide.

As always, even with the continuing rightsizing/restructuring of the underperforming parts of the Group's manufacturing operations, the Group will continue to provide casing and system assembly of consumer electronic products to its customers. However, in view of the slowdown in growth rate of smartphones shipment, the Group is committed to diversifying the revenue contribution from mobile phones and mitigating the risk of dependence on a single product and region. For example, for India operation of the Group, it has devoted a lot effort to develop new customers of other consumer electronic products such as hearables, TVs and e-scooters. In particular, the Group has been engaged in 5G, IoV (Internet of Vehicles) and AI (Artificial Intelligence) since 2019 for building up the Internet and the mobile ecosystem, actively expanding the Group's participation in the relevant product and service segments of the 5G, IoV and AI businesses through the utilisation of the Group's expertise and experience and core competencies in providing its innovative software design and hardware development services as well as wireless communication and information exchange technologies in support of the development of such business segments together with ancillary networks and ecosystem.

In recent years, the U.S. and China have been locked in a serious economic competition. Since the inauguration of President Biden, the focus of the U.S. has shifted from trade war to technology sanctions, which creates the uncertainty and instability toward the global supply chain. According to Financial Times report on 15 December 2021, the U.S. have already placed 60 Chinese groups in Chinese military-industrial complex companies blacklist, and expected to place more than two dozen Chinese companies on the "entity list". The Biden administration also considers tightening rules on U.S. companies selling technology to Semiconductor Manufacturing International Corp (SMIC), China largest chipmaker. The ongoing U.S. government sanctions on specific Chinese companies, and the ban on SMIC, have contributed to supply tightness, and even severe shortages, in a wide range of common electronic components starting from the third quarter of 2020 and now continuing into 2022. Furthermore, the standoff situation is fueled by the escalating confrontation between China and the U.S. over Xinjiang issue as well. On 23 December 2021, Biden signed the Uyghur Forced Labor Prevention Act, inhibiting imports from China's Xinjiang region unless the importer can prove they were not made with forced labor.

The prolonged supply crunch has been a hindrance on the electronics marketplace, trickling down across the supply chain from consumer electronics to the automotive segment. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. were subject to compressed supplies, with rising prices and extended order lead times persist into 2022. Global shortage of semiconductors is a problem that has shuttered some automotive production pipelines and adversely affected other industries, including smartphones and other consumer electronic products. While several industries have taken proactive steps to mitigate near-term supply constraints, and global semiconductors manufactures have actively invested in foundry and factories expansion to

ramp up production capacities, however, the dearth of supply will not be alleviated in the short term. As at the J.P. Morgan Tech/Auto Forum held on 5 January 2022, many semiconductor executives said that they didn't see any improvement for shortages before the middle of 2022 and many even said not even then. Likewise, Intel CEO Pat Gelsinger also estimated that the chip shortages will persist until at least 2023, and the situation will ease in the second half of this decade, according to Breaking The News report on 9 February 2022.

The Group believes that our continued effort on business diversification and transformation and making continuous improvements is critical to the long term sustainability of the Group and strategically positioning the Group to take advantage of the future growth prospects of OEM and ODM services and remains competitive.

Key Relationships with Customers, Suppliers and Employees

Key Relationships with Customers

Apart from offering production sites in different countries, the Group's strategy and business model are to work with the customers to provide holistic services from the initial concept design stage up until the end of the production process managing all aspects of sourcing, development and production start-ups and assembly and services of phone and provide a complete range of cost-competitive and vertically-integrated global supply chain solutions for its customers. Such initiatives can help accelerate product time-to-market and time-to-volume and efficiently bring new products to production and scale production for quickly changing customer demands. This also enables customers to leverage on the Group's supply chain solutions to meet their product requirements throughout the life cycle of their products and allows new products of customers to be launched to the highly competitive marketplace in an accelerated time frame. Rapid changes in technology, evolving industry standards, and requirements for continuous improvement in products and services have resulted in short product life cycles. The Group secures front-end trends by working closely with supply chain and suppliers and creating win-win for both the Group and customers by developing practical solutions which can enhance competitiveness of customers. Such repeatable execution which adapts to ever-changing macro-economic conditions provide clear value to customers. But because of outbreak of COVID-19 and the resultant supply chain chaos, end market demand becomes uncertain and volatile and our customers are more cautious in their demand planning and demand visibility is shortened and this makes it difficult for the Group to schedule production and maximise utilisation of our manufacturing capacity and to estimate order book. As long-term partnership has been established with customers, the Group is able to communicate effectively with the customers and accelerate manufacturing whilst meeting specifications and quality requirements from customers. At the same time, the Group has been consistently putting effort on improving operation management and process and efficiency optimisation, quality management, research and development, streamlining production process to improve learning curves and yield, human resource management and talent development to deliver all projects and services in a timely and efficient manner. The Group is dedicated to continue to build competitive advantages that are core to our success and this includes focuses on global deployment in India and Vietnam, competitive costs, superior quality and customer service, rapid product development cycles, use of new technologies and solutions, ability to

design for large-volume and low-cost production, and control of multiple production inputs through our vertically integrated operations. But there has been more than usual pressure on pricing coming from the largest players in the industry fighting against the recent trend in market share development and all of the Group's customers have been facing challenges of various kinds. Customers which own manufacturing facilities and capabilities may reduce outsourcing so as to optimise its own capacity utilisation. Customers may fail to successfully market their products, and customers' products may fail to gain widespread commercial acceptance and customers' products may have supply chain issues (including as a result of the COVID-19 pandemic) and customers may experience dramatic market share shifts in demand which may cause them to lose market share or exit businesses. On the other hand, the core business of one key customer is not in mobile phone sector and any change to the business strategy of this customer may affect the Group's sales to this customer. The Group will continue to explore opportunities in new projects, new products and new customer development on the solid foundation of existing products and service offerings and domain expertise and customers. Confronting more diversified product lines and customer demands, the Group will deliberately enhance the core competence and differentiate us from our competition by means of keeping pace with technological changes and competitive conditions in OEM industry, effectively adapting our services as our customers react to technological and market changes and competitive conditions in their respective market segments, optimising and streamlining production process, improving responsiveness and flexibility, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents. From Enterprise Risk Management (ERM) perspective, the Group has been operating in a dynamic market a sustainable business with a well-balanced and diversified portfolios from a customer and product and geographical diversification perspective.

While the smartphone market underwent the gradual revival from COVID-19 in early 2021, the outbreak of the COVID-19 second wave heavily swept across several regions of the world in which the Group has operations, especially in Vietnam and India, it has had a profound impact on the local phone production volume and shipment and sales and our ability to estimate order book. The "second wave" of the COVID-19 pandemic in India started in April 2021 and continued until June 2021. The second wave caused widespread mortality, severely strained healthcare resources across the country and adversely affected its operations. Following the second wave and with increased vaccination and relaxation in social distancing norms, operations in our India campus partially stabilised. Adverse second wave of COVID-19 infections also impaired the handset industry, with rising demand uncertainty in terms of customer confidence in spending, has resulted a constraint on smartphone growth in 2021 in those regions. India, the second largest mobile phone market, started 2021 on a positive note, posting an outstanding 42.3% year-over-year shipment growth in the first half of the year, with a record of 72 million smartphone shipments, primarily propelled by the new models released paired with promotions and pent-up demand from 2020. Although the massive second wave of COVID-19 has brought India economy to a stagnation with lockdowns and restrictions have been imposed across several states in the second quarter, subsequently dampening the consumer demand for smartphones that were not considered a necessary category amid the restrictions, it still reported double-digit growth due to the lower baseline of shipments when compared with 2020. However, in the third quarter, in consequences of the serious component shortages and the lower ASP (Average Selling Price) of Indian smartphone, the brand companies prioritised the higher-price smartphones in other countries; in other words, the Indian demand for consumer electronics was sacrificed. The smartphone shipments saw a -11.5% year-over-year, reflecting apparently the impact of chip constraints.

Similarly, the burst of COVID-19 in Vietnam rapidly spread toward late April 2021, striking heavily in the northern province of Bac Giang in particular. The COVID-19 outbreak has devastated smartphone supply chain, forcing factories to operate below capacity or even lockout. Several major industrial parks in Be Giang province were compelled to temporarily shut down on in May and June, adversely affecting thousands of factories operated by domestic and international companies in Vietnam. Though the situation improved in July, the chip shortage problem came after immediately. According to IDC data, the smartphone shipment dropped by -8.0% and -27.8% in the second and third quarter respectively.

It is evident that the supply chain constraints caused a drastic decline in the handset shipments. In the beginning of the year, demands for automobiles, smartphones and other consumer products spiked after the economic recovery from the pandemic-induced recession. The problem of shortage for chips and semiconductor components surfaced. Worldwide chip manufacturing capacity has never been as tight as before, especially the 8-inch wafer foundry which produced the less expensive but essential IC chips. Longer lead times for mature process chips has caused smartphones could not be assembled as final products to further decrease the shipment even though demand was strong. According to China Academy of Information and Communications Technology (CAICT), the demand for smartphone in China subsided after the booming sales of 5G smartphone in the first quarter of 2021, the total shipment of mobile phone experienced a sharp decline in the second quarter, down 26.9% year-over-year, especially over 30% decline in April and May. Based on CAICT analysis, the slump in the smartphone shipment was mainly due to the early release of demand for smartphones in the first quarter of 2021 and the ongoing shortfall of semiconductor chips from the upstream supply, coupled with other smartphone manufactures inability to offset the substantial shipment plunge from Huawei smartphone. Even worse, the component shortage prolonged to the second half of this year. The mobile shipments continued to slide with a 4.15% quarter-over-quarter of decline until a leading America smartphone company substantially ramped up its new phones in the fourth quarter of 2021. According to IDC data, it reported 5.8% and 3.2% year-over-year decline in the third quarter and fourth quarter respectively in terms of global smartphone shipment as many smartphone brand companies could not deliver products as they expected owing to restricted chips.

As mentioned above, our customers are more cautious in their demand planning and demand visibility is shortened. The short-term nature of the Group's customers' commitments and demand visibility and the rapid changes in demand for their products reduces our ability to accurately estimate the future demand and requirements and order book of our customers. This makes it difficult to plan and schedule production in an efficient and cost effective manner so as to maximise utilisation of our assets and capacity. In that regard, the Group monitors closely market and competition landscape and communicate well with customers and determine the levels of business that the Group can take. Given that the industry is dominated by consolidated significant players, and in cases where the Group developed new smaller customers, it would be difficult for the Group to develop new customers that have similar business scale as the Group's existing major customers and would to a certain extent affect the Group's bargaining power. Further, it takes time for the Group to gear up its production facilities to produce products and provide services that are customised for new customers. In cases where the Group switches to or adds new customers, it typically takes the Group approximately 2 to 10 months to customise the Group's production facilities depending on

requirements of customers, the complexity and sophistication and volume of products and associated business models. The replacement/upgrade cycle of smartphone has further prolonged in mature market such as America and Western Europe which is due to limited product and development innovation, smaller and narrowing gap between high-end and low-end models, and the longer duration of smartphone usage. Customers have less intention to purchase a new handset as the old phone is still usable and the new-released models don't give more attractive features. In light of the handset market saturation, the Group has intensified its focus on technology innovation and manufacturing efficiency to ensure user experience and cost competitiveness of products and values the mutually beneficial relationships with its customers, regardless of the size and scale of the customer, by providing high quality products and services of global standards at competitive prices in an efficient manner, manufacturing industry-leading and state-of-the-art products for its customers in different countries like China, Vietnam, the States and India, offering customised services and flexibility to customers, and creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop, penetrate and foster closer relationships and partnerships with them for mutual benefit of the Group and such customers in the long run and secure optimal utilisation of manufacturing equipment and facilities of the Group. The Group changed its head office from Langfang, China to Taipei with effect from 26 March 2021 as the Group continues to focus on and expand its operation outside China. The Group believes its long term business relationship with major customers are the result of the Group's track record of meeting commitments in quality and delivery and delivering the core value and services which are crucial to the increase of customers' competitiveness.

Major Customers

The Group's major customers include top international brands. Despite the initial focus of Chinese customers in their domestic market, capital, technical and know-how advances have shifted focus to global expansion. As a result, Chinese brands have become extremely successful in different countries and markets (like India and Europe), and their expansion outside the Chinese market contributes to mitigating the Group's risk. But the outbreak of the COVID-19 has made the electronics industry under pressure owing to the logistics slowdown, component shortage, city shutdowns, supply interruption and lack of sufficient workforce across the globe and all of the Group's customers were impacted to a certain extent. What has been originally less visible but now becomes the most impactful is the damage the virus has inflicted on the world's supply infrastructure and, in particular, global supply chains. From the moment a certain resource is mined or created to the time the consumer receives the final product, COVID-19 has affected every stage of the supply chain in a way few industry leaders will have ever experienced before. Most of the world's manufacturers, wholesalers and retailers being significantly touched in one way or another.

The Group's strategy of establishing and maintaining long-term relationships with leading companies with size and growth characteristics, continuous development, penetration of Chinese and international brand customers, efforts to grow and diversify its lineup, and expand its production capacity in India and Vietnam in previous years have resulted in more competitive costs in these countries and capitalise on the growth of domestic market in these countries. The Group believes that maintaining a global footprint and expertise and regional capability are vital to reduce obsolescence risk and maximise cost competitiveness whilst simultaneously retaining the capacity to supply products and services around the world at

comparable quality, and improving overall production efficiency and diversifying country risk whilst providing customers the ability to quickly adapt to external ever-changing regional, trade and manufacturing dynamics. The customers are growingly demanding a board range of manufacturing solutions and services globally and at the same time transitioning to regional support in local areas to take advantage of time to volume and time to market and specific customisation as this is key to their winning in those markets. This expansion and customer and product diversification effort and vertical integration strategy will continue with larger expansion expected in India with huge domestic market in coming years. In addition, the Group's focus on expanding its customer portfolio identifying and developing relationships with new customers that meet the Group's targeted profile, which includes good market growth potential, the need for manufacturing solutions on a global basis, financial stability and long-term relationship stability can reduce concentration risks. But it is a fact it is growingly difficult to develop new customers of large size and this is why the customer portfolio of the Group includes some small customers and the Group has put tremendous effort to expand overseas. In 2021, the Group has devoted resources and effort to build up R&D capabilities for mobile devices, especially for cellular embedded products, including cellular modem, antenna and radio engineering, software, mechanical/thermal engineering and operator network testing and customisation and the Group succeeded to break the ice on entry into U.S. market this year and gradually developed some new overseas customers there and manufactures products including mobile phones, cellular embedded tablets, cellular embedded routers and data modules. 5G products are gaining more momentum as the U.S. operators are promoting more 5G services and 5G products are becoming more affordable as chipsets for mid-to-low tiers products become available and the Group is seeing more 5G products in our shipment portfolio based on the momentum. The difficulties encountered are fierce competition in this market segment which pressures us in cost and new technology adoption, and the semiconductor shortage causes fulfillment difficulty and loss of revenue/profit opportunities. But both of these driving forces push us for continuous improvement in design and sourcing capabilities as well as more closed partnership with key part suppliers. Given our success in production ramp-up for top tier U.S. operator business, we see promising opportunities for other U.S. operators and expansion of more product portfolios.

Major customers include:

- (i) A key Chinese customer whose smartphone business continued to struggle following a U.S. blacklisting. According to the latest data issued by IDC, this customer's accumulated worldwide shipments until the third quarter of 2021 faced a 64.2% year-over-year decline with a drastic volume drop to 56.1 million and no longer a top 5 global brand. Echoing to this customer's financial performance, its revenue for the first three quarters of 2021 declined by 32.1% year-over-year to RMB455.8 billion. The worsen financial figures indicated that the customer continued to be weighed down by U.S. sanctions destroying its smartphone sales. This customer took advantage of many developed technology and resources from the mobile phone division to aggressively develop new businesses. On 5 November 2021, founder of this customer spoke to his employees, saying that the company has established five new business units inclusive of coal mining, smart highways, data center energy management, customs and port operations, and smart photovoltaic cells, which are adopting 5G mobile technology, cloud computing, AI, and the internet-of-things to focus on operating the digital transformation for a range of traditional sectors. In respect of automotive business, the company unveiled its intelligent

automotive solution, supplying leading carmakers with automotive chips, lidar sensors and other technologies that allow cars to link to the internet and to each other in April. In November, the company got deeper involved into electric vehicle space, offering the first view of the sports utility vehicle (SUV) with partnership Changan Automobile and CATL. As the customer changed its development direction, the Group has accordingly adjusted the resources and manufacturing capacities to respond. It is also in line with our objective of reducing the reliance on smartphones only business.

- (ii) With the strong growth of another key Chinese customer, the Group's negative impact resulting from the above-mentioned customer was offset partially. This customer reported a strong financial results for the first half of 2021, with a revenue growth of 75.5% year-over-year mainly contributed by its smartphone business, as it captured market share from one-time sector leader and made a sharp growth in the developing regions, in particular Central and Eastern Europe and Latin America, which soared by three-digits growth rate. In addition, according to IDC, this customer's shipment of the smartphone market in mainland China increased 66.6%, due to the low shipments in the base year caused by COVID-19, the huge market shares released by one of the major competitors who retreated from the market, as well as its high-end smartphone penetrating strategy. It is worthy to note that its global shipments of high-end models in the first three quarters of this year climbed almost double with 93.3%, indicating the fast speed of expansion in the premium market. However, this customer suffered from the serious chip shortage problem and the pandemic burst in South Eastern Asia. The Group was hampered by COVID-19 safety protocol and headcount shortage in the second quarter and lack of components to lower a part of capacities in the second half of 2021, resulting in the decline in shipment of this customer. According to IDC, the customer's shipment collapsed by 50.6% in the third quarter, resulted from the component constraint problem aroused in the many regions worldwide. The shipments were lower largely than the expectation and failed to fulfill the market demand. The less than expected shipments result on smartphone reflected on this customer's third quarter performance, its revenue only raised by 8.2% year-over-year, wherein a very slight increase of 0.5% in its smartphone revenue. In this customer's third quarter investor conference call, it pointed out the dwindling smartphone shipment was mainly due to a global shortage of key components. Nevertheless, the customer still outperformed its competitors with the highest year over year shipments growth in global top 5 smartphone companies.
- (iii) HMD is a company headquartered in Finland. HMD's mission is providing accessible connectivity for everyone and the transactions between HMD and FIH Group are presented under the European segment. With an ongoing commitment to security, durability, reliability, and quality across its range, HMD is the only major European smartphone provider and the proud exclusive licensee of the Nokia brand for phones, tablets and accessories distributing Nokia phones and tablets and HMD services to the world. Since 2019, HMD has transformed its business to ensure continued growth and strengthened its supply chain by moving smartphone manufacturing to multiple ODM vendors, to secure competitiveness and to improve the excess liability conditions. This renewal has resulted in improvements of the on-time delivery, time-to-market rates, and profitability in 2020. In 2020, HMD invested in building its own in-house software development. As part of that change, it acquired the assets of a Finnish mobile enterprise

and cybersecurity software company, Valona Labs. It is the foundation for HMD's new Centre of Excellence in Tampere, Finland, which specialises in software, security related intellectual property and services. The centre carries out continuous R&D mobile and enterprise cybersecurity and HMD have partnered with the ioXt Alliance — the global standard for IoT security.

During 2021, the supply constraints have impacted the whole industry in unprecedented ways while the COVID-19 pandemic waves have tormented key emerging markets like India. These supply shortages and increased component prices are impacting also into HMD's performance. HMD has continued its efforts with its partners to secure the supply volumes to meet the forecasted demands. Despite the challenging market conditions HMD's quarterly sales figures have significantly increased year on year basis and HMD is satisfied with the gross margins achieved.

In 2021, HMD is driven by the needs of their consumers who want three things — products and services they can fall in love with; devices they trust to be secure; and that they can keep for a long time. HMD continued to expand their services portfolio after the successful launch of HMD Connect and HMD Connect Pro in 2020. The company introduced HMD Mobile, the first mobile connectivity service in the UK, and HMD Enable Pro, an EMM (Enterprise Mobility Management) solution for IoT and Enterprise use providing a simple one-stop shop for reliable mobile connectivity as well as partnering with Nokia to provide best-in-class infrastructure. HMD continues to drive transformation in its enterprise business. In addition to offering smartphones for enterprise customers, HMD now offers value-added services, one-year extended warranty plan and Nokia phone insurance. HMD offers the world's broadest Android Enterprise Recommended range, supplying every area of business — from the public sector, to finance, to healthcare, manufacturing and logistics. On the device front, HMD announced a new smartphone naming convention in 2021, the C, G and X series across their core line-up. HMD also launched the XR20, their most durable smartphone to date, a life proof phone and entered into a new category with their first tablet, the T20.

2020 started supply constraints continue to impact the industry in unprecedented ways during 2021 while the COVID-19 pandemic waves have been more pronounced in key emerging markets like India. These supply shortages and increased component prices have impacted also HMD's business performance. Indirect impacts from COVID-19 are severely impacting logistics and in the second half of 2021 as HMD started to see freight costs increase significantly. Country COVID-19 restrictions together with flight cancellations are not only increasing freight costs but have also delayed some deliveries. HMD have continued their efforts with their partners to secure the supply volumes to meet the forecasted demands. Added to that, due to their increased efforts in online stores, the situation improved in 2021. HMD transformed their sales and marketing approach in 2020, moving their focus to digital first. The first new online stores were opened in the U.K. and U.S. in 2020, and the concept was rapidly expanded after the fiscal year ended in 2021, so that they now cover 14 markets. Despite the challenging market conditions, HMD is achieving pre-COVID sales levels in the second half of 2021 even as supply continues to limit net growth. The company has also been able to achieve satisfying gross margin levels.

HMD have a clear purpose — they believe in connecting the world without costing the earth. As a company headquartered in Finland, sustainability has always been at the heart of what HMD does, with a track record for robust, long-lasting devices that don't end up in landfill before their time. In 2020, HMD doubled down on sustainability by integrating their sustainability management system into their business strategy. They focused on four key areas: environment, labour and human rights, compliance and sustainable procurement. In 2021, HMD submitted their first Communication on Progress (COP) report to the United Nations Global Compact (UNGC). HMD reports annually on their carbon footprint and include their supplier base to expand their reporting of Scope 3 emissions in 2021. The company also joined the Global Reporting Initiative (GRI). In recognition of these efforts, HMD received a gold medal by EcoVadis in 2021 (up from Silver in 2020) — putting them in the top 6% in their industry for commitment to sustainable practices.

- (iv) Ensky Technology Pte. Ltd. (“Ensky”) is the customer which the Group has been manufacturing consumer electronic products such as eReaders and tablets, and voice interaction products for a sustained period of time and the Group is now its strategic supplier due to the Group's strong engineering capability satisfying the customer's requirements and expectations in terms of the ability to ramp up production in a reduced timeframe while achieving very high yield rate. Ensky is a trading company which has a long-established relationship with U.S. customers and sells consumer electronic products to them. There has been very strong market demand of eReaders and voice interaction products as one of the Ensky's U.S. customers has been growing very fast and dominant worldwide. The sales to Ensky are grouped under Asia segment as Ensky is a Singapore registered company. Ensky was acquired by Hon Hai on 1 January 2020 and became a wholly-owned subsidiary of Hon Hai and a connected person of the Company pursuant to the Listing Rules.
- (v) In relation to the Group's continuous fostering and development of long-term relationships and partnerships with a diverse base of customers, the Group entered into a collaboration with a U.S. based Internet customer who is one of the most innovative Internet companies in the world. The Group was also impacted by component shortage which lead to a less than expected output in 2021 to this customer. To curb component shortage, the Group placed longer order to secure supply sources, however, the soaring labor cost and fluctuation of capacity due to unstable material supply continues to impact its contribution to the Group. The Group would keep collaborating with the customer and provide exceptional technical skills and capabilities for being a close partner to help them acquire more market share.
- (vi) Sharp Corporation (“Sharp”) is a connected person of the Company pursuant to the Listing Rules as it is an associate of Hon Hai, the ultimate controlling shareholder of the Company. Sharp offers a variety of electronic products including smart phones, home appliance, displays and other IoT devices. Japan, as its home market, has launched their android mobile phone in Japan market for five consecutive years since 2017. According to IDC data, Sharp secured a top 2 ranking in Japan's total smartphone market and 5G mobile phone market in the first three quarters of 2021. With that, Sharp's global smartphone shipments grew up by 18.2% year-over-year in the period. In order to explore additional business opportunities, Sharp has started to offer other electronic devices such as MiFi router and tablet with the help of the Group's R&D resources and capabilities.

Referring to above, one of the top five customers of the Group is the Hon Hai Technology Group (to which Ensky and Sharp belong). The revenue derived from the sales of goods and rendering of services by the Group to Ensky and Sharp accounted for approximately 18.2% and 11.0% of the Group's total revenue from the sales of goods and rendering of services respectively for the current period. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Revenue attributable to the Hon Hai Technology Group accounted for approximately 30.7% of the Group's total revenue in the current period.

Amongst the Group's five largest customers during the current period which accounted for approximately 93.5% of the Group's total revenue and three of them have had long-term and well-established relationships with the Group for more than five years whilst the other two have been the Group's customers for more than three years. These major customers are not required to commit to certain minimum purchase value or volume from the Group over a period. In the current dynamic and competitive handset industry, innovation and enhanced user experience and product pricing and quality are paramount and loss of or changes in market position of any of these customers or their products may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of its sales to these customers. The Group's reliance on major customers means that the Group's performance is directly affected by the performance of these customers and their outsourcing strategy in a challenging handset industry and the Group pays attention to the change of market trend and end customer behaviour and external market dynamics and COVID-19 development and component shortage and supply chain constraint. Some economists contemplate whether the COVID-19 pandemic could lead to a slowdown of global economy. This is why the Group has kept monitoring the current economic environment and market landscape and its potential impact on both the general economy and consumption power and preferences of customers the Group serves, as well as end markets. The Group continues to closely manage and control expenses and capital resources to maximise preparedness and the ability to respond in a quick manner as circumstances change. As the Group's overheads 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, will affect contribution margins directly and accordingly gross profit margins and results of operations seriously.

The credit period granted to the Group's major customers (whether or not it is a connected person of the Company) ranges from 30 to 90 days, which is in line with those granted to other customers. The allowance for credit losses made for the current period was US\$4.7 million (when compared to the allowance for credit losses of US\$6 million made for the same period in 2020), while allowances were made for specific exceptional circumstances and based on the expected credit allowance assessment. The decrease in allowance for credit losses was due to improvement in aging of account receivable by actively monitoring the collections from customers. Subsequent settlements of trade receivables from these major customers have been reviewed and have resulted in no credit-impaired receivables noted for the current period. The Group also has some small customers and the exposure to financially troubled customers or suppliers may adversely affect financial results. Especially due to the hit of COVID-19 and component shortage and border control and Ukraine warfare and keen competition and the business performance, some of the Group's customers including major customer like HMD may experience financial constraints and tight cash flow and the Group could have difficulty in recovering trade receivables, or can also result in reduction of demand for the Group's products and services from these customers. HMD is now raising fund and the Company is monitoring closely the progress and evaluate risk to the timely collection of trade receivable and default risk. Given the increased risk to the timely collection of those trade receivables when payments from certain customers of the Group have been deferred, the Group has increased its expected credit loss percentage for those trade receivables during the current period. The Company will continue to closely monitor the situation and take necessary collection actions according to Company policy and make a greater allowance for expected credit losses arising from trade receivables according to requirements of relevant accounting standards.

On top of phone manufacturing business, the Group also has a strong reverse logistics and repair/refurbish services function which offer global integrated solutions providing customers the end-to-end value-added manufacturing services and after-market-service covering the entire product life cycle with best-in-class quality, cost and ability to deliver. The Group's services include after-market management, repair/refurbish services, product asset-recovery, excess inventory on-line sales, integrated regional manufacturing, packaging, and fulfilling. Forward/reverse logistics and manufacturing expertise are provided by the Group to multiple product lines such as mobile phones, consumer/industrial drones, smart home devices, set-top boxes, IoT products, medical product, and automobile electronics and its customers including name brand OEM, mobile carriers and retail channels. The Group aims to keep growing fulfillment service and regional manufacturing services to automotive and medical and health customers and developing repair/refurbish service to medical industry. The core competencies which the Group upholds and demonstrates in this part of business are (1) strong core team with talents and expertise in the field of both EMS and after-market services area; (2) geographically central location advantage for logistic services and proximity location advantage of Mexico site for manufacturing strategies under trade war; (3) robust quality system and crucial certifications, like ISO 13485 for medical and IATF16949 for automotive; (4) high-mix-low-volume flexible support model and end-to-end business solutions, from design, production, fulfilment to after-market services; (5) comprehensive product engineering capability; and (6) E2E (End-to-End), complete after-market service solutions and online-offline operation integrations, and customised service-models. The operations in the U.S. and Mexico have gradually recovered from the impact of COVID-19 to normal. Thanks to the strong demand in regional electric vehicle industry and also demand driven by "made-in-North-America", we foresee more business opportunities for our North America operations. And capital investment on increasing manufacturing capacity to satisfy new customers' demand for the coming years, will be key action items for Chihuahua factory in 2022. However, due to global supply chain challenges lingering to 2022, material shortage and logistic cost efficiency are risks at both operation sites.

Impacts of COVID-19 and Supply Chain Disruption

In its initial months of 2020, the coronavirus crisis severely disrupted the movement of people and goods worldwide, upending entire supply chains and this has had a considerable impact on the world's manufacturing industry. Manufacturing operations came to a standstill as most countries implemented lockdowns to curb the spread of COVID-19 and factories were forced to close or to operate on vastly reduced staffing levels, which left them at a fraction of normal output. At the same time, industries including hospitality, retail and travel have been affected due to the significant drop in consumer spending across the world. Now things are slowly picking up again in 2021 and some markets become booming since the vaccines has been widely injected.

Notwithstanding the consumer demands has recovered partially and manufacturing lockdown under stringent restrictions eased, amid higher consumer demand for goods that have been in short supply, different parts of the world have experienced supply chain issues that have been exacerbated for different reasons and freight rates for merchandise coming from China to the U.S. and Europe have soared, while a shortage of truck drivers across both the latter regions has exacerbated the problem of getting goods to their final destinations, and has led to high prices once those products hit store shelves. The supply of semiconductor component continued to not meet the end demands as the capacities is still limited, power shortages in China in October have affected production in October 2021, while in the U.K., Brexit has been a big factor around a shortage of truck drivers. The U.S. also battled a shortage of

truckers, as is Germany, with the former also experiencing large backlogs at its ports. Border controls and mobility restrictions, unavailability of a global vaccine pass, and pent-up demand from being stuck at home have combined for a perfect storm where global production will be hampered because deliveries are not made in time, costs and prices will rise, and GDP growth worldwide will not be as robust as a result. Supply will likely play catch up for some time, particularly as there are bottlenecks in every link of the supply chain, especially for containers, shipping, ports, trucks, railroads, air and warehouses. Supply chain bottlenecks lead to congestion and blockages in the production system and have affected a variety of sectors, services and goods ranging from shortages of electronics and autos (with problems exacerbated by the well-known semiconductor chip shortage) to difficulties in the supplies of meat, medicines and household products.

The pandemic has only served to highlight how interconnected, and how easily destabilised, global supply chains can be. The pandemic has highlighted deep fragilities in these networks, with disruption in one part of the chain having a ripple-down effect on all parts of the chain, from manufacturers to suppliers and distributors with disruptions ultimately affecting consumers and economic growth. As economies get back on their feet, the supply chain crisis has come to the fore as one of the biggest challenges governments now face. COVID-weary citizens are eager to spend again but are finding goods either absent or much more expensive. China and Europe are also experiencing growth problems on the back of supply chain issues. China reported its fourth-quarter GDP grew a disappointing 4.0% from the previous quarter with supply chain issues contributing to the slowdown in activity. It is well acknowledged that manufacturing was hit hard by supply chain disruptions due to COVID-19 as some port operations were hit and chip shortages continued in the second half of 2021. According to IDC report on 28 January 2022, fourth quarter global smartphone shipments reached 83.4 million units, a 3.5% year-over-year decline. In addition to the compounded component shortages, the industry has also faced stricter testing and quarantining policies which delayed transportation, and power supply constraints in China which restricted manufacturing of key components. The lower than expected third quarter shipments, the continued component shortages and logistical challenges lead IDC to lower its growth forecast for 2022 from 3.4% to 3.0%. The fact that the chipset suppliers allocate priority production resources to the market popular 4G/5G and next generation chip, feature phone business is facing great challenge for harder to secure 2G chips. This shortage has continued through the whole year of 2021; the impact on feature phone shipment is foreseeable. The Group is taking actions to diverse business risks by expand into other product categories other than mobile phone, especially with the downstream in the feature phone demand.

Prolonged supply chain disruptions can severely impact market sentiment by instigating fear about persistent inflation and apprehension about supply chain resilience and sustainability. COVID-19 exposed a structural vulnerability in modern global supply chains that threatened to dismantle the very architecture that has sustained them over the previous half-century. The Just-in-Time model hinges on a harmonious dance between production, shipping, and stable average demand, but when the music stops, a cascading domino-effect of supply chain chaos

takes its place. As lockdowns have lifted, there is a skyrocketing of demand for consumer products as economies began to recover. This is what happened when COVID-19 grinded manufacturing to a halt in key export markets, and lockdown-induced impacts doubled shipping times and caused acute labour shortages and supply chains that were disrupted during the global health crisis are still facing huge challenges and are struggling to bounce back. This has led to chaos for the manufacturers and distributors of goods who cannot produce or supply as much as they did pre-pandemic for a variety of reasons, including abovementioned worker shortages and a lack of key components and raw materials.

The recovery of the smartphone business will be a challenge in the coming quarters with the uncertainty of end demand, the continued outbreak of new variant of coronavirus infections and the supply chain disruption. The Group continues to put a lot of efforts to try to overcome the difficulties and put efforts to negotiate, discuss and arrange with its customers, vendors, suppliers, logistics partners to share the risks and reach mutual benefits and foster long-term relationship between the parties in the difficult time. In addition, there are also other challenging conditions that the Group has been facing since late 2017 have continued into 2021. On this basis, it might not be practicably possible for the Company to reasonably and meaningfully make a quantitative measure of the impacts of the COVID-19 and supply chain disruption on the Group's financial or operational performance. The ultimate size of the impact of the COVID-19 pandemic and component shortage on the Group's business and its duration and severity will depend on future developments which cannot currently be predicted. These include infection resurgences and mutations, government responses, the speed at which our suppliers and logistics providers can return to and maintain full production, the status of labor shortages and the impact of supplier prioritisation of backlog. Even after the COVID-19 pandemic has subsided, we may experience significant adverse impacts to our businesses as a result of its global economic impact, including any related recession, as well as lingering impacts on our suppliers, third-party service providers and/or customers (including movement of production in country to decrease global exposures). But as the situation continues to evolve, the Group will continuously evaluate the situation and, where appropriate, announce material business developments and make appropriate disclosure about the impact on the Group's operations, financial performance and financial position, and an assessment of the risks and impact on the Group's future performance to keep shareholders and investors timely informed.

Vietnam Site

Vietnam is one of the most promising land for next industrial boom and has been one of the world's fastest growing emerging markets in the past decade, boosted by strong foreign direct investment inflows into its manufacturing sector. The development of Vietnam over the last 30 years has been remarkable. As per statistics, between 2002 and 2018, GDP per capita is increased by 2.7 times reaching over US\$2,700 in 2019 and the pace of economic growth slightly exceeded 7% in both 2018 and 2019. Rapid growth of manufacturing exports and large new inflows of foreign direct investment have been important growth drivers for Vietnam, notably driven by rapid expansion in the textiles and electronics sectors. As Vietnam's economy is deeply integrated with the global economy, it has been hit by the ongoing COVID-19 pandemic posed downside risks to Vietnam's economy, Vietnam was one of the most resilient economies in the Asia-Pacific region to the shockwaves from the global COVID-19 pandemic during 2020. However, after considerable success during 2020 in containing daily new domestic COVID-19 cases to low levels, the situation has deteriorated in May and June 2021, with a significant pickup in reported daily new cases which has created risks to the near-term outlook and led to a sharp decline in business conditions for manufacturers. Output and new orders both decreased at the sharpest rates since the first

outbreak of the pandemic in early-2020, while firms scaled back their employment and purchasing activity accordingly. The pandemic also impacted supply chains, resulting in a near-record lengthening of delivery times. With COVID-19 vaccination rates still remaining very low as a share of the total population, Vietnam remains vulnerable to a rising and protracted COVID-19 wave which leaves the nation vulnerable to further rises in daily COVID-19 cases until vaccination levels increase substantially. Only 3.3% of the total population had received a first vaccination by 27th June 2021, while the fully vaccinated share was extremely low, at just 0.2% of the population.

As a result of the rising COVID-19 wave, the government authorities have put in place strict lockdown restrictions for a wide range of activities, including on public transport and public gatherings, as well as non-essential business activities and temporary company closures leading to sharp reductions in both output and new orders during June. Due to the strict COVID-19 preventive measures from government, the life in Vietnam is then back to normal gradually. Again by end of October, the COVID-19 was under control by strict government regulation and higher vaccination rate. A report from Vietnam's Ministry of Planning and Investment showing, as of June 2021, total newly registered and paid in capital by foreign investors reached US\$15.2 billion equal to 97.4% compared to the same period last year. Out of 18 sectors of FDI, manufacturing and processing leading with US\$6.98 billion and accounting 45.7% of total investment capital. Vietnam is experiencing a rapid demographic and social change. Its population reached 96.5 million in 2019 (up from about 60 million in 1986) and is expected to expand to 120 million by 2050. According to the 2019 Population Census Report, 55.5% of the population is under 35 years of age. Between 2010 and 2020, the HCI (Human Capital Index) value for Vietnam increased from 0.66 to 0.69, which is well above the world's average of 0.56. All these shows Vietnam's potential to become promising land of business opportunity.

Vietnam has had a positive 2021 start with its COVID-19 prevention, the business opportunities arise due to Vietnam's geopolitical advantage and especially the U.S.-Sino trade war. The Group's Vietnam site — Fushan Technology (Vietnam Limited Liability Company ('Fushan')) also experienced the COVID-19 turbulence which impacted across the globe. But Fushan managed well by strictly following & implementing the COVID-19 preventive measures issued by the Government of Vietnam. During April to May 2021, Vietnam experienced abnormal increases in COVID-19 cases (termed as fourth wave in Vietnam), especially in the manufacturing hubs like Bac Ninh, Bac Giang & Ho Chi Minh city. This wave also impacted Fushan badly, as it operates in Bac Ninh industrial area. Local government implemented strict COVID-19 preventive measures on all impacted area, but allowed companies to do "isolated production" for ensuring business continuity. From 1 June 2021 onwards, Fushan implemented "isolated production" which continued for whole month. During "isolated production", the factory has arranged stay inside factory for its employees instead of daily commute and created a safe bubble against COVID-19 pandemic. A total of 2,800 employees of different level stayed in factory to support the production directly and remaining employees "Worked From Home". By end of June 2021 the situation was better and isolated production was reduced to just 500 employees, but again in September 2021, another large scale isolated production was set up due to nearby area COVID-19 outbreak and further lock down. Fushan management, Emergency Response Team (ERT) and employees were well-

coordinated on all COVID-19 related actions. As a result, there were zero COVID-19 positive case reported in Fushan till October 2021, from the day of first COVID-19 case reported in Vietnam. In November, 2021, Fushan reported first COVID-19 case and it was able to contain well, but there were on some more cases started reporting inside Fushan even with all actions in place. The major reason for this outbreak was the sharp increase of COVID-19 cases in northern Vietnam cities especially in Hanoi and Bac Ninh as a result of the removal of previously implemented strict lock down restrictions and government new stand of “live with virus” strategy. The new strategy could be because of the high vaccination rate achieved by that time and also the learnings from the southern provinces of Vietnam, where the COVID-19 cases peaked during first half of 2021 are now at its lowest level with normal life is back. As this strategy made a surge in COVID-19 cases everywhere and Fushan’s lone actions were not enough to stop this. As normal practice, during this time also Fushan has been working with government agencies and following their guidelines strictly to reduce the impact. Fushan is doing regular Antigen and RT-PCR tests for its employees and also supporting them with personal protection kits. The current COVID-19 surge clubbed with long holiday seasons created some unprecedented labor shortage in Fushan. There are courses of actions in place — for example, bonus for full week attendance, full salary for COVID-19 infected people, welcome back plan for the recovered employees, work from home, over time option for lunar new year (Tet) holiday etc. Also human resource and production department has established a communication channel with each and every employee to understand their difficulties and providing them the needed support. Fushan management has full confidence that all these actions along with fresh employee recruitment can overcome this situation in coming days. Apart from this, the fast paced booster vaccination administration could bring more confidence in employees to return to work. As of now 80.4% of total Vietnamese population are vaccinated with at least one dose and 70.3% with full two dose. Whereas most of northern provinces including Bac Ninh, Hanoi and all nearby provinces have achieved 100% of full two doses of vaccination. Currently booster dose of vaccination is started distributing across the country, especially in northern provinces. As of now, 93.8% and 30.66% of Fushan population is vaccinated with full two dose and the additional booster dose respectively. Fushan is closely working with government agencies to have the regular vaccination campaign to protect its employees and also to ensure business continuity.

There are many indirect impact also induced by COVID-19 in Vietnam market. As COVID-19 prolonged, human resource shortage started impacting many industries, Fushan was not an exemption. There observed some reverse migration trend from cities to country sides in Vietnam especially after fourth COVID-19 wave. Apart from the isolated stay-production program, Fushan introduced special referral bonus, engaged with more human resource outsourcing agencies and also used government channels, where they helped to publish the resources requirements in many provinces through government channels. All these multi-channel actions helped a great extend to counter the sudden human resource shortage. There were lots of demand & supply fluctuation experienced due to sudden closure of many markets as a result of COVID-19 and related government enforcement. Global chipset shortage led to many de-commitments, logistic cost increased. China-Vietnam boarder congestion etc. are some other challenges which Fushan faced during these days. Fushan utilised its flexible manufacturing options, collaborated with other internal teams including sourcing and also external government agencies to smoothen out these challenges. All these experiences are giving an edge to Fushan team to face any adverse challenges in the upcoming days of business growth.

Fushan already established a good reputation among its employees and its aspiring candidates in Vietnam. Fushan bagged two times the most prestigious human resource awards (Vietnam HR award-2018 and Best Company to work for Asia award-2020) in Vietnam. Fushan still continue to be the great employee oriented culture with lot of employee welfare and engagement activities like, team building, year-end party, children day celebration, women's day contest, gifts on selected festival etc.. Fushan is providing opportunity to all their employee's children who is studying in university to have factory experience under "Dream on the Wing" program. Fushan provided many encouragement activities during the COVID-19 time including financial benefit. Fushan built an own gym & created an all book library for the recreational activities of their employees. Also Fushan's L&D team has actively conducting many cultural and employee engagement activities. "Leader's talk" is one such activity, where the leaders get a chance to talk their vision and employees get a chance to clarify their doubts, not only business but other subjects as well. Monthly "All Hands Meeting" is where Fushan share its operation and business update with its employees to ensure the transparency and also to align across the factory.

More and more businesses especially electronics manufacturing started flowing to Vietnam. This is giving ample opportunities to Fushan to diverse its business with multiple customer and products. Fushan has started its business diversification early 2019 from traditional mobile phone manufacturing to more sophisticated smartphone, smart speaker and IoT modules. For further diversification and utilising the new opportunities, Fushan expanded its business licenses and acquired relevant process certifications and invested more to skill up its already experienced workforce. It also further plans to diversify customer focus and elevates the operation efficiency to increase the competitiveness to next level. More and more customers are approaching Fushan with range products. Some of them are home appliances, feature and smart phones, car accessories, EV projects, tablets etc.. Fushan recently started its own sales operation to capture the local and international business opportunities. After 2.5 months of its operation, the responses are very promising and the entire Fushan team is working hard to transform these opportunities to business reality.

India Site

The India smartphone market showed high resilience in 2021 and exited the year with highest-ever shipments of 169 million units, according to market research firm Counterpoint Research. The market grew 11% year-on-year in 2021 even as the year witnessed a more virulent second wave of COVID-19, and the resulting supply chain disruptions coupled with price increases due to the ongoing component shortages. The shipments were driven by increased adoption and demand for 5G smartphones, which contributed 19% to the overall shipments, representing almost six-fold growth over 2020. The price of entry-level 5G devices came down by 40% in the last six months. The increase in affordability of 5G devices has been a key reason for high 5G smartphone adoption. Going forward, the Indian market is expected to grow by double digits with a healthy contribution of the mid-to-high end 5G smartphones.

Even though India was attracting all the global attention for the worst virus outbreak, the pandemic did little to dent the confidence of overseas investors who kept betting on a strong rebound. India was one of the best performing major market over the past year and recently hit a milestone of US\$3 trillion market capitalization which is expected to grow to US\$3.5 trillion with listing of India's largest insurer Life Insurance Corporation of India (LIC). As per the updated World Economic Outlook report released on 25 January 2022, the International Monetary Fund (IMF) has raised its forecast for growth in India's gross domestic product (GDP) in FY23 by 50 basis points (bps) to 9%. India's GDP growth forecast for FY24 was also raised by 50 basis points to 7.1%. Explaining the upward revision, the IMF said it expects an improvement in India's credit growth — which would boost consumption and investment — and “better-than-anticipated performance of the financial sector”. The hike in the forecast for India for the next financial year was accompanied by a downward revision in the growth estimate for 2022 to 9%. In October 2021, the IMF had forecast that India's economy would grow by 9.5% in 2022. The IMF said its estimate for India's GDP growth in 2022 captures the impact of the Omicron variant of the coronavirus on economic activity. While India's fortunes seem to have improved, the global growth forecast for 2022 was lowered by 50 basis points to 4.4%. However, the global growth forecast for 2023 was raised by 20 basis points to 3.8%, although this “largely reflects a mechanical pickup after current drags on growth dissipate in the second half of 2022”.

The Reserve Bank of India, in its annual report released on 27 May 2021, stated that Indian economy was not as hard hit as first wave but uncertainties remain and that India's growth prospects primarily hinge upon how fast the economy can arrest the impact of the second wave of the COVID-19 pandemic. It said that although the economy was hit by the second wave of the coronavirus pandemic, it remained resilient on the back of a bountiful harvest in the RBI farming season as well as the momentum of activity in sectors such as road construction, information technology, housing, and freight transportation. The central bank, in the report pegged a 10.5% growth for India's economy for the 2021-22 financial year. The pandemic, it added, “is the biggest risk to this outlook. Yet, upsides also stem from the capex push by the government, rising capacity utilisation and the turnaround in capital goods imports.”

In India, the second wave of COVID-19 peaked in the first week of May 2021 when the new daily cases rose to 400,000. From the end of May 2021, there was a steady decline in new cases and deaths per day from 150K and 3K to 40K and 600 respectively by mid-July 2021. Lockdowns, higher testing rates and faster roll out of vaccination covering wider segment of the population seem obvious reasons for this decline. By mid-June, many Indian states eased coronavirus restrictions as the number of new infections dropped to the lowest in more than two months by December 2021, the new daily cases dropped to 5000 but since January 2022 the numbers have risen steadily because of the spread of the highly transmissible COVID-19 variant-Omicron. On 21 January 2022, the new daily cases reached 337,000 and have since been declining.

However, unlike 2020 when all industrial activities in India came to a sudden halt because of national level lockdown, the Group's India management planned in advance for all contingencies including a lockdown. They sought special permit from the state government of Tamil Nadu to run its operations by getting classified under Continuous Process Industry which are allowed to function even under lockdown. E-Passes for seamless movement of staff/operators from one district to other/one state to other and containment zones were quickly arranged. Unrestricted supply of nitrogen was ensured. New recruitment was stopped

temporarily at both Andhra Pradesh and Tamil Nadu sites to prevent the risk of spread of infection. Offer letters to indirect staff and Graduate Engineer Trainee (GET) were delayed till improvement of situation. During lock down & restart of operations, to retain the required number of operators to support existing production at both sites a recommendation was made to prioritize retention of dorm operators from farther distances by offering them reward. Likewise, dorm stay of essential staff was planned to support operations under captive mode.

In terms of precautionary measures, the following actions were undertaken. Antigen testing was conducted before boarding of the new employees or those returning to work after long gap. Regular temperature screening was performed before boarding of buses, entry into dorms and factory by EHS Team. Periodical sanitization was done in all areas of factory, dorms, canteen and vehicles. Masks were mandatorily distributed to all those who are entering into buses, factories and dorms. Awareness training was given to all workers including drivers, housekeeping, security, wardens, contractors, vendors etc.. Constant supervision and monitoring were carried out within factory and dorm premises and buses to ensure compliance with COVID-19 protocols. 410 staff members were provided with VPN connections under WFH setup. EHS Department ran a 24x7 support helpline with special task force to support employees & families for any medical emergencies. Oxygen concentrators have been stocked to readily support the Group's India factory staff and their dependents.

While the Group's India factory was managing the crisis at its peak, its peers nearby either completely shut down all their plants or cut production significantly mainly because of domestic sales crash to near zero amid local lockdowns, restrictions on online sales of non-essential goods and COVID-19 infections among plant workers. Some big companies in the region were running significantly scaled down production units, at 25% to 40% of capacity, just to cater to global markets. A leading homegrown contract manufacturer shut down its lighting production while lines for appliances and TV are running at 30% to 50% capacity.

The lockdowns in India and in other countries, specifically China, continued to cause major supply chain disruptions in 2021, including shortages of materials, components and other inputs and, to a smaller extent, integrated chipsets. These shortages were exacerbated by the unprecedented demand for smartphones, tablets and personal computers necessitated by home-working and the upsurge in e-commerce, and the large amount of stockpiling of semiconductors and integrated chipsets by OEMs in various sectors. While it is difficult to assign a particular value on the loss due to component shortage, the Group's India factory did lose significant production due to chipset shortages in 2021 that pushed up the cost of sourcing and production as lines remained idle for large periods.

The Group's aim is to maintain our position as the leading EMS provider in India and to become a leader in the country's ODM market in the near term, with the following as the key pillars in our growth strategy:

- expand business in new, high-growth industries;
- provide vertically integrated “one-stop” EMS and ODM solutions to OEM customers;
- enhance R&D capabilities; and
- commence exports to attractive growth markets.

The Group intends to deepen its relationships with its existing customers by providing them with a wider range of vertically integrated service offerings, and integrating innovative solutions into their design processes and product development. For example, it has started to offer mechanics services to one of its key customers, in addition to its manufacturing and assembly services, and will soon start to give service offerings such as product design and development along with component manufacturing and sourcing. The Group further intends to use its EMS experience and the ODM capabilities to diversify into new high growth industries such as mechanics, electric vehicles, televisions, hearables, telecom and networking products, and IT hardware.

The Group intends to invest further in its R&D capabilities, which are integral to its vertical integration strategy and its ability to offer OEMs a broad range of services across the ODM value chain. It is focusing on building its design and product development capabilities, which will enable it to become involved at an early stage in our OEM customers' product lifecycle and position it to capture other parts of the ODM value chain, such as component manufacturing and sourcing, assurance and testing services and after-sales services.

While India constitutes the largest and most attractive market for its future growth, the Group is exploring opportunities to export its products to overseas markets. These include the Middle East and Africa, where the penetration of mobile phones and smart phones is currently much lower than the global average. In furtherance of its export strategy, it has already started exporting Nokia-branded feature phones to the Middle East for its customer HMD. It is also exploring opportunities to collaborate with mobile operators in Europe and the United States, with a view to exporting mobile phones and hearables that they can offer to their network customers.

The Group will continue to provide its workforce with training and development programmes, including external vocational and skills training. Health and safety are an integral part of its promise to its workforce; it will continue to adhere to the required standards of safety in our factories (including ISO 45001:2018 certification for occupational health and safety management systems) and support during crises such as the ongoing COVID-19 pandemic. As part of its ESG initiatives, it will continue to recruit and promote women in our workforce. Its environmental initiatives include the integration of sustainable practices in our business by building green capabilities in our campuses, managing water consumption and monitoring our CO2 emissions. It will continue to adhere to the required standards of environmental compliance in our operations (including ISO 14001:2015 certification for environmental compliance management systems), and strive to ensure ESG adherence across its business and supply chains.

On 21 December 2021, the Group filed papers with SEBI (Securities and Exchange Board of India) to raise around INR 50 billion via an IPO. The IPO will comprise of a fresh issue component of INR 25 billion and an OFS (Offer for Sale component) of INR 25 billion. It plans to use the net IPO proceeds to fund capital expenditure requirements towards up-gradation and expansion of existing campuses, invest in subsidiary to finance its capital expenditure requirements, fund working capital requirements of the Group; and general corporate purposes.

Growth outlook for the Indian electronics industry in 2022 is positive, primarily because market penetration for many electronics products remains very low compared to the global average. Factors such as stable growth outlook for the economy, Digital India programme, rising disposable incomes, changing lifestyles, emerging work from home culture, expansion of organized retails to tier 2 and tier 3 cities, improving electricity and internet infrastructure, and better logistics infrastructure will provide additional impetus to the industry. With changing geo-political landscape, the OEM customer will remain interested in moving the electronics production to the other countries having competitive price, quality and receptiveness. Atmanirbhar Bharat Abhiyaan, or Self-reliant India Campaign, launched in May 2020, with larger focus on the CAPEX and R&D will continue to give strong push to the domestic marketplace, which is very significant to India's economic growth. In the next two-three years, high real GDP growth rates will be rare in majority of the economies as they gradually recover from the impact of the COVID-19 pandemic.

In 2021, domestic electronics production is estimated to be US\$67 billion which includes domestically manufactured electronics components worth US\$8 billion and imported components worth US\$15 billion. The remaining market, after subtracting the cost of the components and other expenses (logistics, packaging, administrative expenses, etc.), represents the addressable business opportunities for EMS companies in India. The total addressable EMS market in India was valued at INR2,654 billion in 2021 and is expected to grow to INR3,458 billion in 2022 with a rate of 30.3%.

However, top threats in the form of supply chain disruptions especially shortage of key components such as chipsets, subsequent waves of COVID-19, predatory pricing by new competitors and talent attrition will continue to linger in 2022.

Key Relationships with Suppliers

Supply chain performance is always a prime measurement in determining operation execution excellence within the Group. In order to address customers' requirements to time-to-market, volume-to-market and time-to-volume, our manufacturing operations are dependent on timely purchase of components and other raw materials and optimal inventory management. To secure adequate supply of key parts, sustain strong bargaining power, and sourcing high quality material with competitive pricing in a timely manner without being restrained by some major suppliers, procurement team of the Group sources components and other needed materials required for conducting businesses from over 3,000 reputable and qualified suppliers, of whom majority of them have had long and stable relationship with the Group. Maintaining efficient goods delivery with quality material at best in class competitive pricing while without being restrained by few key sources has always been a daily challenge to the team. While material cost management is clearly of critical importance, from time to time, the Group takes necessary actions in keeping inventory, open purchase order and working capital in check and maintain adequate cash reserve to warrant operation sustainability. Considering unprecedented challenges presented by unbounded volatility over the past year, rise and fall of the business has practically been dictated by supply chain community, by its deliverable. COVID-19, US-China tension, component supply challenge, inflation pressure and continuing logistics congestion clearly stand out currently as the determinants in a complex business environment.

Vendors delivering basic materials and suppliers supplying component including chipsets, memory, electronic parts, display module, camera module, battery, connectors, enclosure, and packaging material together make up the supply partners of the Group. They are selected through a clear set of requirements developed over long supply management history, specifically, technical requirements, quality and reliability standard, price competitiveness, technical competence, innovation and engineering capacity, logistics requirement, service assessment, commercial terms, customers' requirement, capacity, reputation in the industry and financial strength are the inclusive elements and vendors are then evaluated and qualified through qualification processes defined within the Group. There are also on-going measurement of performance (including quality and on-time-delivery and service) of suppliers. Components may not always be readily available at times of supply constraint, and we may not be able to obtain them in a timely manner in meeting production schedules and this explains why it is difficult to estimate future order books and actual shipment volume.

Purchases made to top five supplier in spend accounted for approximately 56.1% of total purchases made by the Group in the current period. Whilst the Group could potentially engage with many suppliers in the market, over the years the Group has consolidated its purchases with major suppliers due to ease of procurement processing, supply continuity and favorable commercial terms (especially in pricing) offered by them. All top five suppliers have had long term and well-developed business partnership with the Group over the last five years. These key suppliers are not bound by contract nor are asked to reserve manufacturing capacity, or, to produce or guarantee minimum supply to the Group, at which, liability exposure to the Group is well kept in control. Given having a clear strategy in securing competitive pricing through purchase consolidation with handful of key suppliers, supply disruption risk to the Group in its ODM business can be contained since potential supply delay or shortage have been considered while safety buffers are being planned on top of demands. Customers are informed, are aware of such continuing challenge, contingencies are planned and will be put in place when required. Additionally, good number of alternative sources available in the market are always kept as fallback for the Group to work with when it is needed. Apart from chipset and memory, the Group expects to experience minimal impact from unforeseen market fluctuations such as significant material cost increase or supply delay should the Group decide to engage with a new supplier. Capacity in practicing best in class material pricing in the industry clearly exhibits procurement proficiency and commercial strength of the Group, it is a core competence built upon benefits gained from scale of its operations, bulk volume in purchase, and continuous close interaction and networking with the market. One of the top five suppliers to the Group is the Hon Hai Technology Group. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Purchases attributable to the Hon Hai Technology Group accounted for approximately 12.95% of the Group's total purchases in the current period.

Recent logistics logjam at major seaports around the world came mainly as result of COVID-19 pandemic. Lockdown took place in many countries and regions earlier, put people's life very much coming to a halt, retail businesses, stores, shops, and restaurants on high street were devastated by the situation yet, with some very good reasons, to the contrary, online businesses made record sales in recent history at the same period. Manufacturers located in Asia have been working around the clock in dealing with continuing order inflow from US and Europe since fourth quarter last year. Problem arose from the fact that pandemic lockdown and additional safety measures undercut cargo handling capacity dramatically in

these transportation hubs. First sign of problem came when people started to notice there weren't enough containers available to be dispatched to loading docks at this side of the ocean, while at the other end, tens of thousands of containers were piling up at the wharf, waiting to be delivered, and there weren't enough containers to be shipped back to Asia, or the whole trip around took many months. Then, one accident caught the whole world noticed, one mega container ship ran aground while passing through Suez Canal and turned side way, due to sheer size of the ship, the canal was blocked for about two weeks and the world shook up. Not to mention the more visible freight charge rising from day to day and record-breaking profit reported by almost every shipping company in the world. Logistics service clearly is one embedded building block in a complete supply chain, both in-bound and out-bound, capacity constrained at any one location causes similar impact as physical material supply constraint does. And similarly, adjustments have already begun, fresh new containers were ordered, bigger container ships were launched, and new ships were ordered, all aiming to rectify current situation where hundreds of container ships mooring outside of US west coast as an example.

After a year-long journey of 2021, by now it is fair to conclude, if nothing more, it has not failed in providing good number of challenges to the Group and business community around the globe. Signs of supply tightness could already be seen in third quarter of 2020, they were isolated in limited number of components, it was in fourth quarter last year situation really started to turn south, even we remained hopeful, things went worse from first quarter of 2021 and it was clear by then it will go all the way, spilled-over from semiconductor to non-semiconductor sectors picked up from second quarter 2021, supply difficulty was being reported from each and every commodity, and, price rise pressure came right after. Similar to most in the mobile phone business, the Group learnt the hard way over time in 2021 and market remains to be fully dominated by two rules breakers, COVID-19 pandemic and U.S.-China competition, by which the consequences are never seen or experienced in recent business history. The demand/supply situation in the market has never been about market capacity. The entire market is witnessing and, with no option, experiencing some major disruptions at global scale within a relatively narrow time window. Namely, challenges like continuing U.S./China conflict/competition in business, lasting COVID-19 pandemic since 2020, mis-judgement in some industries regarding demand recovery schedule, slower than expected vaccination coverage in most part of the world, local COVID-19 eruptions caused by new virus variants in the regions, logistics challenges in sea freight routes, unexpected surge of work from home related electronic devices, autonomous driving vehicles and EVs, together they have created unprecedented complexity to following adjustment cycle, and, supply chains around the world need to be given time to react and adjust. And, the Group simply still is moving forward amidst the business and industry adjustment cycles. As adjustment cycle rolling, the Group began to experience a very significant price rise from almost all semiconductor component commodities and later to find similar price increase in non-semiconductor commodities, it became more of an "inflation like" price rise in all commodities. Supply constraints may obviously impact the Group's supply to end customers and at the same time its revenue, and, rising component pricing will then put additional pressure to the margin over time.

From beginning of third quarter 2021, mobile handset demand went softer than forecasted earlier, big spenders (leading handset brands) slowed down in pulling material. Signs of easing off in supply started to emerge in some commodities, those with short adjustment cycle was beginning to deliver its result in the market. Fourth quarter pricing started to level off and even dip in some commodities, yet key components upped their pricing once again in the same period. One intriguing observation to be noted was on top of typical momentum dictated by demand and supply, as year is ending, inventory carry became a real concern to many, at which, additional inventory amassed from non-square kit material left in the warehouse raised huge worry, material pull slowed down, and it clearly helped relieving demand pull pressure in fourth quarter market. A good example of adjustment cycle showing its might, though clearly at different pace in different commodity. COVID-19 pandemic and U.S.-China trade friction have been and remains to be the underlying market disruptor for volatilities and breakdowns everyone has been experiencing in this industry and many others. True nature of the two forces warranties scale of consequences is never seen in recent history and following adjustment cycle will take years to complete. And we are just about halfway. A reminder to be kept in mind, a rather unfortunate situation will continue to be played out to the World, with no given option, disruptions at global scale will continue, and they can only to be fixed one by one after each corresponding adjustment is completed.

Semiconductor continues to stay at top of supply chain challenge. Even certain sub-tier commodities had begun to ease off, what has been the most challenging remains to be challenging as ever if not more, namely main chipset supply. Typical second half seasonality in consumer electronics ensures a continuation of the challenge. Simple fact is semiconductor supply remains to be far short of demand. Capacity competition has long been elevated beyond handset business, it is now a competing game among some businesses, to name a few, like consumer electronics, PC, mobile handset, automotive and AI cloud computing are all competing for same foundry capacity; thus, adjustment cycle will take some longer time to complete. Over time, through the magic of market adjustment, it will become clear which product sector, under what type of fabrication process node technology, demand and supply got tangled up and resolution can take 12 months and longer. While there are other sectors where resolutions had been in place and improvements could start to be seen in fourth quarter. Supply in some smaller size standard components and certain passives are still tight yet practically no longer in constraint. Electro-mechanics and mechanics are basically custom design/made, sub-tier material supply and their pricing never went as bad as those in semiconductor sector but was earlier a real concern. They managed to move from high risk to manageable in fourth quarter. Power outage and ration took place from late September to early October in certain regions of China sent a shock wave through supply chain community, that too eased off over time as no further stepped-up measures was taken. At high level, supply of some commodities improved in the fourth quarter, and further improvement can be expected in first half of 2022. Nonetheless, other half of the challenge is looming, the pricing. Price rise pressure never dissipated as supply was improved. Sign of inflation is very visible. It will be next hurdle on top of supply constraint in coming quarters. We are amidst of the business and industry adjustment cycles. Material constraints may obviously impact the Group's supply to end customers and therefore its revenue, and rising component pricing (cost to the Group) will then put additional pressure on the Group's margin over time. More specifically, impact comes in two folded, at one end, from lower shipment number, lower revenue, higher cost and then margin squeeze; at the other, if product cannot be shipped, out of missing components, non-square kit material left can fast turn into excessive inventory carry. Started from second

quarter, Nokia Branded feature phone business, some smartphone business and more recent North America carrier products have been impacted. Businesses of some other customers have been experiencing similar circumstances; fortunately, they are operated under EMS mode, at which, supply continuation is generally a much bigger challenge.

To reduce the impact of component shortage, procurement team employed different tactics and methods and tools. Typical current and recent pricing and supply requirements are communicated and negotiated with designated sources on a quarterly basis, session for next coming quarter may start from third week entering into a new quarter and last till 2 weeks before quarter end, i.e. if shortage/disruption, by supply visibility, they will basically be dealt with one quarter or longer before they may actually occur later in time; in some cases, in extreme situation, unforeseen disruptions may come up in very short notice, and those can only be resolved with intense escalation and follow-up review with the suppliers or through near term allocation adjustment. Planning and maintaining visibility are the basics in securing supply, near term forecast is offering to suppliers on weekly basis, longer term numbers are shared by sourcing team, planning and visibility are built on top of demand forecasting confirmation provided by suppliers. Again, communication and negotiation happening in each quarter are tools in determining pricing and supply in coming quarters, bargain/tradeoff are being made well before actual delivery confirm is given, usual preferential supply strategy, in technology/supply/price/service, is always the guide in making decision, yet, as what has happened in the past 12 months, obviously supply is top concern, so, following actions were taken, (1) leverage relationship with key sources, request more supply; (2) explore additional options and qualify as many and as quick new sources as possible; (3) accept higher pricing in securing supply; (4) show commitment by offering long order coverage; and (5) seek supply from open market when necessary.

At high level, the Group is experiencing component shortage and price surges and order lead time extension for almost all electronic components, semiconductors and others which affect the Group's performance and recovery path of customers. Scale of current demand/supply challenge is not ever seen in recent history, limitation in fabrication capacity for semiconductor is the main cause for wide range, across the board semiconductor component supply challenge, and, therefore, consequently resulting in longer order lead time and rising cost. Out of proportion demand increase generated through new applications like 5G communication, safety and autonomous driving features adopted by traditional vehicles and EVs, may tip off the balance between demand and supply from time to time. Continuing trade tension between U.S. and China, successful pandemic containment and recovery in major consumer markets, COVID-19 vaccine development, allocation and administering, growth in 5G infrastructure and phone market are all visible main events that have played out over the course of 2021, each and every one of them has easily made its mark in the Group's business and quickly pass down the impact along the demand/supply chain and make it difficult to forecast order book with reasonable reliability. As it is, this is too complex for longer term forecast to last and hold. The Group remains vigilant to the challenges which will unfold over time and will be prepared and react to the best of its capacity.

For details, please refer to the "The Group's Value Chain" section of the Company's separate 2020 environmental, social and governance report as issued and published on 20 April 2021.

In response to the potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has its diversified customer and supplier base, and has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. For details, please refer to the "Accountability and Audit" section of the Company's 2020 corporate governance report, which forms part of the 2020 annual report of the Company as issued and published on 20 April 2021. In order to deal with lasting component shortage and inflation risk and minimise the impact on operations, the Group pays close attention to supply and market price trends and maintains good interaction and communication with customers and suppliers and logistic companies with flexible and efficient procurement and sales strategies.

Key Relationships with Employees

Employees are valuable assets to the Group. Therefore, the long-term strategy of the Group is to cultivate and develop employees internally and to recruit outside professionals and build up the competencies. Product development and manufacture are both complicated process and require professional and experts. Therefore, the Group pays attention to keep enhancing quality and quantity of staff force in order to secure its leadership and competency. The Group has been working diligently in different countries to attract and retain talents. As to talent development, the Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified and brilliant employees by offering more equal employment opportunities, competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation and enrichment and diversification, coupled with better career prospect across various products and programs and business lines and promotion opportunities. The Group places great emphasis on career planning and talent development for employees in different countries by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency and technical development to enhance employees' capabilities, while external training programs include hands-on courses and workshops and seminars or conferences organised by external parties that provide excellent training and professional development opportunities for employees that bring theory and practice together to improve the competency of the Group. Furthermore, the COVID-19 crisis has resulted in a significant increase in online learning. Much of the training that had started as face-to-face in classroom environments has been pursued online. The Group prides itself on providing a safe, effective and congenial working environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been arranged and implemented to ensure a healthy and safe working environment. The success of the Group is dependent on its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, training and development, knowledge building, motivations, rewards and retention, as well as localisation. The Group complies with relevant labour laws and regulations to protect employees' rights and interests. The Group always emphasises employee benefits as well as harmonious labour relations, and highly values employees' opinions and feedbacks. In order to communicate effectively with staff, the Group provides channels like e-meetings, emails, or mail boxes for employees to reflect their thoughts. Currently, the communication between the Group and employees is well conducted and employees can fully express their opinions, raising any labour issues to promote and maintain a positive labour relationship. Pursuing sustainable corporate development and embracing integrity is our highest guiding principle, and the Company has

established relevant business ethic guidelines. Based on the guidelines, employees are required to follow the moral and ethical standards and advocate integrity, honesty and confidentiality to protect the rights and interests of the Company and its shareholders as a whole and enhance the Company's competitiveness and long-term sustainability.

While the Group is following the requirements of governmental authorities to contain spread of COVID-19 and taking preventative and protective measures to prioritise the safety of our employees and staff and customers and suppliers, the Group has spared a lot of resources and introduced SOPs (Standard Operating Procedures) and recommended guidance on a range of health and safety protocols and behaviours like a cessation of employee travel, personal hygienic procedures, disinfection of surfaces, and social & physical distancing to employees. As the COVID-19 situation has evolved in various countries where the Group's sites are located, the Group imposed strict measures to ensure employees stay healthy and prevent the spread of virus during the COVID-19 pandemic, including enhanced screening works of checking employees' body temperature daily, optimise work in a way to allow for social distance, and improving exhaust ventilation to provide more clean make-up air to rooms, etc.. Also, employees must wear mandatory face masks when they report to work. To reduce potential transmission of the virus, employees are clustered into different groups and eat/work in shifts. The Group has constructed dividers at canteen tables to reduce risk of transmission while dinning. QR codes have been placed on cafeteria seats and meeting rooms as well, which employees are required to scan to enable proper tracing. The Group also uses its APP for providing employees with up-to-date reliable information on the situation and prevention guideline of COVID-19. To protect the well-being of employees, relaxed attendance or leave policies allow employees to stay home if they have any related symptoms at higher risk of being infected or are quarantined.

Hanoi site is now actively enhancing the way of attracting and retaining employee method for its employees in order to have enough workforce with high skills to produce high-tech products. As an international brand name manufacturer, Hanoi site has now committed to, applied for and complied with the highest standards of corporate social responsibilities (CSR), business ethics, environment and health, such as Hanoi site adhering to fulfill SA 8000 standard, which is certified by international third party and in effective. Furthermore, Hanoi site always applies the best policies for its employees and complies with laws of labour in relation to working hours, wages, rests, labour collective agreements with trade union, and also provides wide range of benefits and interests for its employees which are higher than the laws and local competitors. Besides, Hanoi site also builds a good corporate culture as well as creates a decent and creative working environment and builds a development roadmap for employees in both salary and promotion. These advantages are significant factors to attract international brand name manufacturers and labour force.

Amid the COVID-19 outbreak and rising positive cases especially in Bac Ninh area in second quarter of 2021, our Hanoi site implemented "Isolated Production" which was required by local government to prevent the spread of COVID-19 in the society. It was like bio-secure bubble without outside people access (avoid contact with other people or participation in society). Furthermore, Hanoi site provided additional life allowance, besides, three meals a day and other necessities provided to employees so they were comfortable with life inside the campus. With all the multi-measures and efforts of all employees, Hanoi site had been maintaining zero infection and keeping safe, smooth and continuous operation.

India site is giving lot of focus on training methods for its employees to achieve very high skill level of its employees which will have a positive impact on the productivity. India site takes various steps in this regard. Special attention is given for safety of employees by giving awareness in training to tackle COVID-19 situation. It also focuses on the employee welfare through various initiatives and programs. The employee welfare and facilities like canteen, dorm, etc. are well above the industry standards in India. Carrier growth and increments offered by India site is always better than the industry bench mark which helps us to attract the best talent to the Company. India site also gives lot of importance for Corporate Social Responsibility (CSR) by carrying out various community welfare initiatives. All applicable labour laws and factory laws are strictly followed.

India's COVID-19 prevention processes helped to contain the virus spread and India site continues the endeavor to educate employees, vendors and other personnel at the premises to observe the safety guidelines not only factories, but also at their homes and public places. COVID-19 task force looks into the audits for the various COVID-19 standard operating procedure in place, counselling employees for the need of maintaining COVID-19 protocols and continues to help with the vaccination drives that have been planned at our sites. India site has made mandatory for its new employees to produce vaccination certificate during the time of joining. The site continues to do regular temperature screening before employees boarding into buses, in dormitories and in factory entrances, periodical sanitisation in all areas of factory, regular mask distribution to all those who are entering in buses and factories (shift in & out) and dormitories, awareness training and regular inspections/audits by EHS team.

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

As at 31 December 2021, the Group had a total of 73,993 (31 December 2020: 70,381) employees. Total staff costs incurred during the current period amounted to US\$444 million (full year 2020 US\$476 million), and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs. In view of the Group's changes in product portfolio and excess capacity, the Group has refined its approach and taken necessary steps with a view to becoming an asset-light and lean corporate group, and accordingly, has to rightsize/restructure the underperforming parts of its manufacturing operations, thereby incurring inevitable rightsizing/restructuring costs, expenses and/or losses and hence giving rise to adverse impacts on the Group's 2020 final results and also having affected its financial performance in 2021 to a certain extent.

The Group offers a comprehensive and competitive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance, contributions and productivity. The Group treats all employees equally and fairly, and evaluates employee performance (including determining promotions and wage increments) objectively based on merit, ability, and competence. To encourage employee retention, the Group has implemented annual bonuses, time-based/performance-based incentives and other incentive programs. Employee retention is always a big challenge for all corporation. In a highly competitive global economy and as product development and manufacture are both complicated process and require professional and experts, retaining of qualified and skilled key employees is essential for the sustainable competitive advantage. By offering competitive compensation and benefits, creating favorable working environment, broader customer reach, bigger scale in resources, training and job rotation coupling with better career prospect across various products and programs and business lines are undertaken actions for the Group to increase the employee loyalty and retention rate. In particular, the Company has adopted the Share Scheme and the Share Option Scheme, respectively, pursuant to which (among other things) the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer share awards or share options (as the case may be) to the eligible employees of the Group and other eligible persons upon and subject to the respective terms and conditions set out therein. The Share Option Scheme complies with the requirements of Chapter 17 of the Listing Rules. In addition, the Company has obtained approval from the Company's shareholders at its annual general meeting (held on 28 May 2021) for implementation and operation of the subsidiary share option schemes. For details, please refer to the Company's circular as issued and published on 20 April 2021 and the Company's announcements dated 28 May 2021 and 23 December 2021. The Group has also introduced non-monetary rewards (including housing incentives) for employees with exceptional performance and contributions. Employees also enjoy insurance coverage provided by the Group. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company's performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practices as well as the recommendations of the Company's remuneration committee. For details, please refer to the "Human Capital — The Group's Greatest Asset" section of the Company's separate 2020 environmental, social and governance report as issued and published on 20 April 2021.

Review of Results and Operations

Financial Performance

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

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

The challenging conditions that the Group has faced since late 2017 have continued into 2021. In addition, the lingering and lasting of COVID-19 and resurgences and infection outbreaks and related restrictions and lockdowns and containment measures, reduced discretionary spending, labor unavailability in different countries have continued to adversely impact component supply and delivery lead time and prices, global supply chains and length of supply visibility and all these contributed to the Group's variable production in its factories and order fulfilment and affected the recovery of the sales turnover of the Group and its operating results negatively and our customers and all these will continue to be a drag on business operations and quick recovery of the customers and the Group. There are also actual and potential costs, expenses and/or losses arising from the Group's ongoing efforts to rightsize and/or to restructure and to remain lean and agile and asset light which can help reduce overheads in the long run. In particular, component supply constraints and disruptions and tightness have continued to adversely impact the Group's supply and shipment to its customers and ultimately its revenue, and rising component pricing (and hence the Group's costs) has continued to put more pressure on the Group's margins in respect of some customers over time as component cost increase cannot be all passed through to customers. These negative factors and risks are currently expected to potentially continue into at least the first half of 2022. Comparing with 2020, there is year-on-year improvement in gross profit and gross margin and net profit and net margin as there were better yield and operational efficiency from reduced COVID-19 related production interruptions and also generally reduced cost of sales and operating expenses as a result of continuing tighter control over costs and overheads and ongoing asset light activities including rightsizing and restructuring relating to assets and workforce starting from 2020. With reference to the Company's joint venture with Stellantis relating to automotive smart cockpit and assistant systems, an after tax gain of US\$34.9 million was derived by the Group upon completion of the transaction. As a result, the Group recognized a consolidated revenue of US\$8,583 million, representing a decrease of US\$352 million or 3.9% when compared to US\$8,935 million for the same period last year. Net profit for the current period was US\$56.4 million, when compared to a net loss of US\$173.8 million for the same period last year.

The Group's 2021 performance is primarily attributable to various factors, including:

To explain reasons of YoY improvement of gross margin

- (1) The challenging conditions that the Group has faced since late 2017 have continued into 2021 and there is continued pressure on the Group's gross margins generally and this is aggravated by the pandemic and the surplus capacity in the market. But as mentioned above, there were better yield and operational efficiency from reduced COVID-19 related production interruptions and also generally reduced cost of sales and operating expenses as a result of continuing tighter control over costs and overheads and ongoing asset light activities including rightsizing and restructuring relating to assets and workforce starting from 2020. A majority of the market participants face challenges with respect to the operating margin. The aspiration level of Chinese workers has increased and they are focusing on high-tech jobs, leaving gaps in the low end of manufacturing value chain. This has led to scarcity of the labour and higher cost due to lack of availability of the manpower. The average cost of manufacturing labour in China is higher than neighboring countries like India and Vietnam and this makes manufacturers to move out of China. In addition, because of reduced entry barrier and keen competition and surplus capacity in the market, business of the Group has been facing strong headwinds. The Group has been putting effort on continuous development and penetration of the Chinese and international brand customers, expanding production capacity in India and Vietnam and R&D and casing capability in India and increasing local sourcing in India, and maintaining Nokia-branded feature phones business as key supplier of feature phones to HMD. But gross margin of system assembly business is really very low and erosion pressure is extremely high and this now becomes an industry norm. In the EMS industry, profit margins are relatively low as component prices are on an average and key focus lies on the labour costs. The markets with fastest-growing smartphone demand are mostly developing countries, such as India and Africa where the average income level is low and people tend to purchase much affordable mobile phones, which are low-end and mid-end models with lower margins. Consumers are becoming more price-sensitive and will curtail non-essential and discretionary spending and keep more cash. In order to meet the shift in consumer market and customers' demand, the Group accepted more low-end devices manufacturing orders which contribute to profit erosion too.
- (2) As explained above, one of the Group's major Chinese customers which is hit by U.S. sanctions caused impacts on the Group's sales revenue and business development and asset utilisation has extended to 2021. This key customer has remained the key overhang in 2021 as U.S. sanctions choked its supply chain even when the overall smartphone market rebounded. The significant drop of orders from this customer not only bollixed the Group's production planning but also caused a significant impact on its utilisation of assets. The Group has to write-off and impaired the under utilised asset and to carry out downsizing and restructuring activities in 2020 and incurred significant restructuring costs in 2020 and the impact has lasted to 2021. But the overall amount and impact has reduced this year. Though the increased order gain from other customers can partly offset/mitigate some of the above mentioned impacts. The Group keeps seeking other business opportunities both in China and India and other locations like the States and monitoring the market situation and intensifying competition in an effort to maintain our position and competitiveness and long term sustainability in the industry in different countries.

- (3) The pandemic has continued to affect the recovery of the Group's customers and operations and sales revenue of the Group in 2021 and this directly affects the Group's asset utilisation and the ability to benefit from economies of scale and the depreciation charges of the Group's low utilised properties and equipment are still required to be recognised while they were temporarily idle. But thanks to the rightsizing/restructuring carried out in 2020, the utilisation has been improved gradually in 2021 when the market was picking up momentum after mass COVID-19 vaccination programme carried in different countries and hopefully gradual relaxation of various kinds of restrictions and many of the world's major economies should be able to re-open gradually. Thanks to the fast recovery of China from the pandemic, the yield of China sites have improved dramatically from the third quarter of 2020 and there were no such production interruptions in China due to pandemic control protocols in 2021 and the overall yields and efficiency improved in 2021. But cash position of some of the Company's customers is still a concern and adequacy of ECL allowance of these customers is under close review and monitor and finance team has devoted extra effort on the collection works.

In April 2021, India saw a national resurgence of COVID-19 which has stretched its healthcare system, and due to another wave of local infections, several Indian state governments have announced complete/partial lockdowns. The COVID-19 pandemic has disrupted the manufacturing supply chain in India and curtailed the commodity demand. There are needs to continue to spend a lot of resources and effort on pandemic measures to strictly curb the spread of the virus so as to comply with local regulations and protect employees' health. Accordingly, the Group had to spend the additional and unexpected cost in the continuation of production in India in the second quarter. COVID-19-related costs incurred comprised of direct and indirect costs, including manufacturing inefficiencies related to lost revenue during lockdowns due to the inability to secure materials and incremental overhead, expedite fees and freight premiums, sanitary supplies, personal protective equipment and rent of additional dormitories. In light of the reduction in capacity, India site has had to rearrange the shipment without violating any customer contract terms. But local management team succeeded to minimise impact of COVID-19 outbreak through adopting pro-active measures. The Group will continue to closely monitor the COVID-19 impacts on its present and planned operations in India. The Group's Hanoi management team also adopted "isolated production" and strict social distancing measures and succeeded to curb the outbreak of COVID-19 in the factory and minimise the impact to production interruption. Even after the COVID-19 pandemic has subsided, we may experience adverse impacts to our businesses as a result of its global economic impact, including any related possible recession, as well as lasting impacts on our suppliers, third-party service providers and/or customers and their behaviors.

- (4) Chip supply shortage has further escalated globally in 2021 after the COVID-19 pandemic, as major companies across industries failed to meet the rising demand for electronic goods and components. Market is witnessing and, without an option, experiencing major disruptions at global scale within a relatively narrow time window. Namely, challenges like continuing U.S. China conflict tension, low vaccination coverage in some part of the world, local COVID-19 eruptions caused by new virus variants in the regions, congestion in major freight routes, a lack of new investment in certain chip production capacity, rising demand in autonomous driving vehicles and EVs, together they have created unprecedented complexity to the following adjustment cycle. Supply chains around the world need to be given time to react and adjust. Supply of finished

electronic products and components necessary for local manufacturing has been held up due to prolonged congestion at ports and availability of container. Recent logistics logjam at major seaports around the world came mainly as result of COVID-19. Lockdown took place in countries and regions earlier put people's life to a halt. Retail businesses, stores, shops, and restaurants on high street were devastated, yet, with some very good reasons, to the contrary, online businesses made record sales in recent history at the same period. Manufacturers located in Asia have been working around the clock in trying to deal with continuing order inflow coming from customers in U.S. and Europe since the fourth quarter of 2020. Problem arose from the fact that COVID-19 lockdown and additional safety measures undercut cargo handling capacity drastically in these shipping hubs. First sign of problem came when people started to notice there were not enough containers available to be dispatched to loading docks at this side of the ocean, while tens of thousands of containers were piling up at the wharf on the other side, waiting to be delivered. There were not enough containers to be shipped back to Asia, or the whole trip around took many more months. Needless to mention the more visible freight charge was rising from day to day and record-breaking profit were reported by almost every shipping company in the business. Both in-bound and out-bound logistics clearly are building blocks in a complete supply chain. Capacity logjam at any one location will cause similar impact as physical material supply constraint does.

The Group has been sailing amidst the business and industry adjustment cycles as these cycles are forth moving. The Group began to experience significant price rise from almost all semiconductor component commodities and later to find similar price increase in non-semiconductor commodities in second quarter 2021, it became more of an "inflation like" price rise in all commodities. Material constraints may obviously impact the Group's supply to end customers and therefore its revenue, and rising component pricing will then add additional pressure on its margin over time as cost increase can't be readily passed through to the customers. More specifically, impact comes in two folded, at one end, lower shipment number, lower revenue, higher cost and then it ends up with margin squeeze; at the other, if product failed to be shipped, out of missing certain components, non-square kit material left can fast turn into excessive inventory carry. Some of our businesses to some customers have been affected since second quarter 2021. To some other customers who have been in similar circumstances; given their businesses are operated under EMS mode, at which, supply continuity is a bigger challenge to the Group over costing. Impact of component supply is more severe when customers' demands fluctuate significantly. Meeting such demand is dependent on supply continuity and optimal inventory carry. On this basis, it may not be feasible for the Group to reasonably and meaningfully provide a quantitative measurement of the COVID-19 and supply chain disruption impact to the Group. Ultimate impact of the COVID-19 and component supply constraint to the Group's business, its duration and severity will be dependent on following market development which can't be foreseen currently.

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Due to above factors, gross profit for the current period was US\$224.4 million, represented an increase of US\$129.2 million gross profit from that for the same period last year. Gross margins for the current period was a profit of 2.6% and was better than 1.07% for the same period last year.

In 2021, with the continuous effort to becoming an asset-light corporate group, the Group impaired, disposed and wrote off various under-utilised/obsolete assets of US\$19.1 million (2020: US\$42.6 million). In addition, because of low asset utilisation and the decline of sales to some of the customers, the Group rightsized/restructured some of the loss making manufacturing operations and some underperforming part(s) of its business/manufacturing operation and thereby inevitably had to incur restructuring costs and expenses of US\$11.7 million (2020: US\$11.9 million) which affected the Group's 2021 final results. As the restructuring and rationalisation take time, in 2022, the Group will continue to incur some actual and potential costs, expenses and/or losses arising from the Group's ongoing efforts to rightsize and/or to restructure.

In addition, as mentioned above, on 31 December 2021, the Group ceased to have control over Mobile Drive Group it previously owned and which were then become jointly owned by the Group and Stellantis. The Group recognised on the Group's consolidated statement of profit or loss and other comprehensive income of a gain of approximately US\$34.9 million (before taxation, if any), calculated by: (1) the difference upon Completion between the carrying amount of the assets and liabilities of the Mobile Drive Group, approximately US\$4 million and the fair value of the Group's equity interest in the JV Co, approximately US\$40 million; (2) the transaction costs directly attributable to the Transaction of approximately US\$1.3 million upon completion of the Group's joint venture with Stellantis; and (3) the gain from reclassification of cumulative translation reserve of approximately US\$0.2 million.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company currently expects that: (a) the Group's financial resources (including cash, cash flow and liquidity positions) and working capital remain sufficient to finance its continuing operations and capital commitments; (b) the Group would have sufficient funds to satisfy its working capital and capital expenditure requirements for the forthcoming 18-month period; and (c) no significant events nor circumstances might adversely affect the Group's ability to fulfill its financial obligations or meet its debt

covenants in a material respect. However, to seek to ensure that the Group will maintain that, and given the significant change in market demand and consumer-buying behaviour resulting from COVID-19, the Group has continued to focus on measures to control overall costs and operating expenses, and to seek to ease pressure on margin erosion, while at the same time working closely with customers to fulfill their demand at a reasonable cost amidst fierce market competition. It is the Group's business strategy to become more asset-light and lean, and accordingly, the Group has continued its exercise of rightsizing/restructuring of the underperforming parts of its manufacturing operations, and has generally suspended capital expenditure on non-critical investments and/or capital assets (except India where the Group is keen to expand which expenditures are expected to be funded by cash raised from the listing of the India entity in India Stock Exchange) and has also got rid of its obsolete, depreciated and under-utilised assets. The Company will continue to closely monitor the situation, and where it considers necessary, will implement further appropriate measures like carrying out further rightsizing and restructuring activities. The Company has been working hard and doing everything that it reasonably can to improve its performance through these long-lasting challenging times. The Company will keep matters under close review as 2022 progresses.

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

Other income, gains and losses for the current period was US\$161.8 million, representing an increase of US\$2.6 million from that for the same period last year. The Group has experienced a foreign exchange gain of US\$2.4 million for the current period, compared with the Group foreign exchange loss of US\$0.03 million in the same period of 2020 due to its holding of U.S. dollar assets. Renminbi (RMB) has continued to appreciate against U.S. dollar due to the U.S. Federal Reserve takes quantitative easing monetary policy and China's economy recovery from COVID-19. The Group will maintain its consistent hedging strategy in order to minimise impact generated by exchange rate volatility. Government subsidies for the current period were US\$28.2 million (same period of 2020: US\$56.8 million), including the relief packages related to COVID-19 of US\$2.6 million. In addition, to lower the cost of production, beforehand the Group moved some of the manufacturing to some inland cities and incurred relocation costs and additional logistic costs and the government provides support to reduce impacts of these parts of burdens to the Group. There are also other types of incentives to encourage enterprises to improve technologies and export more.

Regarding operating expenses, for the current period was US\$294 million, compared to US\$366 million for the same period last year. For selling expenses, there was a year-on-year decrease by US\$1.6 million as payroll costs dropped after restructuring and partially offset with the effect of increase in shipping cost as the logistics costs were higher due to COVID-19 outbreak during the current period. For R&D expenses, there was a decrease by US\$66.1 million as were incurred for low-ended handsets and there was a saving in payroll costs after

the optimisation and rightsizing of staff force and also better cost control. For general and administrative (“G&A”) expenses, there was no material fluctuation when compared to same period of last year. Severance payment associated with of rightsizing/restructuring activities to exit from less profitable or loss-making or under-performing operations was incurred and more performance bonus has been provided for staff retention purpose during the current period.

Interest expenses for the current period was US\$8.9 million, compared to US\$12.2 million for the same period of last year. The decrease was mainly due to year-on-year decline in bank loan interest rate and there is decrease in average bank loan balance amount.

Net profit and net profit margin are the financial KPIs measuring earnings/losses resulting from subtracting operating expenses and other gains and losses (such as equity investments fair value change) and tax and interest costs from gross profit earned and shows the residual of all revenues and gains over all expenses and losses for the period. This KPI indicates how much of each dollar earned by the company translates into profits which results in net change in shareholders’ equity that results from a company’s operations. It measures the ability to control operating expenses, optimise tax and capital structure and interest costs, minimise other kinds of non-operating gains and losses (such as foreign exchange gains and losses and equity investments fair value change). These reflect on the profitability of a business and shows how fast the company can grow in the long-term prospect. In light of the factors mentioned above, net gain attributable to owners of the Company for the current period was US\$56.3 million, as compared to net loss attributable to the owners of the Company of US\$173.9 million for the corresponding period last year. The net profit margin for the current period was 0.66%, as compared to the net loss margin of 1.95% for the same period last year.

ROE (Return on Equity) indicates the capacity of a business to use shareholder’s investments efficiently, generating high profits. The Return on Equity shows how much revenue a company generates for each unit of shareholder. The return on equity ratio not only provides a measure of an organisations profitability, but also its efficiency. A high or improving ROE demonstrates to your shareholder’s that you’re using their investments to grow its business. During the current period, ROE representing the amount of net income returned as a percentage of shareholders’ equity, which measures a company’s profitability by revealing how successfully a company utilises the resources provided by its equity investors and the Company’s accumulated profits in generating income was 2.6% , when compared with the ROE for the same period last year of 8.35% negative.

Income tax expenses during the current period was US\$13.7 million, when compared to income tax expense of US\$24.9 million for the same period of last year. The decreased in income tax expenses was mainly due to realisation of temporary difference on accelerated tax depreciation and utilisation of tax losses by certain profitable entities during the current period.

Basic profit per share for the current period was US0.7 cent.

Dividends

- (i) The Company has adopted the following dividend policy which aims at enhancing transparency and facilitating its shareholders and potential investors to make more informed investment decisions — the form, frequency and amount of dividends to be

declared each year and dividend pay-out ratio will be dependent upon the Group's business outlook and strategy, financial performance and cash flow generated from operations, projected working capital and capital structure, future expansion plan and capital expenditure and capital requirements, cash position and other relevant factors as the Board may from time to time deem appropriate. The performance of the Group has been volatile in the past couple of years and the COVID-19 pandemic and U.S. ban and geo-political tensions and component shortage and price hikes and logjams have led to a lot of uncertainties for the coming periods of time and the Group needs time to recover (please refer to "Outlook" section below) and to maintain a healthy capital structure. Therefore, the Company will continue to closely monitor the situation, and where it considers necessary, will adjust and/or enhance its dividend policy, as appropriate.

On 15 March 2022, the Board resolved not to recommend the payment of a final dividend for the current period.

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

Sales

For the current period, the Group recognised a consolidated revenue of US\$8,583 million, representing a decrease of US\$352 million or 3.9%, when compared to US\$8,935 million for the same period last year. The Group will continue to provide OEM and ODM service to China and international brand mobile phone customers and also consumer electronic products such as e-Readers, tablets and voice interaction products to an international brand and strive to maintain a healthy customer mix and sales mix. As a result of the blacklisting of one of the Group's major customers, the negative impact has envisaged in 2021. The Group started its business years ago serving international brands by manufacturing feature phones with the launch of smartphones

and the subsequent popularisation which has driven smartphone outsourcing, the Group has benefited from the trend. But the landscape has changed quite dramatically in recent years and the fierce competition makes it even more difficult to maintain market share and margin. Compounding the difficulties for the global smartphone market is the fact that global shipments have faced the fifth year decline since 2016 due to saturation in certain markets. However, with surging demand in India and faster than expected adoption of 5G smartphones in China, the market exhibited a strong upturn in the beginning of 2021 from the pandemic. According to an IDC report on 29 July 2021, global smartphone shipments reached 658 million units in the first half of 2021, representing a promising 19.3% year-over-year growth. Yet, the second outbreak of COVID-19 and the continued component constraints demolished not only the mobile phone supply but also the consumer demand. Reflecting the impact, according to another IDC report released on 27 January 2021, smartphone vendors shipped a total of 1.35 billion smartphones in 2021 with a growth rate of 5.3%, which was worse than IDC's original forecast of 7.4%. The recovery of the smartphone business will be a challenge in the coming quarters with the uncertainty of end demand and the continued outbreak of coronavirus infections and component shortage. Due to the ever-intensifying competition in the smartphone industry, companies are also spending more on research and development as well as marketing. For smartphone makers, the scope of differentiation has also reduced due to each company aggressively investing in research and development. While on the one hand, this helps the companies grow the popularity of their smartphone models, on the other, it has become essential since customers' needs and preferences are evolving faster. With diffusion of innovation and technology, the smartphone industry has been already commoditised. Highly homogenous products have increased the competition in the market as it became more fragmented and as the modular structure of the industry lowered the barriers for new entrants to enter the market and offer products with high specifications for an affordable price to consumers. The smartphone industry is characterised by modularity similar to the computer industry. The significance of modular designs has been linked to the rapid rate of innovation in the industry and contract manufacturing along with modularity has given rise to the competition in the industry as new players enter the business with the ability to produce at low cost but with a high efficiency. However, even though we faced the intense competition, the overall performance will get better gradually driven by the recovery of COVID-19, upturn of better margin businesses and product diversification and extension. The changes in product mix and escape from the expenses of pandemic prevention measures and improved production yield, have induced the net loss to improve further year-on-year.

In general, the Group has strived to invest in R&D and improve efficiency and maintain a good and stable yield by enhancing production automation, asset utilisation and capacity, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. But outbreak of COVID-19 has greatly reduced room of improving asset utilisation and capacity optimisation. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to diminish the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to sourcing materials with competitive prices. Furthermore, there has been continuous strong support from the Hon Hai Technology Group to offer in scale, solid component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Technology Group's resources, giving the Group more flexibility in outsourcing capacity.

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

Closely aligning with the Hon Hai Technology Group objective, the Group’s future business plan would focus on remaining lean and asset light and margin escalation instead of revenue growth and continually monitor the market competition conditions to respond accordingly. Segment profit represents the gross profit earned by each segment and the service income (included in other income) after deducting all selling expenses.

Asia Segment

Despite of COVID-19, Asia segment continued to be the Group’s core performance contributor in terms of sales turnover and segment profit in 2021. China is the first major economy to recover from the pandemic and the faster than expected pandemic recovery in China helped the Group’s Asia segment year-over-year performance as there are no longer factory shutdown in China and yield and efficiency improved dramatically. In first half of 2020, the China operation was in a halt and there were idle costs and a lot of costs were spent on supplies and measures to curb COVID-19 outbreak in factories. Coupled with tight cost and overhead control, the Group carried out rightsizing in second half of 2020 to be asset light and this helped reducing overheads in 2021. One of the Group’s major customers seized the market shares from its rival who is also the Group’s customer suffering from U.S. restrictions and the shift of market share between both customers reduced the impact of the loss of the sales to this major customer. On the other hand, the Group manufactures eReaders and voice interaction products which are not affected by COVID-19 as more people Work from Home. Some other customers are also recovering step by step. But the shortage of component and supply chain constraints and outbreak of COVID-19 in India and Vietnam in second quarter this year have affected phone shipment. Through efforts of local management team, the impact to production interruption has been minimised and production in India and Vietnam of second half of 2021 became smooth. The revenue of Asia segment in the current period was US\$6,576 million, representing a decrease of 16.7% from that for the same period last year (2020: US\$7,891 million). In the current period, Asia segment’s recorded earnings were US\$126 million which were higher than the recorded earnings of US\$78 million for the same period last year.

- a. Some countries have approached mobile phone market saturation, leading to price competition and forcing industry operators to lower prices to gain competitive edge and a majority of the market participants face challenges with respect to the operating margin in the EMS industry, profit margins are relatively low. As component prices are on an average, key focus lies on the labour costs. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans. Currently, this is viewed as a significant restraining factor for the market. The margin compression risk will continue as Asia segment sales growth is driven by system assembly business which has a lower gross margin. Due to low entry barrier, crowded competition and excess capacity in casing industry, gross margins of casing business continued to face huge pressure this year and ahead. The Group has faced such challenges since late 2017 and has continued into 2021 and the difficult operational environment that the Group operates and faces prevails. This is one of the reasons why the Group is keen to develop some new businesses like the new joint venture formation with Stellantis and expand in India casing operation and R&D function to differentiate its offerings to customers. But with the improvement of product and customer mix and improvement in efficiency and yield (in particular China operation) this year, there was promising year-on-year improvement in margin performance.

- b. Component shortage has annoyed the industry significantly and the shortage deteriorated in the third quarter of 2020 and the supply tightness was triggered by two major factors. Firstly, 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 has 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. Some common electronic components such as ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. were subject to tighter supplies, with rising prices and extended order lead times. In addition, Mainland China's smartphone market appears to be undergoing a process of recalibration because of the U.S. sanctions against one of the key players in the market, which, in turn, has caused more uncertainties in planning, production and logistics. As one of the Group's key customers who has provided a material contribution to the Group's revenue became a target in the U.S. and China's trade tension and been imposed with strict restrictions, sales to this customer have dropped. This has led to excess capacity and the Group has to carry out the rightsizing and restructuring actions in second half of 2020 which has continued into 2021. Secondly, as mentioned in above section of "Impacts of COVID-19", COVID-19 outbreak and resurgences and rising demand for electronic products as more people work from home, and a lack of investment in chip production capacity have all contributed to the global chip shortage and supply chain disruption and the recovery path of our customers and the behavior of end customers. The global chip supply shortage has intensified in 2021 after the COVID-19 pandemic, as major companies across industries have failed to meet the rising demand for electronic goods and components. The supply of finished electronic products and components necessary for local manufacturing has been delayed due to prolonged congestion at ports and a lack of containers. The material shortage causes production efficiency challenges, operation cost increase and order fulfillment and shipment and sales. Also it is expected the problems of component shortage and price hikes and longer delivery lead time will continue for some time and analysts predict overall supply constraint in semiconductor industry is still far from being over and the chip shortage may not end until 2022, since supply delays caused by current COVID-19 limitations are expected to last at least a year. Therefore, it is very difficult to tell what's ahead and adjustment cycle could take another year. As market competition is keen, the Group may not be able to recover all of the increase of bill of material costs from some of the customers. Visibility of customers' demand is greatly shortened too. As explained, it is difficult to quantify impact amount of COVID-19.
- c. The repercussions of the health crisis of COVID-19 outbreak have been felt for a prolonged period of time. The economic damage caused by the COVID-19 pandemic is largely driven by a fall in demand, meaning that there are less consumers to purchase the goods and services available in the global economy. Coupled with component shortages, the recovery of our customers have been affected and this is evidenced by year on year decline of in sales of the Asia segment and it needs time returning to pre-pandemic level. While the smartphone market underwent the gradual revival from COVID-19 in early 2021 and China's recovery from COVID-19, the production efficiencies of China operations have improved significantly and idle costs reduced and this contributed a lot to better yields and throughput and margin performance. There is also no need to spend on safety supplies. But the outbreak of the COVID-19 second wave in the second quarter heavily swept across several regions of the world in which the Group has operations, especially in Vietnam and India which implemented different levels of local lockdowns, precautionary and quarantine measures as well as travel restrictions. These measures have impacted the Group's India and Vietnam manufacturing activities as well as a slowdown in overall local demand and commercial activities for some time, all of which have contributed to a pressure on the recovery of the Group's sales, revenue, asset utilisation and contribution margin in these countries. It also has had a profound impact on the online and offline sales of phones of our customers in these countries. With the effort of the local teams in India and Vietnam, they succeeded to minimise the impact of the COVID-19 resurgences on operations and the situation stabilised gradually in June. Adverse

second/future wave of new coronavirus infections impaired the handset industry, with rising demand uncertainty in terms of customer confidence in spending, have resulted in a negative impact of smartphone growth in 2021 in those regions. As a whole, it needs time for demand to return to pre-pandemic level. With better and growing vaccination rate in different countries, the recovery of our customers can be accelerated.

- d. In view of the Group's changes in product portfolio and excess capacity, the Group has refined its approach and taken necessary steps with a view to becoming an asset-light corporate group in 2020 and, accordingly, has continued to rightsize/restructure underperforming part(s) of its businesses in second half of 2021, thereby incurring inevitable restructuring costs and expenses and there is need to pay severance pay and to write off some inventories and write down some obsolete/idle assets. But the 2021 impact reduced as the Group has already aggressively eliminated/wrote down/impaired a lot of idle, obsolete, redundant and surplus assets in second half of 2020 and asset utilisation improved in 2021.
- e. China has shown its resilience during the pandemic year and register good GDP growth of 8.1% in 2021. China's economy has recovered well with the government focusing on supporting Small and Medium Enterprise (SME) and allowing delay of loan repayments. Though China's industrial economy showed positive signs, retail and investment industry remained weak and challenging. As the recovery gains traction, the composition of aggregate demand is likely to shift toward private domestic consumption. Real consumption growth is expected to eventually return to pre COVID-19 levels, aided by continued labour market recovery, growing household incomes, and increased consumer confidence. Despite recent increases in imported raw material prices and an increase in local demand, consumer price inflation is projected to stay below target. Given the on-going uncertainty, the authorities are expected to remain flexible and modify the level and nature of macroeconomic policy assistance.

For India, the pandemic has created unique growth opportunity. Supply chain disruption during the pandemic has forced many countries and organisation to re-think on their sourcing and reshoring strategy and reduce dependency on one country for the entire supplies. These large companies looked for alternate low-cost manufacturing locations in South East Asia and India is emerged as one of the sought after investment destinations for many of these companies. As there would be re-alignment of global supply chain in the coming years, India is likely to benefit immensely from these strategic decisions and likely to become a manufacturing powerhouse in the coming years. Favourable business environment, attractive tax incentive, liberal FDI norms, constantly improving Ease of Doing Business rankings, enormous consumer base and rapidly improving digital infrastructure are some of the key factors that will drive investment in India in the coming years.

The strategy of the Group is to maintain the gravity of operations and devote resources in Asia segment, including China, India and Vietnam, following the downsizing of European sites years ago so as to further utilise economy of scale, enhance and harness the capacity, capability, competence and presence of the Group in Asia segment and develop additional businesses and customers and serve existing customers in a good manner. After two decades of global economic prosperity, the trend seems to be transiting to de-globalisation. One observation is the Tariff War between U.S. and China from 2018. The other observation is the border conflicting between India and China in 2020. The COVID-19 pandemic also catalysed such transition. In particular, a lot of customers with phones shipping to the U.S. have been moving some of their PRC operations out of China and have asked the Group to manufacture phones in other Asian countries like India and Vietnam and the Group has devoted resources to expand scale of operations in these overseas locations and will continue to expand especially in India to tap the huge potential there. India's mobile manufacturing began in mid-2000 with the entry of Nokia and witnessed impressive growth between 2008 to 2012 when the country produced 155 million handsets and exported 105 million handsets. However, by 2014 the production dipped to 58 million units due to various factors. While the domestic market kept growing at a very rapid pace, majority of the demand was met via import of Completely Built Units (CBU)/Finished Goods (FG) by both Indian and Foreign OEMs. This rise in India's Electronics imports (mainly from mobile phones) contributed significantly to current account deficit. To encourage companies to manufacture in India, India imposed high import duties on CBU and this duty differential between imports and local production offered significant cost advantage to OEMs having local production in India.

In anticipation of the good opportunities mentioned above, the Group has already set up and maintained handset assembly factories in India and Vietnam for years and has helped certain Chinese brand customers to develop business and grasp larger market shares in Asia and overseas markets outside of China in the past couple of years and one of these customers experienced exponential growth in the Indian market. With the lingering of trade war during Trump's administration, customers started flocking to Asian countries like Vietnam and the Group has kept reviewing its global capacities to optimise resources and capacity in emerging markets, including India and Vietnam. The Group continues to further align its manufacturing capacities with the geographic production demands of customers and expand its capacity and capability there via relocating some resources from China to India and Vietnam. India will get a boost in a post-lockdown scenario. Sales of the Group's Indian operations in the current period were about 27% of the total sales of the Group due to the continuous growth of the business of a Chinese brand customer in India. The Group's factory operation in India is one of the largest contract manufacturers in India and the Group will continue to optimise its infrastructure and expand its capacity in anticipation of additional customers and product types in India. To this effect, the Group had injected additional capital of around US\$119 million in 2019 into its Indian operation. In 2021, the Group has been putting effort to enlarge the capacity and capability and casing manufacturing and R&D capability in India. There are a couple of reasons for doing so. First, 2020 trade tensions between U.S. and China resulted in the shifting of manufacturing demand from China to other countries. Second, China faces rising manufacturing costs due to increases in labour costs and land costs, and lastly, China's supply of manufacturing capacity exceeding surplus demand which results in the severe margin erosion pressure. Third, no one can ignore the huge population of India and the size implies the opportunities. From the demand side, 1.3 billion population is a large consuming market. The expansion plan focuses on increasing production capacity and capabilities and the Group is also to enforce vertical integration and product and customer diversification and local sourcing strategy in India and Vietnam to a more complete manufacturing service. Indian government's "Make in India" program has sped up India into becoming the global manufacturing hub and it has opened the door to manufacturing investment by taking steps to boost local manufacturing and sourcing through tax benefits and incentives. Although the Group has big facilities in China, but taking into consideration of all factors, the Group has taken this opportunity to accelerate investment in the casing operation in India and making new capital expenditures on plant and machinery and equipment and also building up R&D center which has opened in the fourth quarter of 2021. The Group has critically reviewed capital expenditure on non-critical investments. The Company will continue to closely monitor the situation, and where it considers necessary, will implement further appropriate measures at the appropriate time like carrying out rightsizing activities to underperforming parts of businesses.

The situation varies in different countries in Asia segment in 2021, the Group will closely monitor the future development of this segment and assess the impact of this segment on the Group's overall performance and cash flow. In terms of China, according to Quartz report on 16 September 2021, despite the fact that many companies have spent the past several years moving manufacturing out of China and into neighboring southeast Asian nations, especially Vietnam, some of them strived to shift their production back to China due to the deadly Delta outbreak in Vietnam since late April 2021, with a high probability to benefit China. Furthermore, as the RCEP trade agreement took effect on 1 January 2022, it is expected to help power China's recoveries from the pandemic.

Europe Segment

The recorded revenue of Europe segment in the current period was US\$794 million when compared with the recorded revenue of US\$537 million for the same period last year and the revenue of Europe segment increased in the current period. Just like Asia segment, the recovery is restricted by resistant COVID-19 challenges. Also HMD faces keen competitions in different markets. The Group has taken measures to reduce the gross loss margin of Nokia-branded smartphone manufacturing in the second half of 2019 and now the Group basically only manufactures Nokia-branded feature phones. The recorded earning of this segment in the current period was US\$40 million, when compared with the recorded earning of US\$15 million for the same period last year and there was year-on-year increase. The shortage and price hike and long delivery lead time of some key components triggered by COVID-19 outbreak further affected the Group and HMD as HMD cannot raise selling prices readily to accommodate rising costs so as maintain price competitiveness. This in turn affected the Group's gross margin. Shortage of feature phone chipsets is growingly serious as chipset vendors no longer want to manufacture 2G chipsets and allocate priority production resources to the market popular 4G/5G and next generation chip and feature phone business is facing great challenges for harder to secure 2G chipsets. This shortage has continued through the whole year of 2021 and the impact on feature phone shipment is foreseeable.

As HMD is striving for greater market share in the saturated market and with feature phone consumers are much price sensitive, it is fairly difficult to transferring the rising cost pressure to the end market consumers; which result in the continuous cost erosion pressure the Group is facing. In order to maintain same profit margin level, HMD started outsource strategy to low-tier ODM companies and at the same time, place pressure on us. All the above mentioned factors contribute to a foreseeable continuing pressure in the profit margin. Therefore, the Group is selective and has rejected lower profit margin Nokia branded feature phone projects and by shifting resources for exploring non-Nokia business opportunities. Also by maintaining competitiveness with ODM rivals, the Group is undertaking actions for developing common module assets to shorten product development time and to reduce project development costs for each projects and all these initiatives aiming for efficiency and cost improvement. When approaching new business opportunities in industry other than our core mobile handset industry, the Group benefits from the fame of our company; at the same time, the common symptom of large company places constraints to fast response and flexibility; adjustability with reactions and adaptability with options are areas for improvements for us to maintain and gain competition leadership.

Additionally, the Group will continue to closely monitor and assess the credit worthiness of HMD and the impact of this segment on the Group's overall performance and cash flow.

America Segment

For the America segment, core businesses include sales of phones to a U.S. based Internet customer and provision of services including reverse logistics, repair and refurbishment of smartphone for OEMs and carriers and sales of mobile phones to U.S. customers by the Group's entities located in the U.S. and Mexico. The recorded revenue in the current period was US\$1,212 million when compared with the recorded revenue of US\$507 million for the same period last year and the year-on-year increase came from the increase of sales to a U.S. based Internet customer. The recorded earnings for the current period were US\$51 million when compared with the recorded earnings of US\$21 million for the same period last year.

- (i) For the U.S. based Internet customer, it wants to offer better, differentiated service by combining software and hardware. 2021 performance is better than last year as this generation of product is better fitted into customer expectation in terms of performance and price range. In addition, this customer is beneficial by loyal Android users who choose to buy their phones. To curb component shortage, the Group placed longer order to secure supply and this customer plays a very important role to secure supply as well. But of course, like other customers, the fierce competition continues to squeeze the margin. The profit is managed carefully by tightly control direct labour to overcome capacity fluctuation and we are in good track for yield and attrition control. The labour rate in China keep on soaring especially during peak season.

For this important customer of very good potential, the Group provides depth of engineering service for customer premium, complex smartphone product NPI (New Program Introduction) and failure analysis service. The Company can timely ramp up the volume to meet customer demand within very short time by managing operation complexity and yield timely improvement. The Company developed depth of automation robot software, robot central control system, AI inspection algorithm to reduce labor amount dependency and manual un-consistence and real-time big data analysis and visualisation tool to assist yield improvement. To fulfill customer's orders, we have focused on engaging 2022 new products NPI (New Program Introduction), new products ramping up, yield improvement and chasing material availabilities to support customer launch volume. Instability of material supply remains as a big headache. The Company need to resolve the fluctuation by managing huge scale idle capacity during shortage and also to deliver quality engineering service. The capacity fluctuation will remain the same due to unstable material supply.

- (ii) For reverse logistics and repair and refurbishment business, in 2021, smartphone retail stores and retail service channels have gradually recovered from the COVID-19 shutdowns or closures starting from the second half of the year. However, major smartphone OEM is providing new refurbishment service model directly to carriers and retail channels which impacting our hub type of refurbish operation. And smartphone OEMs are continuously changing their product design and repair policy which also causing the shrinkage of overall smartphone refurbish business model and the return service activities slowed down tremendously. New Product Introduction (NPI) schedule had been pushing out due to business traveling restriction and global shortage of some key components. Market demand of mobile devices slowed down when most of consumers "staying home" and "working from home" rather than mobility during this period. Both our Texas and Mexico operation have been impacted by unexpected global supply chain issues starting from third quarter. And the impact to Mexico factory manufacturing is covering entire second half of 2021. By leveraging the Company's product design capabilities and global supply chain operations, Chihuahua factory has attracted numerous customers to restructure their global manufacturing strategies in 2022. And Texas operation is also impacted by unexpected labor shortage after post-COVID which has led to operation cost increase and gross margin dropped while sales revenue target still can be maintained. Looking forward, Mexico site will take advantage from the on-going "Trade War" for long term and keep growing when customers complying USMCA (United States-Mexico-Canada Agreement), especially in the EV area in automotive industry and Tariff-impact products. And Texas site will support major OEM customers who are looking for solutions and planning to assemble their products in U.S. starting from second quarter, 2022. But the worldwide material shortage, global logistics and supply chain issues not only have impacted in 2021 will remain as the major risk to both sites all the way through entire 2022.

- (iii) In 2021, the Group has devoted resources and effort to build up R&D capabilities for mobile devices, especially for cellular embedded products, including cellular modem, antenna and radio engineering, software, mechanical/thermal engineering and operator network testing and customisation and the Group succeeded to break the ice on entry into U.S. market this year and gradually developed some new overseas customers there and manufactures products including mobile phones, cellular embedded tablets, cellular embedded routers and data modules. 5G products are gaining more momentum as the operators are promoting more 5G services and 5G products are becoming more affordable as chipsets for mid-to-low tiers products become available and the Group is seeing more 5G products in our shipment portfolio based on the momentum. The difficulties encountered are fierce competition in this market segment which pressures us in cost and new technology adoption, and the semiconductor shortage causes fulfillment difficulty and loss of revenue/profit opportunities. But both of these driving forces push us for continuous improvement in design and sourcing capabilities as well as more closed partnership with key part suppliers. Given our initial success in top tier US operator business, we see promising opportunities for other U.S. operators and expansion of more product portfolios.

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

Peers

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

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

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

customer mix, product mix, and manufacturing location and devoted itself to improving existing technologies and manufacturing, delivering innovation on both processes and materials, enhancing the core competence and capability of mechanical engineering (which is critical to the successful running of casing business), quality and efficient customer responsiveness and speed, shorter mold manufacturing cycle time and cost effectiveness and efficiency of casing business.

For our peers of casing business, they are companies listed in the PRC or Hong Kong and have been the vendors of our customers for a long time with well-established business relationships with the Group's customers. They also have customers, which are not customers of the Group. They have strong cost competitiveness and extremely agile to follow up the latest technology and tendency, such as 3D glass, Glastic, ceramic casing and metallic device antenna molding. Performance of our casing peers in 2020 are listed as follows:

- (i) Peer 1 is a Hong Kong listed company whose core businesses are precision mechanics, electrical drives and acoustics and haptics optical applications. Its revenue increased by 4.0% year-over-year, while gross profit margin and net profit margin increased by 3.0% and 2.5% respectively year-over-year in the first three quarters of 2021. The raising revenue was mainly driven by the increase in acoustics and optics product shipments, and the margin improvement was caused by the cost optimisation and higher yield rate. In terms of mechanics business, as one of its customers was restricted by the U.S. sanction, the shipment declined significantly compared to the last same period. Yet, the company continued to develop the casing business for non-phone products and expected the revenue contribution of non-mobile (notebook and tablet etc.) casing business can reach over 15% of precision mechanics in 2021. Besides, the company invested several automotive startups to acquire relevant technologies and promotes a comprehensive solution for smart cars across all the product lines.
- (ii) Peer 2 is a PRC listed company whose shares are listed in the Shenzhen Stock Exchange and its core business also includes consumer electronics precision structural parts, electronic connectors and Components, and new energy vehicle connectors and module. The company aims to decline the proportion of revenue from domestic customers and mobile phone products to reduce the dependence on single product and pump up the margin performance. Following the objective, the company has acquired a new international customer and went mass production of the casing and component of its notebook and smart wearables. The revenue contribution continued to grow and expected to be doubled in 2021, while the higher ASP (average selling price) made the overall margin improvement. Other than this, the company also gained MR (mixed reality) headset casing orders to step into the Metaverse industry, which is expected to be a revenue driver in 2022. Moreover, the company also aggressively developed the energy vehicles business with partnership with the leading EV battery solution provider to manufacture the battery structural parts. The EV sales was expected to account for 10% of total revenue in 2021. In the first three quarters of 2021, the revenue rose by 9.2% year-over-year, though the net profit margin was down by 4.6 percentage points, mainly because of the skyrocketed material price and the lower utilisation rate due to the delayed launch of one of the major phone, as well as the increase in spending on R&D as new business development.

- (iii) Peer 3 is a Hong Kong listed company whose business includes mobile communication terminal, digital and optoelectronic products such as precision mobile phone metal appearance, mobile phone metal frame, precision shielding, and micro precision connectors respectively. The increase in the shipments of Android glastic casing offset partially the decrease in metal injection molding parts from one of the major international customers as the customer's order adjustment due to component shortage. Also, the ASP of glastic casing products is almost twice as high as the ASP of plastic casing, which means the momentum will drive the overall margin up. In respect of other businesses, the company started mass production of the metal components of batteries for new energy vehicles in the third quarter. In the first three quarters of 2021, the revenue of the company increased by 10.1% year-over-year.

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

For our peers of EMS business listed in the U.S., PRC and Hong Kong, as mentioned above, they have been exploring new business opportunities and expanding their product categories to improve the margins and to diversify the risk of high dependency on mobile phones or few customers. Performance of our EMS peers in the first three quarters of 2021 are listed as follows:

- (i) Peer 1 is a Hong Kong listed company whose business includes EMS/ODM service for mobile devices, PC and IoT products, component design and manufacturing for a wide range of metal, glass, and ceramic, automotive electronics and medical equipment. The company reported a 28.0% revenue increase in the first three quarters of 2021. Its revenue from EMS/ODM and components still accounts for a large portion of total sales. In the first three quarters, the booming growth revenue was driven by the considerable contribution of the new product from an American, non-Android smartphone customer. Though the chip shortage and China's electricity supply control resulted in the revenue downturn in the third quarter, the growing sales contributed by a new customer offset the headwinds. The assembly business soared significantly by 207.5% year-over-year in the first half of 2021. In addition, the company is expanding into more diversified markets such as IoT products including drones, robot vacuums, gaming consoles and e-cigarette, which ultimately gave an impetus to its earnings growth. The company reported a 38.3% revenue increase from its IoT business in the first half of this year. Regarding its

automotive software business, the revenue has leaped notably due to significant increase of new energy vehicles shipments and recovery of the automotive industry, with having several domestic and international carmakers as its customers. In the first three quarters, the gross profit margin and net profit margin went down 7.5 and 5.1 percentage points year-over-year respectively, primarily resulted from the increase in lower-margin assembly revenue and the fallen shipments of higher-margin medical mask as the pandemic became stable.

- (ii) Peer 2 is a reputable U.S. listed company which is an EMS provider focusing on delivering complete design, engineering and manufacturing services to aerospace and defense, automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. Its net sales uplifted by 13.3% in the first three quarters of 2021, while the net income margin modestly went up 1.1% year-over-year. In spite of persistent component shortages and logistics challenges, the company still made a double-digit revenue growth. The pumped sales attributed to the continued resurgence in consumer spending in developing markets and robust demands for communication devices, electric vehicle and medical products particularly related to diabetes care and medical imaging. Profit growth was bolstered by better product mix but tempered slightly by higher cost of logistics and industry-wide component constraints.
- (iii) Peer 3 is a Shenzhen listed company having three business segments, EMS service for hard drive and consumer electronics, ODM service for automation and IoT products, and memory module assembly, packaging and testing. Its revenue in the first three quarters ascended 16.0% year-over-year, while net gross margin and net profit margin saw a 3.3 and 0.3 percentage points year-over-year decrease. The mild decline in margin stemmed from the smartphone business downturn and the restricted components. The company beard a burden of the massive loss in smartphone business as the shipments from one of its major customers crippled by the U.S. sanctions plunged, however, the robust demand in its storage semiconductor manufacturing, packaging and testing services considerably offset the impact. The new memory chip plant expected to go mass production at the end of 2021, and it would contribute to a further increase in revenue. Moreover, the demand for medical respirator products maintained strong growth momentum, and the company intended to expand its investment in higher-margin EMS businesses such as home medical products. In terms of other businesses including ODM and new energy automotive, the company is developing more oversea customers to adopt its new intelligence solutions and continues to invest R&D in supercapacitor module solutions for electric vehicle, wherein several products have already entered mass production.
- (iv) Peer 4 is also a Shenzhen listed company whose main business is EMS service for consumer electronics, internet communication product, smart devices and automotive electronics. In the first three quarters, the company posted a 24.6% year-over-year increase in revenue, but a 4.2% year-over-year decline in net profit margin. The company acquired the orders from one of the China major smartphone brand companies to offset the headwinds of its customer suffered from the prolonged U.S. sanctions. In the meantime, the company captured the opportunities to enlarge its manufacturing capacities in India and Bangladesh, securing bulk orders from the china customer subsequently. However, due to the different business model from consignment to buy and sell in these countries, the overall margin has been dragged down. Similar to other competitors, the company is expanding its product portfolio to non-mobile device business including smart wearables and tablet, and moving into the automotive electronics segment, with partnership with a leading vehicle electrification supplier.

Apart from the peers mentioned above, a precision parts manufacturer who was not covered in our peers had jointly established an assembly factory with one of our major China customers in Turkey at the beginning of 2021. The peer is a Shenzhen listed company having several business segments, including precise components, structural parts, assembly, charger and materials etc.. The peer has restructured the business since 2019. Recently, in order to provide a vertical integration solution from across all product lines, this particular peer aggressively invested in the assembly business not only in China, but also Vietnam and Europe. In the first three quarters of 2021, benefiting from the increased revenue of assembly and charger business, the year-over-year revenue growth rate was 10.9%. Yet, the net profit margin was eroded, down by 1.5%, affected by component shortage, the raising price of materials and the second wave of COVID-19 in South Asia, though some of businesses have been turned around. Besides, the company leveraged its structural parts manufacturing abilities to develop electric vehicle battery casing business and established a new factory in China. Considering the increased competitive situation, we will keep monitoring its movements.

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

Investments

On the basis that the value of each of the investments mentioned below as of 31 December 2021 is less than 5% of the Group's total assets as at 31 December 2021, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

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

Investments in Business relating to Nokia-branded Products

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

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

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

With reference to the valuation carried out by independent professional valuers, the management has assessed the fair value of the investment in HMD as at 31 December 2021. The Group took corresponding adjustments to the fair value change for the Group's direct and indirect investment in HMD through other comprehensive income ("OCI"). The investment team will continue to monitor the progress its fund raising and business performance and liquidity and impact of COVID-19 and component shortage to its business and cash position.

Other Investments

The Group invested US\$1 million in CloudMinds Inc. ("CloudMinds"), an operator of cloud-based AI robots in China in 2015. The company has filed an IPO application with the U.S. SEC (Securities and Exchange Commission) in December 2019. Due to the impact of COVID-19, global economic downfall, and sanction imposed by U.S. Department of Commerce, Bureau of Industry and Security (BIS), the company decided to refocus on the Chinese market and aiming at IPO there. Hence, CloudMinds has started a recapitalisation process and a new round of financing to enhance its future technology development and financial status starting from the end of 2020. On November 2021, CloudMinds closed its recapitalisation and its B+ round financing with over US\$100 million from several reputable strategic investors. Therefore, the Group's stake in CloudMinds' related entity fall from 0.88% to 0.82%. Based on the recent performance and the forecast for the next three to five years and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in CloudMinds as at 31 December 2021. The Group took corresponding adjustment to the fair value change in this investment.

Founded in 2014, Augentix Inc. ("Augentix") is a fabless multimedia SoC (System on Chip) design company based in Taiwan. Its product offering features with efficient intelligent vision applications using proprietary algorithms and hardware accelerators. The first SoC series of Augentix has been adopted by leading brands and platforms in the fields of home IoT (Internet of Things), professional IP camera, and consumer surveillance products, and helped one of its customers won the 2020 CES Innovation Award. Against the supply chain shortage in semiconductor industry in 2021, Augentix still achieved a near 80% revenue growth over last year, and it still keep the pace to develop new products. Providing broader edge computing applications in surveillance, home security and consumer IP camera, Augentix's brand-new AI SoC is expected to enter the market in the last quarter of 2022. The Group invested around US\$0.7 million in Augentix by subscribing Augentix's convertible note in December 2019 and the note has been fully converted to common shares in November 2020. Through this investment, the Group expects a deeper collaboration with Augentix to further develop in IoT and V2X industry. On July 2021, Augentix has closed a new round financing of nearly US\$5 million with several strategic investors, hence, as at 31 December 2021, the Group's stake in Augentix is slightly decreased from 2.33% to 1.93% on the fully diluted basis.

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

Back in 2015, the Group has made several investments with a total of EUR2.5 million (including EUR1 million in NRE and EUR1.5 million in cash) in Octonion, a company providing sport smart trackers and wearables monitoring athletes’ speed, acceleration, distance and other personal data. As Octonion’s business performance was worsen, the Group had fully impaired this investment in 2016. At the end of 2020, Octonion started to transform the original business to real-time industrial machine health evaluation, leveraged by its edge-computing AI algorithm. Despite all the efforts made, Octonion unfortunately notified that it failed to secure the company and judged to enter into insolvency proceedings on 14 June 2021. On 8 December 2021, the company was liquidated and the Group has removed the investment from its investment portfolio.

Founded in 2007, Snapdeal Limited (“Snapdeal”) is a leading e-commerce platform in India, started as a coupon booklet business, but transformed into an online deals platform in 2010 and an online e-commerce marketplace in 2012. The Group invested US\$200 million comprising US\$150 million in cash and US\$50 million subscribed from its existing shareholder at a discounted price in 2015. In 2017, the Group had fully impaired this investment due to its less than expected operation and financial performance. On 21 December 2021, Snapdeal filed the Draft Red Herring Prospectus (DRHP) toward the Securities and Exchange Board of India (SEBI) for the purpose of IPO. The company stated that the fresh issue amount would be up to INR12,500 million and the Offer for Sale of equity shares would be up to 30,769,600 sold by the existing shareholders. The Group has participated the Offer for Sale and expected to sell up to 17% of its current shareholdings of Snapdeal. The rest of shareholdings will have a six month lock up period post IPO and the investment team will monitor the share price and India stock market performance to liquidate in a timely manner. Based on the performance in 2021 and with reference to the valuation carried out by independent professional valuer, the management has assessed the fair value of the investment in Snapdeal as at 31 December 2021. The Group took corresponding adjustment to the fair value change in this investment.

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

On 31 December 2021, the Group has closed the deal and introduced Stellantis, world’s number 4 leading automakers and mobility provider, to invest US\$40 million in Mobile Drive Group, an automotive technology focused wholly-owned subsidiary of the Group. After closing, Mobile Drive Group became a jointly venture which is equally owned by the Group and Stellantis. Combining with wide resource and solid experience from both sides, Mobile Drive Group would rely on the expertise in wireless communication and automotive industry to focus on the software and hardware integration in smart cockpit and in-vehicle infotainment system, delivering the disruptive in-vehicle V2X solution to the entire industry, and the Group would become the strongest anchor partner to provide all the supports from the hardware manufacturing side.

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

As at 31 December 2021, the fair value of the Group's equity investments designated as FVTOCI was US\$225 million, which represented 3.8% of the Group's total assets.

Other Investment-related Matters

In such a dynamic and volatile equity investment market, the Group's investment team is invariably cautious, and therefore the team will continue to monitor the performance and financial position, cash flow, burn rate and fund-raising activities of investees, related macro-economic factors and competition landscape and technological changes and innovation, viability of business models as well as execution capabilities of the respective management teams of those investees and outlook of investees. In 2021, the Group had disposed of some investments, and also took corresponding adjustment to the fair value change in a few investments which had better/less than ideal performance. The investment team maintains a close relationship with the respective management teams of those investees, and conducts periodical in-house analyses. Based on the result of the analyses, the investment team will consider hedging the risk exposure should the need arises. The Group is not currently aware of any potential cause which would lead to any substantial loss arising from the change in the fair value of the Group's investments in certain listed companies in 2021. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring and evaluating good investment potential opportunities that can add value to the Group, though at this stage, the Group does not currently have any plan for a significant investment contemplated by the Listing Rules.

As the mobile phone market has become a mature market with less gained traction, the Group continually seeks the investment opportunities in other industries with huge potentials, including automotive, healthcare and so forth. Along with the 5G booming, the ACES trends (autonomous driving, connected vehicles, the electrification of the powertrain, and shared mobility) are mutually accelerating revolution in the automotive industry, and McKinsey (a management consulting firm) predicts that automotive E/E (electrical and electronic components) and software market will grow at a CAGR (Compound Annual Growth Rate) of 7% to reach US\$469 billion by 2030. Also, promoted by the awareness of environmental protection, more and more governments and auto companies announced their plans for minimising new gas-powered car manufacturing within 5 to 10 years, which expedites the development of new energy vehicles equipped with new E/E and cutting-edge software. Besides, due to the aging population and the sprouting of health awareness, healthcare has become an unignorable issue, according to IEK Consulting, global medical device market is expected to grow at a CAGR of 4.8% to reach US\$491 billion by 2023. Hence, the Group's investment strategies will be adjusted to be more focused on 5G, IoV (Internet of Vehicle), medical electronics and AI, which include but not limited to IoT smart devices, smart home products, IVI (In-Vehicle Infotainment) and telematics system, V2X (Vehicle-to-Everything)

technologies, or others for synergies creation via establishing strategic partnerships with technology companies. Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; favourable long-term growth prospects; and cultural fit with the Group. In fact, the Group has reached a cooperation agreement with a prestigious private industrial investment fund. The Group will put in its less utilised assets and design and manufacturing experiences, while the fund will provide financial support into an accelerator focusing on the medical fields in Beijing. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before the investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market throughout 2022.

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

Compliance with Relevant Laws and Regulations

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

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

During the current period, as advised by the relevant local legal advisers and tax advisers, the newly-promulgated local laws and regulations applicable to the Group's operations in the PRC, India and Vietnam (being the jurisdictions which are considered, in terms of the scale of businesses and operations as well as the number of employees, factory units and office units,

to reflect the comparatively significant impacts of the Group's overall business unit/group operations) that have a significant impact on the Group are highlighted and summarised as follows:

PRC

In relation to the PRC Civil Code which took effect on 1 January 2021 (Civil Code), please refer to the background and previous developments as described in page 89 of the Company's 2021 interim report as issued and published on 15 September 2021. The Group's PRC subsidiaries have devised and implemented appropriate corporate initiatives and actions after reviewing the applicable legislative changes consequential to the implementation of the Civil Code in the context of their respective current business, legal or compliance models and practices, and will continue to monitor and assess the implementation and effectiveness of such corporate initiatives and actions, and where they consider necessary, will implement further appropriate corporate initiatives and actions.

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

- For value-added tax (VAT), please refer to the background and previous developments as described in page 89 of the Company's 2021 interim report as issued and published on 15 September 2021. At this stage, the draft Value-Added Tax Law (consultation draft) (Draft VAT Law) is still pending the approval of the National People's Congress, and the Group's PRC subsidiaries will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on their operations in anticipation of its enactment.
- For certain tax cut measures, please refer to page 89 of the Company's 2021 interim report as issued and published on 15 September 2021 for certain tax cut measures applicable to manufacturing companies as introduced by the Ministry of Finance of the PRC (MOF) and the State Administration of Taxation of the PRC (SAT) in March and April 2021. Such tax cut measures increased the "super deduction" before income tax for R&D expenses from 175% to 200%, thus significantly reducing the taxable income and income tax liabilities of the Group's PRC subsidiaries involved in R&D activities, thereby reducing their cash burden. In addition, the initiative to refund by cash of any qualified incremental uncredited VAT for qualified companies could enable the Group's PRC subsidiaries to get cash refund of any unutilised VAT credits, thereby reducing their cash-occupied costs.

On 24 December 2021, the Standing Committee of the National People's Congress of the PRC (SCNPC) issued the draft revisions to the PRC Company Law for public consultation (Draft Company Law Revisions), which made roughly 70 substantive changes on the basis of the currently effective PRC Company Law. The Draft Company Law Revisions touch upon corporate governance, related party relationship, potential legal liability faced by shareholders and management personnel, etc., and are aimed at, among other things, (i) improving a company's establishment and dissolution/exit system; (ii) optimising a company's organisational structure and corporate governance; (iii) optimising a company's capital structure; (iv) tightening the responsibilities of controlling shareholders and management personnel; and (v) strengthening corporate social responsibility. The

Draft Company Law Revisions are still under discussion and have not yet been adopted. At this stage, the Group's PRC subsidiaries will continue to monitor the public consultation process of the Draft Company Law Revisions and assess their potential impacts on the operations of the Group's PRC subsidiaries in anticipation of their adoption.

In respect of the PRC Foreign Investment Law which took effect on 1 January 2020 (FIL), please refer to the background and previous developments as described in page 90 of the Company's 2021 interim report as issued and published on 15 September 2021. In particular, the governance structures and constituent constitutional documents of the Group's PRC subsidiaries being foreign-invested entities (Group FIEs) shall be adjusted to accommodate the corresponding requirements under the PRC Company Law, which may imply additional costs of regulatory compliance. During the 5-year transition period from 1 January 2020 to 31 December 2024 under the FIL for the Group FIEs to conform with the then effective PRC Company Law, the Group FIEs will continue to assess the impacts of the FIL and (as mentioned above) the Draft Company Law Revisions on their operations and then devise and implement appropriate corporate initiatives and actions.

India

Please refer to pages 90 and 91 of the Company's 2021 interim report as issued and published on 15 September 2021.

Vietnam

For the Vietnamese government's policies regarding reduction of certain fees and charges as well as payments in relation to social insurance contributions and retirement and survivorship fund, please refer to page 91 of the Company's 2021 interim report as issued and published on 15 September 2021.

Moreover, the Vietnamese government issued the Resolution No.116/NQ-CP dated 24 September 2021 regarding the supporting policies during the COVID-19 pandemic in relation to the unemployment insurance fund, pursuant to which (among other things) employers who are affected by the COVID-19 pandemic will be allowed to reduce their contribution rate to unemployment insurance fund from 1% to 0% during the period from 1 October 2021 to 30 September 2022.

In view of the foregoing, the Vietnamese governmental policies have worked for the benefit of the Group's Vietnamese subsidiary, particularly when applicable fees, charges and other payments have been reduced, thereby reducing such subsidiary's expenses and also working capital pressure.

Apart from the above, the Group also takes into account the relevant laws and regulations regarding global transfer pricing, in order to ensure efficiency and sustainability of the operating models and global tax footprint as well as sufficient tax risk management. During the current period, apart from the above, there were no major changes in applicable tax laws and regulations which have a significant impact on the Group's tax expenses, and the Group will continue to monitor possible impacts and implications arising from applicable new and/or revised tax laws and regulations. Also, the Group has been closely following the global and local level developments following the Base Erosion and Profit Shifting (BEPS) Action Plans of the Organisation for Economic Cooperation and Development (OECD). The Group is

committed to duly comply with applicable laws and regulations introduced or updated due to the BEPS Action Plans, including more documentation requirements triggered by the local transfer pricing documentation and Country-by-Country Reporting (CbCR) obligations in the jurisdictions where the Group operates. The Group falls within the CbCR scope of the Company's ultimate controlling shareholder, Hon Hai, for such purposes.

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

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

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group in respect of environmental, social and governance aspects, please refer to the Company's separate 2020 environmental, social and governance report as issued and published on 20 April 2021, bearing in mind that the Company's separate 2021 environmental, social and governance report is tentatively scheduled to be issued and published in April 2022.

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

Liquidity and Financial Resources

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

As at 31 December 2021, the Group had a cash balance of US\$1,885 million (31 December 2020: US\$1,779 million). Free cash flow, representing the net cash from operating activities of US\$281 million (31 December 2020: net cash used in operating activities of US\$89 million) minus capital expenditure of US\$119 million (31 December 2020: US\$102 million), was US\$162 million inflows (31 December 2020: US\$191 million outflows). The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest-bearing external borrowings of US\$857 million (31 December 2020: US\$929 million) over total assets of US\$5,980 million (31 December 2020: US\$6,032 million), was 14.33% (31 December 2020: 15.40%). All of the external borrowings were denominated in USD, RMB and INR (31 December 2020: USD and INR). The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest-bearing external borrowings were all at a fixed rate ranging from 0.61% to 5.90% (31 December 2020: fixed rate ranging from 0.72% to 5.90%) per annum with an original maturity of one to six months (31 December 2020: one to two months).

As at 31 December 2021, the Group's cash and cash equivalents were mainly held in USD, RMB and INR.

Net cash from operating activities during the current period was US\$281 million.

Net cash used in investing activities during the current period was US\$87 million, of which, mainly, US\$119 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC and India, US\$3 million represented acquisition of equity instruments at FVTOCI, US\$2 million represented net cash outflow on deemed disposal of subsidiaries, US\$1 million represented withdrawal of bank deposits, US\$2 million represented dividends received from equity instruments at FVTOCI, and US\$33 million represented proceeds from disposal of property, plant and equipment.

Net cash used in financing activities during the current period was US\$111 million, primarily due to net decrease in bank borrowings of US\$74 million, payments on repurchase of ordinary shares of US\$18 million, interest paid on bank borrowings of US\$7 million, repayment of lease liabilities of US\$11 million and interest paid on lease liabilities of US\$1 million.

Exposures to Currency Risks and Related Hedges

Since the COVID-19 outbreak in early 2020, central banks globally had adopted monetary easing policy to stabilise the economy. USD has been weakened against all major currencies. In order to mitigate foreign exchange risks, the Group actively utilised natural hedge technique to manage its foreign currency exposures by non-financial methods including managing the transaction currency, leading and lagging payments and receivable management.

Besides, the Group entered into short-term forward foreign exchange contracts (usually with tenors of less than three months) from time to time to hedge the currency risk resulting from its short-term bank borrowings (usually with tenors of one to three months) denominated in foreign currencies. Also, the Group, from time to time, utilised a variety of forward foreign exchange contracts to hedge its exposure to foreign exchange risks. During the second half of 2019, the Group modified the currency settlement mechanism business model with its customers for India business, and therefore the exposure to INR has been kept managing down since 2020 throughout 2021 into 2022.

Capital Commitments

As at 31 December 2021, the capital commitments of the Group were US\$15.0 million (31 December 2020: US\$67.7 million). Usually, the capital commitments will be funded by cash generated from operations.

Pledge/Charge of Assets

There was no pledge nor charge of the Group's assets as at 31 December 2021 and 31 December 2020.

Contingent Liability

There was no material contingent liability for the Group as at 31 December 2021 and 31 December 2020.

Donations

The Group has, in the financial year ended 31 December 2021, made donations for charitable or other purposes to a total amount of approximately US\$614,000.

Outlook

Market and OEM Industry Review and Challenges to the Group

The OEM refers to the one who undertakes the production and processing tasks outsourced by another company with “key core technology” of the products. The OEM model is common in the electronics industry and has become an inevitable choice for the brand manufacturers for its cost structure and on time delivery. Due to the rapid development of the IT industry and the continuous acceleration of product updates, it is not ideal to cover all product lines through its own production with outsourcing production becoming more attractive for cost saving purposes. OEM manufacturers generally have the advantage of large-scale production. Especially for materials procurement and production quality control in large-scale production and manufacturing, OEMs have breadth of experience, which can effectively reduce production costs and achieve economies of scale. However, just as the electronics industry, the entry barrier for OEM industry is very low and its profit margin is limited, so when the gross margin profit of the market declines, only those with a large scale of production can survive. Due to the competitive environments, OEMs willingly reduce their profit margins in order to secure the contracting relationships with major brand manufacturers to meet their capacity. Especially, as the economy of China is opening up, China has attracted low-end and favourable investment conditions. As China has taken over the low-end manufacturing chain, the competition of the industry has been intensified, further reducing the profit margin of OEMs. This is why the Group has kept monitoring the current economic environment and market landscape and its potential impact on both the general economy and consumption power and preferences of customers we served as well as our end markets and closely manage and control our costs and capital resources so that the Group we can respond in a quick manner as circumstances change. As many of our costs and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant amount of revenue, can harm our gross profit margins and results of operations.

As the Group largely deploys its manufacturing facilities in China, the development of OEM industry in China has a direct impact on the Group's business. Since the reform and opening up, China has attracted significant foreign investments due to factors such as low labor costs, preferential land use and favorable 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 labor costs of OEM companies, the intensification of industry competition, the enhancement of the market power of alternatives and the enhancement of the bargaining power of the customers have made the sustainable development of OEM companies a challenging task. In fact, going after the cheap manufacturing cost in China is no longer a favorable option. According to the report of Nikkei Asia on 2 December 2021, in response to President Xi Jinping's "common prosperity" campaign, 20 out of China's 31 provincial-level regions have raised their minimum wages in 2021, including Shanghai, Beijing, Guangdong, Tianjin, Shanxi, Zhejiang, Jiangxi, Hubei, Ningxia, Hainan and Gansu, and so on. In particular, Guangdong Province, China's largest province by economic size, has lifted its monthly minimum wages to between 1,620 yuan and 2,360 yuan from between 1,410 yuan and 2,200 yuan. In the meanwhile, the figure has rose 7.3% to 2,360 yuan in Shenzhen, a home to many of China's top technology companies, and 9.5% to 2,300 yuan in Guangzhou, the provincial capital and automaking hub of China. Higher labor costs prompted manufacturers to shift production elsewhere. Besides, affected by COVID-19 pandemic and rising cost of marriage and giving birth, "China Statistical Yearbook 2021" published by the National Bureau of Statistics revealed that China's birth rate in 2020 recorded as 8.52 per 1,000 people. The birth rate falling below 1% could be seen as a major turning point in China's demography. To fight against sluggish fertility rate, China has formally revised its laws to allow couples to have up to three children in 2021 August. Nonetheless, despite the government efforts to encourage couples to have more children, China only recorded 10.62 million births in 2021, or only 7.5 births per 1,000 people, marking the lowest level since 1949, according to China's National Bureau of Statistics. With the aging and shrinking workforce, the wage in China is expected to rise continually in the face of labor supply shortage. The uplifting wage is one of the reasons that many foreign-invested enterprises have chosen to move to the emerging countries such as India or Vietnam where the Group has already had its footprints on. In the above "Asia Segment" section, there are detailed explanations why the Group, upon request of customers, made the strategic decision to expand in India and enhance its competence and mitigate the risk of reliance on a single region.

At the beginning of 2021, the global economy rebounded strongly under the easing of the COVID-19 pandemic, increasing number of vaccination and reopen of countries across the world. Yet, COVID-19 resurged across the world due to the Delta and Omicron variants in late 2021, which continue to spread in early 2022. The ongoing pandemic exacerbated supply-chain disruption and inflation, further stalling the global economic growth. This year, these uncertainties still loom over globe economy. Maersk, a global shipping giant, warned customers that it was still struggling for goods shipping around the world as the easing of congestion was taking longer than it had hoped for, according to Reuters report on 11 January 2022. It indicated that the problem of supply chain was not over, which still had a profound impact on supply and demand balances. Under prolonged supply-demand imbalances, many nations have been facing considerable inflationary pressure and have been expected to step into a new round of rate hike cycle. According to the data released by the United States Labor Department on 12 January 2022, the CPI rose 0.5% in 2021 December, and inflation climbed to its highest level in 40 years at the end of 2021. High inflation may push the Federal Reserve

to move faster toward tightening. Goldman Sachs also predicted that the Federal Reserve is likely to raise interest rates four times this year and will start reducing its balance sheet in July 2022, as per CNN reported on 10 January 2022. Overall, looking toward 2022, global economic is gradually recovering, however, with multiple uncertainties lingering. The situation has led many institutions to lower their economic growth forecasts for this year. According to the IMF's World Economic Outlook published on 25 January 2022, global growth forecast in 2022 has been downgraded to 4.4% from 5.9% in 2021. Likewise, in the report published by World Bank on 11 January 2022, global growth is also estimated to decelerate from 5.5% in 2021 to 4.1% in 2022 and even 3.2% in 2023. The report also points out that the growth in advanced economies is expected to decline from 5% in 2021 to 3.8% in 2022 and 2.3% in 2023, and as for emerging and developing economies, the growth is expected to decline from 6.3% in 2021 to 4.6% in 2022 and 4.4% in 2023. It is worth mentioning that the significant deceleration in major economies, including the United States and China, will weigh on external demand in emerging and developing economies.

Regarding the outlook of the Group's business and performance, the global general economy, development of COVID-19 and vaccination roll-out rate, handset market, global supply chain, component shortage, geo-political and 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% 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. Even worse, though the pandemic situations become stable and the consumer demand upturned, in the second half of 2021, the component constraint problems surfaced to cause the adverse impact on the smartphone market and pent up the growth rate. According IDC report published on 28 October 2021, the smartphone vendors shipped a total of 331.2 million units, declined by 6.7% year-over-year in the third quarter. In reality, the issue has been compounded by several factors, not only limited to component shortage, but also logistical challenges, delayed transportation and power supply constraints in China. IDC has lowered its 2022 growth forecast from 3.4% to 3.0% indicated these challenges may not improve until mid-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, component constraints, price increase in components and labour cost, competition among Chinese vendors have become fiercer. 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 have been fighting head to head to other OEMs trying to maximise the use of already surplus manufacturing capacity at a relatively lower price quotation. At the same time, the Group's customers have been either striving for greater market share from the above-mentioned brand company in the saturated market and hence the pricing of their products in the end market must be very competitive. On the whole, the gross margin of system assembly business was eroded seriously. However, the Group continues to adjust the business strategies, switching from revenue maximisation to continuous profit improvement. Instead of seeking for increasing smartphone market shares, we keep diversifying product portfolio, in particular the higher-margin product lines.

According to the analysis published by IDC on 2 December 2021, mobile phone brand companies have already moved more aggressively with their 5G portfolios both in terms of production and price points. The smartphone market downturned in the short run due to the supply chain disruption, exorbitant shipping cost and port congestion, however, on the bright side, as the situation more heavily impacted on 4G devices than 5G, it is expected to expedite

the speed of the shift to 5G, which is forecast to be shipped almost 60% of worldwide shipments at the end of 2022. IDC expected 5G devices would soar by 117% in 2021 year-over-year, and the total number of 5G devices would grow from approximately 555 million in 2021 to 1,094 million in 2025 at a CAGR of 14.6%. Though the total shipments declined compared to the previous forecast numbers, the penetration rate climbed throughout several regions. Echoing the above figures, the leading smartphone chipmaker — Qualcomm, on its latest financial report, adjusted the growth rate of global handset shipments for 2021 from high-single-digit to mid-to-high-single-digit. Yet, the company was still optimistic about the shipments of 5G handsets, with an increase in forecast from 450-550 million to 500-550 million. Regarding the average selling price, the ASP of 5G smartphones are expected to be US\$643 in 2021, which is 1.7% higher than the price in 2020. IDC pointed out the ASP (Average Selling Price) reached a peak since the continued demand for premium models in developed markets, but as the 5G penetration rate become higher gradually, the overall price will fall accordingly. On the other side, the rollout of 5G network is also a key factor to influence the adoption of 5G devices. According to the Ericsson Mobility Report published on 30 November 2021, 5G telecom subscriptions ascended by 98 million during the third quarter of 2021, to 570 million. Ericsson estimated the subscriptions will grow up to more than 660 million by the end of the year. Refer to the rollout of 4G, the 5G subscription is expected to penetrate faster than 4G, which was launched in 2009, resulted from the timely availability of devices from several vendors, the faster decline in the price of 5G devices, and China's early engagement. By the end of 2027, the report indicated the 5G subscriptions would be accounted for 49% of total mobile subscriptions, with 4.4 billion subscriptions worldwide. But as the chipset suppliers allocate priority production resources to the market popular 4G/5G and next generation chip, feature phone business is facing great challenge for harder to secure 2G chips. This shortage has continued through the whole year of 2021; the impact on feature phone shipment is foreseeable. The Group is taking actions to diverse business risks by expand into other product categories other than mobile phone, especially with the downstream in the feature phone demand.

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 ICs (Integrated Circuits), filters, LCDs (Liquid-Crystal Displays), sensors, etc. continue to be subject to compressed supplies, with rising prices and extended order lead times persist into 2022. However, according to the THE ELEC news released on 3 December 2021, Qualcomm CEO Cristiano Amon claimed that the global chip constraint is easing and expected to improve further in 2022. The optimistic statement runs counter to other statements from several top managers of the largest semiconductor manufacturers. Intel CEO, Pat Gelsinger, believed that the chip shortage will continue until 2023; while the head of ARM, Simon Segars, is completely pessimistic and stated the situation will get worsen. Regarding the surged price, according to the UDN news released on 8 November 2021, the leading Taiwanese chipmaker, MediaTek, raised the prices of some of its smartphone chips to reflect the increased cost of production from its IC foundry supplier. It is worthy to note that the rise in prices of 4G processors is much higher than 5G enabled processors, which is 15% and 5% increase respectively, indicated the 5G chips have been prioritised to manufacture and to further cause the 4G chips shortage to become severe. That is aligned with the viewpoint mentioned in the last paragraph. Even though there are different expectations in terms of chip shortage, the Group held a conservative point of view and thought the supply chain disruption situation would not alleviate until the second half of 2022. While several industries have taken proactive steps to mitigate ongoing supply strain, and global semiconductors manufactures have actively invested in new foundries and factories expansion to ramp up production capacities, however, the dearth of supply will be dragged on for a certain period.

From the second half of 2020, the supply chain has been severely strained due to the ongoing COVID-19 pandemic and the surge of global cargo volume. As coronavirus resurged due to the widely spread of contagious Omicron variant in late 2021, labor shortages and snag in operation of major global ports further got worse. According to the report revealed by Container xChange, a logistics technology company, on 11 January 2022, owing to the port congestion, container shipping rates continued to rise and the Shanghai Containerized Freight Index (SCFI) even broke through the 5,000 mark at the end of 2021 December. Looking toward this year, many data and reports have indicated that the supply chain problem will not ease in the near term. Sea-Intelligence, a maritime data firm revealed a report on 11 January 2022, stating that congestion and bottleneck problems are worsening getting into 2022, and there is no indication of improvements as of yet. Furthermore, Fortune also reported that China's strict COVID-zero response to Omicron could further trigger supply-chain chaos on 13 January 2022. It is expected that the pandemic-related delays and closures, non-stop demand for ocean freight from Asia to the US, and a lack of capacity resulted in the mismatch between demand and supply at many origin ports, together leading the freight rates to remain high this year. As freight rates on overseas routes continued to rise, uplifting cost limited the profits and drove businesses to transfer the cost pressure to the end market consumers. In response to the problem, many businesses have switched the shipments to air and road transportation, but the adjustments couldn't effectively solve the delays in shipments. It still takes time to ease off the logjam at most major seaports.

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. Until now, Huawei has not accessed to Google Mobile Services and obtained the 5G-enabled chips. The company continues to release its 4G smartphones to stay the market visibility and maintain the loyal customers who are willing to accept the phones embedded with the Harmony OS and 4G processor. Even worse, on 14 October 2021, U.S. senators called on the Biden administration to blacklist Honor, a Huawei's spun-off company, describing the firm as a threat to national security. Although Huawei had already sold out Honor's shareholdings to a consortium of over 30 agents and dealers and completely lost control, the U.S. senators still described Honor as essentially an arm of the Chinese government with newly unfettered access the same prized U.S. technology currently denied to Huawei. The risk of geo-economic has yet to vanish and may have impacts on the Group's businesses recovery and development.

Growing tensions between the U.S. and China and the persistence of COVID-19 pandemic, coupled with the resulting restrictions, have renewed and intensified calls in the U.S. and other countries for reducing dependence on China. While these sentiment and action are not expected to lead to decoupling or a major immediate shift, the pandemic is expected to increase the speed of relocation of lower-value manufacturing. According to Anwita Basu, head of Asia country risk research at Fitch Solutions published in Bloomberg, "Many companies have already begun adopting a "China plus one" manufacturing hub strategy since the U.S.-China trade war began in 2018, with Vietnam having been a clear beneficiary". This trend may persist due to the currently observed bipartisan support in the U.S. for a tougher approach to China, increasing the possibility of the trade war and sanctions intensifying in the future. Amid further escalation of the tensions, many companies have increasingly hedged

against risks of tariffs by establishing operations and markets outside of China for their overseas business. However, with the onset of the second wave of COVID-19 due to Delta, 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. The Quartz report on 16 September 2021 echoed this scenario, saying that despite the fact that many companies have spent the past several years moving manufacturing out of China and into neighboring Southeast Asian nations, especially Vietnam, some of them strived to shift their production back to China due to the deadly Delta outbreak in Vietnam since late April 2021. Nonetheless, as Omicron variant spread rapidly in late 2021, more and more provinces took on twin coronavirus fronts of Omicron and Delta in China. As per The Guardian report on 15 January 2022, at least 14 provincial-level places have reported Omicron cases in China in the past month, including Beijing, Shanghai, Guangzhou, and Shenzhen. Many factories have therefore temporarily shut down or even closed permanently with the implementation of China's "Zero-COVID" Policy, which posed more threats on factories' production capacity in China. The continuing spread and unpredictable evolution of COVID-19 viral now cast doubt on manufacturers about relocating the product lines.

In India, high domestic volumes and consumption, and higher outsourcing volumes would facilitate multinational EMS/ODM to bring in the component ecosystem locally and enhance local capabilities of component sourcing, thus making the local ecosystem stronger and closer. Especially, the extensive financial costs involved in setting-up manufacturing, capacity additions/expansions, R&D and manpower, Tier-2 players (companies supplying products to tier 1 companies/OEMs) are increasingly to leverage local EMS/ODM services. Besides, along with the numerous incentive schemes, allowing Indian electronics manufacturing to growth, reduce dependence on the imports and promote the exports, including (a) PLI Scheme (at a value of INR 2,000 billion); (b) Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (providing financial incentive of 25% on capital expenditure); (c) Modified Electronics Manufacturing Clusters Scheme (EMC 2.0) (provides financial assistance for setting up of EMC projects); and (d) Merchandise Exports from India Scheme (MEIS) (the incentives under the schemes are calculated as a percentage, which is 2%, 3% or 5% of the realised FOB (free-on-board)). Thanks to that, India's electronics production has more than doubled in the past five years from INR\$3.2 trillion in FY16 to INR\$7.8 trillion in FY21. Furthermore, on the demand side, emerging technologies, such as IoT, AI, 5G and the introduction of robotics and analytics in the industrial and strategic electronics segment, have led to the overall development of numerous electronic products, which has boosted local demand. Also, owing to the government's various initiatives to promote EV sales in India, the EV market is gaining more attention as the EV is reliant on the electronic sector for a range of components.

In parallel with the above market perspective, it is important to view the product perspective. From product perspective, with the popularity of innovations and technologies, the smartphone industry has become commoditised and highly homogenised with standardised specifications leading to increased market competition as the industry became more fragmented with the modular industry structure reducing entry barriers. The smartphone has matured as an application, driving innovation in design and features and appearances. IDC announced a feature prediction towards China's smartphone products in the next few years, including a larger RAM capacity, higher penetration of OLED screens, under screen fingerprint, artificial intelligence (AI), facial recognition, AR/VR/3D modeling and 5G functionalities. According to a statement on Samsung's official website, 5G devices tend to consume more battery than

4G phones because of the current limitation of 5G signal coverage. Therefore, 5G phones have to constantly search for a strong signal, switch between 4G and 5G networks and spend much time hunting for a good connection, which result in a faster battery consumption. As a consequence, battery life of 5G phone is considered one of the most common pain points for consumers. To address 5G battery life issue, many smartphone manufactures have begun to optimise phone specifications and largely improved battery to a high capacity of 5,000 mAh with upgraded fast charging feature to attract customers. With enhanced specifications and differentiating features, the display refresh rates became one of the most important differentiators for brands to position their products across low-end, mid-end and high-end, from the basic 60Hz to the highest available 144Hz, and it is expected that 120Hz would replace 90Hz to become the new standard for the most of products while 144Hz will continue to take the premium flagships. In addition, recent innovations similar to the foldable phones have successfully grab more and more consumers' attention, several mainstream smartphone brands have released their flagship foldable products coincidentally, such as Oppo Find N, Samsung Galaxy Z Fold 3, Huawei P50 Pocket, Xiaomi MIX FOLD, etc., these second-generation foldable devices have given an optimistic outlook to the industry with improvements shown over the first-generation models, including quality, performance, and a slimmer footprint. Bigger screens, multi-cameras and under-display camera will also continue to be a trend for features improvement.

Apart from product features, online privacy issues including personal data leakage or improper exploitation by third parties have been a major concern for the majorities, with 57% of users expressing their concerns about privacy online, based on a survey conducted by Ericsson on 6 May 2021. With increasing privacy awareness, technological giants such as Apple and Google have taken multiple initiatives to cope with privacy concerns while protecting user data from being unwittingly collected by third parties. Apple has made a huge step forward in privacy protection by turning off IDFA, the so-called Identifier for advertisers, by default in IOS version 14.5, which was released on 26 April 2021. Under this version, advertisers will not have access to user data unless the users give them permission to track them. On top of that, Apple highlighted its upgrades to privacy protection at Worldwide Developers Conference on 7 June 2021. One major privacy upgrade that has drawn attention was the new Privacy Relay feature, an internet privacy service embedded in iCloud designed to secure that all traffic and route leaving a user's device are fully encrypted. Further, on 13 December 2021, Apple released IOS 15.2 which added "App Privacy Report", a feature designed to let users know how often apps are accessing permissions-restricted info like the camera and the microphone, and also "Digital Legacy" program which could enable user to authorise specific person to access their digital data after they passed away. On the other hand, Google also announced a host of privacy-focused features across its diverse products at its I/O conference on 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.

As the smartphone industry is dynamic and competitive, a slowdown in growth leads to industry consolidation, which results in larger and more geographically diverse competitors having significant combined resources to compete against the Group and may put pressure on the supply chain. As competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be a slowdown in new customer acquisition with rapidly growing smartphone vendors. The Group also faces

competition from the manufacturing operations of its current and potential customers (including the Group's strategic partner, HMD), which are constantly evaluating the advantages of manufacturing products in-house against outsourcing, OEM against ODM. All of these developments could potentially cause pressure on the Group's sales, and the sales mix and customer mix, potentially leading to margin pressure, loss of market acceptance of its services, compression of its profits or losses, and loss of its market share. To address the above challenges and uncertainties and to alleviate the impact of price erosion on gross margins, the Group must remain lean and agile by making quick business and operational decisions. The cycle time of new product development must be shortened to align with the product launch schedule of customers and shorten the time to market. Besides, the Group will keep developing higher margin businesses inclusive of IoT devices, 5G applications and automotive software and hardware. Following the Hon Hai Technology Group's objective, the Group's future business plan would focus on margin escalation instead of revenue growth and continually monitor the market competition conditions to respond accordingly.

To meet its customers' increasingly sophisticated needs, the Group has kept investing in R&D which is core competence of the Group, and cultivates global research talents (like in India) to secure the competency and is continuously engaged in product research and design activities to manufacture its customers' products in the most cost-effective and consistent manner, with a focus on assisting its customers with product creation, development and manufacturing solutions thereby further strengthening competencies. Due to the ever-intensifying competition in the smartphone industry, companies are spending more on R&D. For smartphone makers, the scope of differentiation has been reduced due to each company aggressively investing in R&D. While on the one hand, this helps the companies grow the popularity of their smartphone models, on the other, it has become essential due to rapidly evolving customer needs and preferences. The Group has dedicated PD (Product Development)/PM (Product Manufacturing) and R&D teams that are composed of experienced talents with superior industrial design capabilities and solid experiences in mass production, which gives the Group its own capabilities of creation, and ability of continuously improving qualities, yield rate, mass production, and customised design. To keep maintaining competitive edge against industry rivals, the Group's design centers are undergoing the optimisation practices on product development process to achieve increased agility and also to meet the tremendous pace of technological changes and customers' needs. The design centers are proactively establishing product portfolio and use it as a marketing tool to approach potential clients; this approach can increase the product development efficiency. The product development cost can be shared by various clients; hence, the implementation for this approach can enhance the competency. To aggressively keep abreast on the latest industry trend, employees are encouraged to keep up with new mobile device industry's technological knowledge (e.g. 5G) and to embrace new technological requirements for stepping into the Internet of Vehicle (IoV) and medical devices industries. Seminars and technology roadmap sharing meetings are hosted with clients and key component suppliers and targeted vendors who are defining or leading in particular technological categories to keep employees connected with innovation trend. Internally, design centers are striving to promote an atmosphere for keeping abreast of new technologies by granting rewards to encourage R&D staff for submitting patents applications and hosting inter department technology sharing sessions, and attending trade shows.

The Group's design centers are in close proximity to worldwide leading clients and new technology zone. They are also located in those highly competitive markets in the mobile devices industry. They are able to provide services from product innovation concepts to final product productions, in whole or in part. Their full R&D function resources, global

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

As the mobile phone market has become a mature market with less gained traction, the Group continually seeks the investment and business opportunities in other industry with huge potentials, including automotive, healthcare and so forth. On the one hand, along with the rise of environmental awareness and continuous improvement in battery technology and performance, electrification has become the most important keyword in the automotive industry for the past two years. Governments (Japan, Germany, the United Kingdom, South Korea, etc.) and major automotive OEMs (Volkswagen, Ford, GM, Mercedes-Benz, etc.) have announced the related policy and schedule to propose a ban on the sale of new petrol and

diesel cars from 2030 to 2040. As the world's largest automotive market, although China's policy of ban is still under discussion, according to CAAM (China Association of Automobile Manufacturers), the sales unit of Chinese new energy vehicles hit a record high of 3.521 million in 2021, raised almost 1.6 times over past year, its market shares (new energy vehicle sales/total vehicle sales) reached 13.4%, and is expected to exceed 18% in 2022. With the wave of electrification sweeping across automotive industry, smart cockpit and ADAS have also become a standard equipment for the digital transformation of the new products from major car manufacturers, and the growing application of electronic components in automobiles would become the key driver for the growth of automotive electronics industry. On the other hand, under the coronavirus pandemic, in order to establish a way of coexisting with the virus, epidemic management and infection treatment also became the driving force of the innovation and transformation in medical technology. Simultaneously, other than the pandemic, the aging population is pushing the whole medical system to the edge of crush, although the global economy could create 40 million new health-sector jobs by 2030 according to WHO, however, there is still a projected shortfall of 9.9 million physicians, nurses and midwives globally over the same period. With the development of "ABCDEF", AI, Blockchain, Cloud, Data, Edge Computing and 5G (Fifth Generation), telemedicine has broken the restrictions on the location and distance of medical services and also released a part of labor shortage, provided patients a connected medical and smart healthcare service across different diseases and ages. In the future, through the data from the wearable device, clinic medical records and health examination reports, patients could go further to interact with the entire healthcare system which not only speeds up the appointment process, but also makes the patients to receive a more accurate diagnosis.

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

In addition, as mentioned in the "Investments" section, 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 2022. 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.

Key Risks faced in 2021

Regarding key risks faced in 2021, please refer to the major risk items below.

Risks Pertaining to the Handset Business

As mentioned above, there was a year-over-year decline in handset shipments due to the smartphone market saturation, which has been exacerbated by the COVID-19 outbreak. The existence of a high number of market participants in all areas results in competitive pricing, which reduces market revenue potential and pricing pressure continued to be high. The aspiration level of Chinese workers has increased and they are focusing on high-tech jobs, leaving gaps in the low end of manufacturing value chain. Coupled with fast recovery of China economy, this has led to scarcity of the labour and a higher cost due to lack of availability of the manpower. As a result, the general state of the global economy, COVID-19, component shortage and disruption, material price and logistics cost surges, geo-political risk, market competition and consumer behavior change, which coupled with the risk that the Group's customers may not be successful in marketing their products or that their products do not gain widespread commercial acceptance may have a significant impact on customers, and the Group's operating results and financial conditions. To tackle this, the Group has to control BOM (Bill of Materials) costs and manufacturing costs and improve efficiency and yields, and counter gross margin erosion pressure while continuing to monitor the impact of factors affecting the business of customers and their financial health. But because of component constraints, it is difficult to control component and raw material costs. As component prices are on an average, key focus lies on the labour costs and yields. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans. The Group has ceased to manufacture loss making Nokia-branded smartphones in 2019 and HMD has adopted multi-ODM strategy and the Group now only manufactures feature phones for HMD. With all those negative factors such as unfavorable product mix, increasing pricing pressure and price hikes in components and it is extremely challenging to simultaneously maintain market share and defend against margin erosion pressure while remaining cost competitive, lean and agile, and technologically advanced. Some customers may consider insourcing some of the productions so as to optimise their capacity and asset utilisation. Because of the uncertainty caused by COVID-19, instead of placing orders of large quantity, customers place more frequent orders of smaller quantity and this makes it very difficult to forecast order book. With shorter demand visibility, the Company has to control and optimise inventory and working capital and material open purchase order risk in this tough period of time. As a whole, the challenging conditions that the Group has faced since late 2017 have continued into 2021 and there is continued pressure on the Group's gross margins generally. Because of keen competition and surplus capacity in the market and as a result of some of the Group's customers facing strong headwinds, gross margin erosion pressure of both casing and system assembly business are unprecedentedly high and such pressure will continue into 2022 with an arduous recovery path ahead.

Over the past few years, China has realised its stake of challenges including trade tensions, and what some individuals recognise as the potential threats to China's current position as the world's biggest EMS host country. On top of these challenging concerns, the COVID-19 pandemic has caused major supply disruptions around the world. All of the above issues have prompted OEMs to diversify their supply chain and expand in countries like India, Vietnam and Mexico in order to reduce risk. Mobile phones from brands which were earlier imported from China are now manufactured in India and EMS partners of these brand companies have invested in manufacturing facilities in India which have given huge boost to the Indian EMS industry. In China, the general casing manufacturing industry is facing excess production capacity and the

Group's casing operation in particular faced the same in 2020 when the market was hit badly by COVID-19 outbreak. Taking into account reduced demand and continuous decline in the Group's casing operation's gross margin in China and the Group's changes in product portfolio and excess capacity, in 2020, the Group refined its approach and took necessary steps with a view to becoming an asset-light corporate group and, accordingly, the Group discontinued some of its casing operation in China and substantially impaired and wrote off various and eliminated under-utilised/obsolete assets, with a view to seeking better returns while disposing of such under-utilised/obsolete assets. The Group also carried out a rationalisation program to optimise headcount. The Group has continued to closely market conditions and made decisions to implement additional restructuring actions or divestitures in 2021 as a result of changes in the handset market and our exit from less profitable or loss-making or under-performing operations and such exercise will continue. But the amount is smaller in 2021. At the same time, there was continued demand from other customers to manufacture casings locally in India and having considered the ample business opportunities in this country and the global trend to diversify production bases, the Group determined to continue to expand India casing operation which has started operation in November 2019. The expansion plan focuses on vertical integration and the raising of the production capacity and the improvement of capabilities to produce more diverse products of higher value-adding and services requiring more advanced technologies and to appeal to more customers on top of phone manufacturing business.

In addition, an increase in the frequency of some customers diverting business to the Group's competitors, changes in the volumes they outsource or price erosion pressures may also result in our taking future further restructuring or downsizing actions. The Group will have to incur higher operating expenses during periods of transitioning programs to the competitors. Any such restructuring or downsizing activities, if undertaken at all, could adversely impact the Group's operating and financial performances in the short to medium terms, and may require the Group to further adjust its strategy and operations. As a whole, it needs time to return to pre-pandemic levels and the Group will continue to control costs and remain agile and monitor market landscape and customer performances and utilisation of assets and assess the need to do rightsizing at the appropriate time in order to remain lean and agile. In the long term, as overall demand increases, market participants will be able to expand through technological investments. Thus, the impact will lower in the mid to long terms.

COVID-19 Pandemic

In above sections, impacts of COVID-19 have been explained in details. The global spread of COVID-19 has created significant macroeconomic uncertainty, volatility and disruption which have adversely affect our and our customers' and suppliers' businesses and liquidity and cost of capital. As a result, the continued spread and resurgences of COVID-19 could cause further disruptions in our supply chain and customer demand. In the section of Key Relationships with Customers, Suppliers and Employees, actions taken by operations in China, India and Vietnam to minimise impact of COVID-19 were expanded on. The Group has been closely monitoring the current public health challenge linked to COVID-19 and applying all recommended health and hygiene practices and following local government's health safeguards to combat COVID-19 to all aspects of our operations in the affected markets. In Vietnam, our factory followed government requirements and implemented "isolated production" in May 2021 and all the direct labors and staff required for mass production and NPI (New Product Introduction) builds will stay in factory dormitory or accommodation arranged by factory. It is like bio bubble with no outside people interactions. Staff are provided with daily allowance, modified living conditions and proper entertainment and they are glad to support in this period.

For India, from about 9,000 new cases per day (80 deaths per day) in middle of February 2021 to 400,000 new cases per day (4,000 deaths per day) in first week of May 2021, India's total death count surpassed 300,000 making it the third most impacted country after U.S. and Brasil. In order to maintain a balance between cost of lives and cost of livelihood, the Indian Prime Minister advised respective states to take measures depending of the severity of crisis locally and keep lockdown only as the last resort. Majority of states including Maharashtra (which the largest contributor to GDP and hosts the financial capital Mumbai) Delhi, Karnataka, Tamil Nadu, Andhra Pradesh and Rajasthan etc. announced lockdowns to curb the spread of virus. However, unlike 2020 when all industrial activity in India came to a sudden halt because of national level lockdown and management of our India site planned in advance for all contingencies including a lockdown. A lot of companies cut production significantly mainly because of domestic sales crash to near zero amid local lockdowns, restrictions on online sales of non-essential goods and COVID-19 infections among plant workers. Our India site sought special permit from the state government of Tamil Nadu to run its operations by getting classified under Continuous Process Industry which are allowed to function even under lockdown. One of the major risks to our India operations was emanating from the lack of supply of nitrogen since the government had directed industrial gas vendors to utilise gas tankers to transport oxygen to needy states experiencing shortage of oxygen. Timely consultations with Tamil Nadu Government and industrial gas vendors ensured that our India site kept procuring nitrogen to run its operations seamlessly. The customer target of phone shipment for May 2021 was comfortably exceeded because of measures taken in advance. EHS (Environmental Safety Health) Department ran a 24x7 support helpline with special task force to support employees & families for any medical emergencies. Oxygen concentrators have been stocked to readily support the staff and their dependents. Constant supervision and monitoring is carried out within factory and dorm premises and buses to ensure compliance with COVID-19 protocols. After surpassing the peak of second wave, many of the firms are now starting up in a calibrated manner.

Economies around the world went into travel restrictions/lockdown and caused consumer demand to flat line and consumers get increasingly cautious about their spending. This drop in demand, combined with the travel restrictions/lockdowns/logjams impacted all consumer device markets, including mobile phones. Financial struggles and worries about COVID-19 and component shortages have limited the number of devices companies can make and how many phones people will actually buy. Even once the worst of the pandemic is behind the China, U.S. and other markets, the global economy will continue to struggle.

The ultimate size and extent of the impact of the COVID-19 pandemic and the component shortage on the Group going forward will be dependent on abovementioned future developments which cannot currently be predicted, among many other factors, all of which remain highly uncertain and unpredictable. Even after the COVID-19 pandemic has subsided, the Group may continue to experience adverse impacts to our business as a result of the pandemic's global economic impact, infection resurgences in different countries, the length and severity of the crisis, vaccination adoption rate, speed of market recovery, government spending cuts, government actions in response to the crisis, the speed at which our suppliers and logistics providers can return to and maintain full production and reduce supply lead time and curb component price climbs, the impact of supplier prioritisation of backlog, and tightening of credit markets or increased unemployment that has occurred or may occur in the future, which could cause our customers and potential customers to postpone or reduce spending on handset. We will continue to take appropriate cost productivity actions to improve the overall performance of this business in response to the lower levels of revenue.

Risks Associated with U.S.-China Tensions

Since the elected U.S. president Joe Biden took office, the attitude toward China has changed but remain tough. On 21 May 2021, the U.S. Commerce Department officially announced that the government will keep Chinese telecom giant Huawei on a trade blacklist. 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. Until now, Huawei has not accessed to Google Mobile Services and obtained the 5G-enabled chips. The company continues to release its 4G smartphones to stay the market visibility and maintain the loyal customers who are willing to accept the phones embedded with the Harmony OS and 4G processor. Even worse, on 14 October 2021, U.S. senators called on the Biden administration to blacklist Honor, a Huawei's spun-off company, describing the firm as a threat to national security. Although Huawei had already sold out Honor's shareholdings to a consortium of over 30 agents and dealers and completely lost control, the U.S. senators still described Honor as essentially an arm of the Chinese government with newly unfettered access the same prized U.S. technology currently denied to Huawei. The tension has far reaching impact to global economy and the Group will keep monitoring the development.

Reliance on Key Customers and Credit Risks

The Group's five largest customers account for 93.5% of the Group's total revenue. The Group has strong established relationships with these major customers and it is a big challenge to maintain bargaining power with these customers in such a dynamic and highly competitive marketplace. Please refer to section headed "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and our actions to manage such risk. The majority of the Group's trade receivables are from the key established customers whom the Group has strong established working relationships. The credit terms granted to them are in the range of 30 to 90 days and are in line with those granted to other customers of the Group. Subsequent settlements of trade receivables have been reviewed and have resulted in no credit-impaired receivables and therefore no additional provision is necessary. As market is volatile and competitive and because of COVID-19 and associated lockdowns, border control, component constraints, general economy weakened and current credit and market conditions could have impact on the businesses and operating performance and access to debt and equity financing and liquidity and cash conversion cycle and financial condition of some of our customers, including any impact on their ability to meet their contractual obligations and trade account payables. The Group will keep monitoring credit position and late payments of customers and collections from customers and assess default risks and review adequacy of provision for Expected Credit Losses. In particular, the Group's finance team will continue to monitor closely business performance, cash position and liquidity, late payments, financial stability, progress of fund raising and credit status of HMD and will take necessary actions to mitigate the risks. The Group believes the credit risk of counterparty non-performance of other customers continues to be relatively low, notwithstanding the impact of COVID-19. But the Group has some small customers and the exposure to financially troubled customers may adversely affect our financial results. Especially due to the hit of COVID-19, some of the small customers may experience financial difficulty and the Group could have difficulty recovering amounts owed to us, or demand for our products and services from these customers could decline. If one or more of our customers were to become insolvent or otherwise were unable to pay to us in a timely manner, or at all, our financial results could be affected and there may be need to increase expected credit loss allowance and in days of our accounts receivables and write-off of inventory and working capital requirements due to higher inventory levels. Any of these risks may be heightened by the effects of the COVID-19 pandemic which has been lingering.

Regarding the U.S. government's blacklisting, export controls and bans against one of the Group's major customers, as things keep changing, the Group will continue to monitor and assess the impact of the loss of one major customer and take necessary steps to mitigate the risks (like the carrying out of downsizing actions in 2020 and continuing optimisation of headcounts) and the Group will dedicate resources to serve all customers and foster and maintain long term business relationship. Finally, the core business of the U.S Internet customer is not in mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer. But it is encouraging that this customer is keen to devote resources in mobile phone business. Finally, our customers may experience dramatic market share shifts in demand which may cause them to lose market share or exit businesses.

The short-term nature of our customers' commitments and the rapid changes in demand for their products reduces our ability to accurately estimate the future requirements and order books of our customers. This makes it difficult to plan material requirements and schedule production and maximise utilisation of our manufacturing capacity. In that regard, we must make significant decisions, including determining the levels and volume of business and net income and affordable business risks that the Group will seek and accept, setting production schedules, making component procurement commitments, optimising asset utilisation and allocating personnel and other resources based on our estimates of our customers' requirements and demand visibility and strategic decisions to maintain customer relationships. Finally, there may be changes to existing business models (buy-and-sell versus consignment) and top line and gross margin and net margin will change accordingly. Buy-and-sell business model means a company buys the materials and adds value and then sells to customers whilst consignment business models means the customer owns the materials and consigns the materials to the contractor/OEM to do the processing works and then OEM ships finished products to the customer and records processing fee income in its financial statements.

Reliance on Key Suppliers

Please refer to section "Key Relationships with Customers, Suppliers and Employees" for the details of our assessment of the risk presented to the Group and how to mitigate such risk. The risk of shortage due to excessive concentration of purchasing sources remains low.

Component Supply Risk and Price Hikes

Please refer to section "Key Relationships with Suppliers" and some other paragraphs for the details of adverse impact of component supply disruption and price hikes.

Foreign Exchange Risks

Please refer to the section of "Financial Performance" for the details on how to mitigate such risks.

Cyber Risk Controls

Regarding cyber risk, the Group has in place an information/cyber security policy which provides adequate security controls and protection of the financial data and business information. IT department has published a handbook which requires employees to follow strictly so that the cyber security risks can be managed and controlled across the organisation (particular for the network control) and make sure machine and system operate well and avoid any information leakage. Besides, IT department has a procedure and guideline in place enabling them to respond immediately when a cyber-attack is detected. For the network control, all the computer servers are located in a Local Network Area (Intranet) using redundant firewall design. Besides, there is a Global Security Operation Centre (GSOC) which helps manufacturing and functional units monitor their network to ensure any attack to the computer system can be detected immediately and IT department prepares a monthly report to report if any incidence of cyber-attack has been detected. In addition, IT department has a disaster recovery plan and procedure in place to ensure immediate and effective responses/actions can be initiated when there is an attack to minimise potential harmful impact/losses and operation can be restored rapidly to avoid any business interruption and enable continuing running of business operations of the Group.

2022 Outlook

Chairman Liu Young-way of Hon Hai Technology Group said during a conference call in November 2021 that Foxconn Group was cautious about its 2022 revenue outlook, citing uncertainties surrounding the coronavirus pandemic, inflation, geopolitical tensions and supply chains. Following the Hon Hai Technology Group objective, the Group's future business plan would focus on remaining lean and agile and asset light and margin protection and escalation instead of pure revenue growth and continually monitor the market competition conditions and COVID-19 development and component shortage and supply chain situation and internal operational excellence to respond accordingly and continue to devote resources to enhance R&D capabilities. The Group will continue to face all kinds of risks in 2022. The risks described below are not the only ones relevant to us or the industry or geographies in which we operate. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect and impair our business, results of operations, financial condition and cash flows and also business of our customers. If any of the following risks, some combination of the following risks or other risks that are not currently known or are now deemed immaterial, actually occur, our business, financial condition and results of operations could suffer. To the extent the COVID-19 pandemic and component shortage can adversely affect our business and financial results, it may also have the effect of heightening many of the other risks described in this section. Unless specified in the relevant risk factors below, we are not in a position to quantify the financial or other implication of any of the risks mentioned in this section. In particular, 2022 risk factors and opportunities include:

Risk factors:

- (i) Successful COVID-19 vaccine development, allocation and administering and pandemic containment are critical to recovery of the Group's customers in major consumer markets. The duration and extent and severity of the effect of COVID-19 on our overseas operation and business and results of operations is not determinable. If the COVID-19 pandemic persists in some locations like India or Vietnam, whether through the outbreak of new virus strains like Omicron or otherwise, further lockdowns and travel disruptions and logjams may occur, factory closures may be required, and those factories may experience lower production levels, additional direct costs and lost revenue. For example, a new COVID-19 variant named Omicron was detected in November 2021 and it has spreading very rapidly in various countries. In addition, if our suppliers experience COVID-19 related closures or reductions in their capacity utilisation levels or traffic jams at borders in the future, we will face the same problem of component shortage and have difficulty sourcing the materials necessary to fulfil production requirements. Any of these factors could have a material adverse effect on business, asset utilisation, order fulfilment, financial condition and results of operations of overseas sites.

Given the extraordinarily high transmissibility of Omicron, there is growing concern whether this variant will sweep into Asia region leading to major outbreaks. Yet, most economies have not yet seen the dramatic escalation of infection rates and economic disruptions that other parts of the world are currently seeing. Even Hong Kong, shielded by some of the world's toughest external quarantine measures, have seen Omicron slip through its defence. A rapid spread of Omicron across countries like India and Vietnam raises the risk of major production disruptions and Omicron might prove even more disruptive than past waves. With slower moving variants, many governments were able to shield essential manufacturing operations, limiting the impact on the output of essential goods and components. As Omicron races through populations at unrivalled speed, even if it presents a somewhat less acute health risk compared to earlier variants, it is still potent enough to deprive Asia's factory of a critical number of workers during their convalescence. On the other hand, even if less severe than other strains, Omicron outbreaks will, at least initially, necessitate lockdowns that inevitably compound the risks to supply chains. But it is fortunate that Omicron will burn itself out even faster than other variants — at least that seems to be the trend in different places. But even then, over a stretch of 6 to 8 weeks, the impact could be severe;

- (ii) The COVID-19 pandemic has also impacted our customers and has caused, and may continue to cause, unpredictable reductions or increases in demand for our manufacturing services. For certain periods between March and May 2020 when the COVID-19 pandemic was spreading rapidly in India, various state governments restricted e-commerce companies from selling non-essential items (including mobile phones), which significantly impacted mobile phone sales to end customers and consequently, decreased demand from our key OEM customers. In addition, OEM customers diversified their EMS networks so as to de-risk their supply chain during the COVID-19 pandemic, resulting in a lower share of their business for us. On account of the increase in our operational costs during the pandemic, we bid for new projects conservatively so as to protect our margins, further affecting the volume of new business. Such chaos also happened in 2021. In January of 2022, there was COVID-19 resurgence in the area where our Vietnam operation was located and things got complicated and the factory put effort to run the operation smoothly as much as possible. The factory took all the required actions to protect the safety of its employees while kept running the production continuously. Certain percentage of the direct labours chose to resign and went back to their home town for Lunar new year's family reunion and it impacted the production output in January and February. Local management team offered incentives to retain employees and offered full financial support to infected staff in order to come back after recovery and these actions aimed to run the operation without much impact so that we meet the targeted demand of our customers. Beside the COVID-19 situation, it also faced with the challenges in inbound logistics, in which the China-Vietnam borders were closed for some days and our Vietnam has taken the quick actions and recovery plan like diverting most of the shipment to sea mode and arrange air/Fedex for small parcel package. Let alone the goods stuck at borders will cause further burden to supplier capacity to provide the additional supply. However, we are not exceptional; other companies also are doing the same, leading to further logistics congestion at sea/air-port;
- (iii) Component supply shortage continues to be issue of critical importance. These shortages have been particularly acute for the supply of semiconductors and integrated chipsets because of the unprecedented global demand for smartphones, tablets and personal computers necessitated by home-working and the upsurge in e-commerce during the COVID-19 pandemic, and the closure of manufacturing facilities in several regions during the COVID-19 pandemic. Furthermore, integrated chipset manufacturers had diverted their resources away from 4G modules prior to the COVID-19 pandemic in preparation for the production of 5G modules, resulting in difficulties in producing 4G mobile phone products which were in high demand during the COVID-19 pandemic. In addition, there has been a significant amount of stockpiling of semiconductors and integrated chipsets by OEMs in various sectors. In particular, for the second half of 2021, momentum had passed on from earlier low value/low margin semiconductor commodities to high value/high margin commodities, and, onward spilled over to other non-semiconductor commodities. On top of all these, typical second half of the year seasonality in consumer electronics has only further ensured continuation of this expanding challenge. Many semiconductor sources, after extending order lead time to over 30 weeks, started to ship by allocation, i.e. even orders were placed and received by required lead time, actual shipment was still being allocated according to output and, in most cases, orders would not be filled in full. However, when most part of the world is still held up by the COVID-19 and with its continuing conflict with U.S., supply capacity in China can be a challenge from time to time. Overall supply constraint in semiconductor industry is still far from being over, it is very difficult to tell what is ahead and adjustment cycle could take another year. Capacity limitation in sea freight and rising inflation threat had brought more uncertainty to demand/supply in second half.

Supply constraint in semiconductor will continue. Current market volatility doesn't allow longer forward visibility. However, given part of the sector is offering improvement, still, it is clear, constraint in some categories will carry on till end of 2022 or later. Dreadfully and fatal to some, since at certain process node, demand and supply went so askew that supply of certain components will be dramatically limited by market optimisation/adjustment, and supply of products built on these components will as well be disastrously limited. As such adjustment came within a very narrow time window, livelihood of the population and businesses prospect built on these products will be compressed without alternative in short term. Key components used in FIH Nokia-branded feature phone product business will unfortunately become victim of such adjustment. Shortage of feature phone chipsets is growingly serious as chipset vendors no longer want to manufacture 2G chipsets and allocate priority production resources to the market popular 4G/5G and next generation chip and feature phone business is facing great challenge for harder to secure 2G chipsets. This shortage has continued through the whole year of 2021 and the impact on feature phone shipment is foreseeable. And supply of feature phone products will be impacted severely in 2022, while remedies are being put in place to rectify the problem, still, improvement is not expected till the second half of 2022.

Although manufacturing of mobile phones is boosted through Make in India's initiative, India is heavily dependent on China for supply of raw materials, components and accessories. Such high dependency on imports with some critical components being produced in China is expected to have significant impact in the future if there is reoccurrence of any similar outbreak. Hence, OEMs based out of India are planning to develop local supply chain in order to follow "China+1" strategy and become self-reliant. By moving a chunk of production towards the end consumer and therefore promoting the localisation of supply chains, manufacturing can be more resilient to global challenges. This strategy will likely increase costs, but it may also appease governments like India who sometimes introduce incentives to encourage companies to move the manufacturing and supply chains to their countries to boost local GDP growth and employment.

Inflation and logistics constraint have become key challenges in 2022. Cost increase driven by demand and supply historically are being fueled by artificial additives resulting from continuing COVID-19 containment measures and US-China trade conflict. In other words, price may continue to rise even if demand and supply will come into a balance. Disconnect in supply chain is progressing through the adjustment cycle over time, and, now with inflation and logistics constraint come into play, adjustment cycle will apparently be extended to accommodate additional market movers. Complexity can go beyond scale, impact to each commodity can only be fathomed one by one when market finishes the required adjustment.

Moving into 2022, the unfavorable factors of COVID-19 pandemic and semiconductor chip shortage will still be existing. Mission to the Group's procurement team is to find and adopt the optimal solution against rolling challenges among secure adequate supply, provide quality material, maintain strong bargaining power, trade at market competitive pricing and execute in a time-efficient manner time after time, all under a continuously evolving, dynamic market. The Group will work constantly in order to stay ahead of the game through basic principles, to evaluate purchase cost by total cost of ownership, consolidate business with handful reliable partners, review supply base and timeliness on regular basis and move to competitive sources when justified, localise supply in certain

countries in order to cut order lead time, lower inbound logistics cost and avoid import tariff and maintain quality focus, meet customer/product requirements, cost to specification. As we continue driving for key component supply stability and cost management improvement in maintaining competitive advantage from peers, positive result for business development are expected from customers in feature phone, smart phone, consumer electronics and automotive mechanics business category. The global COVID-19 pandemic changes life style and with the join effects of the more recent controversial subject of Metaverse; AR/VR equipment demand is predicted to increase. Our R&D team has started initiating business relationship with couple of clients in that category, yet the likelihood of immediate contribution to massive production is still low; however, the trend is optimistic in a long run;

- (iv) It is difficult to project future order book of the Group. One of the Group's major Chinese customers is under U.S. sanctions that caused immense impacts on the Group's business development and asset utilisation for 2020 and the impact has continued in 2021. Sales to this customer will continue to drop in 2022 and the Group may need to terminate this part of business. The significant drop of orders from this customer not only bollixed the Group's production planning but also caused a significant impact on its utilisation of assets and reduced contribution margin cannot cover fixed overhead. In addition, the end market is highly competitive and whether new products of our customers can sell well will affect the re-orders to be placed by our customers. As mentioned, the Group has to write-off and impair or sell the under-utilised assets and inventories and to carry out rightsizing/restructuring activities in 2020 and the Group has continued such initiatives in 2021 and the scale has been linked to the speed of shrinkage of such business and such effort will continue into 2022 and losses will arise from such asset disposition and rightsizing activities, subject to (among other things) challenging overall handset market conditions and landscape, market erosion pressure, general economy, customers' business conditions and challenging political environment, pandemic developments, component shortage and price hikes and the Group's business strategy of being asset-light and lean. But as mentioned, the Group will continue to seek new business opportunities and expand in India;
- (v) A combination of higher and rebounding consumer demand for goods that have been in short supply and supply chain disruptions (such as container box shortages and port congestion) and more strategic capacity management has driven container freight rates for merchandise coming from China to the U.S. and Europe while a shortage of truck drivers across both the latter regions has exacerbated the problem of getting goods to their final destinations and has led to high prices once those products hit store shelves. Container box shortages and port congestions due to pandemic-related operational disruptions have extended container ships' turnaround times. Border controls and mobility restrictions, unavailability of a global vaccine pass, and pent-up demand from being stuck at home have combined for a perfect storm where global production will be hampered because deliveries are not made in time, costs and prices will rise, and GDP growth worldwide will not be as robust as a result. At some borders (like Vietnam), tighter controls are imposed on custom inspection and more time is needed to obtain custom clearance;
- (vi) The mobile phone EMS industry is highly competitive due to surplus capacity in the market, and we face competition from a number of domestic and international EMS providers, as well as the in-house manufacturing and assembly departments of our existing and potential mobile phone OEM customers. Competitors are aggressive to win market share from us by providing lower quotes to our customers. Our OEM customers may also choose to move some or all EMS services in-house, as certain OEMs in the mobile phone sector already have. Our success depends on our ability to design for

manufacturing due to the excessive amount of manufacturing knowledges and best practices gathered and to configure, ramp up and ramp down production to respond to new mobile phone innovations, models and consumer trends. We face pricing pressure from mobile phone OEM customers as a result of intense competition in their end markets, their strong bargaining power, emerging technologies, product maturity, local government relations, subsidy and incentives and oversupply of certain products. As a consequence, mobile phone OEM customers are constantly seeking to reduce costs in their supply chain and increasingly impose cost-reduction requirements. While we focus on reducing our costs to address pricing pressure, we face huge pressure to achieve proportionate reductions in costs or sustain our current rate of cost reduction. We expect these pressures on pricing and costs in the mobile phone industry to continue. Any broad-based change in our prices and pricing policies may reduce our revenues and profitability;

- (vii) Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group have been deferred, the Group has provided allowance for credit losses arising from specific overdue trade receivables during the current period. As mentioned above, HMD is now raising fund and the Company is monitoring closely the progress and evaluate risk to the timely collection of trade receivable and default risk. The Company will continue to closely monitor the situation of those customers with liquidity risk and take necessary collection actions according to Company policy and make a greater allowance for expected credit losses arising from trade receivables according to requirements of relevant accounting standards;
- (viii) Possible impairment risk for goodwill arising on the formation of Mobile Drive Group. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss in which the investment is acquired and should be tested for impairment annually;
- (ix) For the geo-political tension of Ukraine warfare, it has been dragged on for some time and the Group will continue to monitor closely the situations including both the end market and the upstream supplies and the impact of sanction measures like export controls and payment regulations to our customers and volatility of money market and stock market and inflation risk and crude oil price hike, and take necessary and immediate actions in response to any external factor. Logistic service providers one by one stopped operating to Russia ports. Energy prices are going up and air space usage limitations are making routes longer and more expensive. If this crisis becomes long, risk or increasing inflation become inevitable.

Opportunities:

- (i) Surviving the pandemic through the adoption of digital tools and skills has provided additional flexibility and resilience to deal with uncertainties in the future; this accelerate 5G deployment. While 5G is a mobile communications technology, its impact will be felt both in terms of mobility across geographies as well as in micro-locations such as factories, homes and sites designated for specific use. This includes remote learning and healthcare. Automobile industry is expected to advance rapidly through the predictive intelligence enabled by 5G, smarter cars and the autonomous vehicles has becoming closer to reality. Business opportunities comes with innovation evolution; the Group's ability from product design to final goods delivery along with our well-known manufacturing capability and capacity help us to stand out from our competitors.

Growth in 5G infrastructure and phone market. Currently dissatisfied global 5G signal coverage could in some cases dampen consumer demand for 5G phones as unstable 5G signals could lead to a poor user experience. As consumers increasingly involve in cloud applications, 5G signal coverage became more important in driving overall consumer satisfaction than other 5G features. The ramp-up to 5G carriers would potentially raise the 5G handset sales and boost the phone market. According to the Ericsson Mobility Report published on 30 November 2021, the built-out of 5G networks is continuing to accelerate and, to date, there have been accumulated more than 180 commercial launches across the world. It estimated that 5G networks would cover over 2 billion people by the end of 2021. The report further expected that 5G population coverage would reach around 75% at the end of 2027. In terms of 5G subscriptions, the report indicated 5G telecom subscriptions ascended by 98 million during the third quarter of 2021, to 570 million, and estimated the subscriptions will grow up to more than 660 million by the end of the year. Refer to the rollout of 4G, the 5G subscription is expected to penetrate faster than 4G, which was launched in 2009, resulted from the timely availability of devices from several vendors, the faster decline in the price of 5G devices, and China's early engagement. By the end of 2027, the 5G subscriptions would be accounted for 49% of total mobile subscriptions, with 4.4 billion subscriptions worldwide. The accelerated 5G network penetration rate has given impetus to the growth of smartphone shipment;

- (ii) In 2022, the Group continue to acquire new customers in North America on 5G products. In particular, the Group gets into entry of new product category of 5G routers. This new product line will help us expand our portfolio into broadband market segment as well as enterprise segment. 5G coverage expansion is still on the rise and the demand of using 5G for broadband connection (to replace or substitute the fixed line) is increasing and is one key strategy for telecom operators to expand its market leadership. On the other important growth development, the Group has also engaged with one top tier car maker in cellular telematics product development. Such telematics product is another wide expansion of product portfolio and a long term business engagement, i.e., telematics product life cycle is usually 5 to 7 years and is of very high entry barrier. As all new cars are moving to be connected cars, the telematics key part demand will be a fast growing segment.

For both the 5G router and the cellular telematics product, the Group will grow not only on the advanced R&D experiences but also on the advanced manufacturing techniques. In particular, the design and production of telematics product must meet the most stringent quality criteria for cars as the product has to survive for long years of usage. The Group will continue to expand these new product categories into more customers to leverage our technology and experience advancement;

- (iii) On 22 December 2021, the Group announced that it proposed to spin-off and separately list BFIH, its Indian subsidiary which is the largest Electronics Manufacturing Services provider in India, on BSE and NSE, which are the two main stock exchanges in India. 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.), 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). It plans to use the net IPO proceeds to fund capital expenditure requirements towards up-gradation and expansion of existing campuses, invest in subsidiary to finance its capital expenditure requirements, fund working capital requirements of the India operation; and general corporate purposes. As per the current progress, BFIH plans to get listed on the Indian stock exchanges by the third quarter of 2022.

The BFIH Group will continue to be accounted for as subsidiaries of the Group upon 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 return generated from the proceeds raised from the Proposed Spin-off as well as the future business operations of the BFIH Group.

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 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.

Growth outlook for the Indian electronics industry in 2022 is positive, primarily because market penetration for many electronics products remains very low compared to the global average. Factors such as stable growth outlook for the economy, Digital India programme, rising disposable incomes, changing lifestyles, emerging work from home culture, expansion of organized retails to tier 2 and tier 3 cities, improving electricity and internet infrastructure, and better logistics infrastructure will provide additional impetus to the industry. With changing geo-political landscape, the OEM customer will remain interested in moving the electronics production to the other countries having competitive price, quality and receptiveness. Atmanirbhar Bharat Abhiyaan, or Self-reliant India campaign, launched in May 2020, with larger focus on the CAPEX and R&D will continue to give strong push to the domestic marketplace, which is very significant to India's economic growth. In the next two-three years, high real GDP growth rates will be rare in majority of the economies as they gradually recover from the impact of the COVID-19 pandemic. In 2021, domestic electronics production is estimated to be US\$67 billion which includes domestically manufactured electronics components worth US\$8 billion and imported components worth US\$15 billion. The remaining market, after subtracting the cost of the components and other expenses (logistics, packaging, administrative expenses, etc.), represents the addressable business opportunities for EMS companies in India. The total addressable EMS market in India was valued at INR2,654 billion in 2021 and is expected to grow to INR3,458 billion in 2022 with a growth rate of 30.3%. However, top threats in the form of supply chain disruptions especially shortage of key components such as chipsets, subsequent waves of COVID-19, predatory pricing by new competitors and talent attrition will continue to linger in 2022.

Looking at the global economy, India has emerged as the fastest growing major economy in the world. The rise in consumption power is expected with the India's overall trend of moving into urbanisation; many international companies has entered this market. The Group has placed our footprint in India enlarge investment in the casing factory & R&D laboratory located in Chennai. In 2022, the Group will initiate the phase 2 of this investment plan to further enhancing the production capacity and capability. We have taken initiation of introducing India local suppliers as a cost reduction method avoid the impact on the consistent raising of the import tariff. India government not only raise import tax rate, it also has place non-tariff barriers to protect domestic suppliers across most sectors. The Group's casing factory will cooperate with the newly set up India local R&D team and FATP factory not only focusing in the core mobile phone business; but also PC/NB/IOT/EV/Smart car products associate with the raise of the digital wave;

- (iv) Possible receipt of government compensation when returning land to local municipal; But the amount and timing is not certain yet;
- (v) On 21 December 2021, Snapdeal filed the Draft Red Herring Prospectus (DRHP) toward the Securities and Exchange Board of India (SEBI) for the purpose of IPO. Snapdeal stated that the fresh issue amount would be up to INR12,500 million and the Offer for Sale of equity shares would be up to 30,769,600 sold by the existing shareholders. The Group has participated the Offer for Sale and expected to sell up to 17% of its current shareholdings of Snapdeal. The rest of shareholdings will have a six month lock up period post IPO and the investment team will monitor the share price and India stock market performance to liquidate in a timely manner and gain will realized upon disposal. Based on the performance in 2022 and with reference to the valuation carried out by independent professional valuer, the management will assess the fair value of the investment in Snapdeal and the Group will take corresponding adjustment to the fair value change in this investment.

The Company refers to its positive profit alert announcement of 3 December 2021, which referred to the various factors (among others) that attributed to the Group's improved financial performance and, ultimately, the Group's consolidated net profit for the current period. Those factors have partially offset: (i) the negative factors referred to in the Company's announcement dated 12 May 2021; and (ii) the implications from the 2021 risks explained in pages 112 to 115 of the Company's 2021 interim report of 15 September 2021, some of which the Company expects to remain relevant for at least part of 2022.

Given the information that the Company has disclosed to date, including the above in this "Discussion and Analysis" section, and the many variables that can affect the Company's performance, the Company is currently unable to predict meaningfully and with any precision how the Group might perform in the six months ending 30 June 2022 (1H 2022). The Company expects conditions in 1H 2022 to remain challenging and tough and volatile. Accordingly, whether the Company might make a profit or loss in 1H 2022 currently remains uncertain.

Over the last several years, the Company has been proactively taking appropriate and reasonable steps to seek to maximise its performance notwithstanding the various challenges over that period. The Company will keep matters under close review as 1H 2022 progresses, and will make further announcement(s), as necessary, to keep its shareholders and potential investors informed.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is currently expected to be in or about May 2022) certain unaudited consolidated financial information of the Group for the three months ending 31 March 2022, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

The Company wishes to take this opportunity to explain that the Group's quarterly performance may be impacted (possibly significantly) by various factors, including without limitation the following, individually and collectively:

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

- (ii) customers and their strategies and business conditions and the speed with which they recover from the COVID-19 pandemic and further adapt;
- (iii) customers' sales performance in their end markets;
- (iv) holiday periods (e.g. the Lunar New Year holidays in Mainland China and Vietnam), which can often affect shipments and sales in the first quarter of each year;
- (v) the seasonality of sales and the length of the handset replacement cycle;
- (vi) product maturity and oversupply of certain products or models. Generally, the Group sees a lengthening of smartphone lifespan, both with existing phones and consumer expectations of future phones, that may be attributable to a slower pace of innovation. Increasing ESG considerations mean that consumers may be more cautious with buying a new phone when their old phone remains usable and new models may not offer material advances that would justify upgrading. That said, some consumers may have replaced their phones early during the COVID-19 pandemic, in which case that could affect future demand;
- (vii) customers' credit risks and assessment of adequacy of expected credit loss allowances, product launch or product recalibration strategies and timing; possible cancellation or delay of customer orders or change of production quantities; certain customers' products having short product life time volume; market competitiveness; surplus production capacity and availability of staff and labour; shifts in customers' demand and preferences and propensity to spend (e.g. in-house manufacturing instead of outsourcing); business model changes; timing of ramp down of old phone models and ramp up of new phone models and the length of transition period from old to new phone models; potential decline of sales to a major customer and on-going customer diversification; end consumer behaviours; any broad-based change in the Group's prices and pricing policies may reduce its revenues and profitability;
- (viii) business strategy adjustments; customer and sales and product mix changes;
- (ix) technology advancement; pace of overseas expansion;
- (x) the COVID-19 pandemic and its evolution. The related lockdowns, restrictions and containment have had consequential impacts on the global economy generally. Further, the related changes in consumer demand, price wars, seasonality of sales, freight charges and stable supply of components (in terms of lead time, volume and price) have, to varying degrees, been relevant. In particular, semiconductor companies are asking their customers for patience as the industry works through a sharp increase in demand from makers of a variety of goods ranging from cars to consumer electronics (including handsets). As the COVID-19 pandemic has adversely impacted on every aspect of human society, businesses are experiencing even more challenging conditions, including those associated with a general economic slowdown. These conditions include, but are not limited to, financial market volatility, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of pandemic resurgences, decreased demand, layoffs and furloughs, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn which could have prolonged negative impacts on the performance and financial results of a variety of businesses. Please also refer to the other paragraphs for more on the impacts of the COVID-19 pandemic on the Group and its performance;

- (xi) continuous rightsizing/restructuring of the underperforming parts of the Group's manufacturing operations to achieve its business strategy to become more asset-light and lean, which may lead to on-going rightsizing/restructuring activities and associated severance and other costs, expenses and/or losses as well as associated impairment, disposal and/or write-off of the Group's under-utilised/obsolete/depreciated assets;
- (xii) timing of receipts of agreed reimbursements from customers;
- (xiii) factors relating to the supply chain (e.g. component cost increases, extended delivery lead times and shortages) which can affect material sourcing and production planning, order fulfilment, shipment and costs, and inventory (e.g. accumulated inventory may take time to clear and may have to be written-off, thus increasing inventory carrying cost);
- (xiv) logjams and border jams which can affect timely shipment of components to factories and phones to overseas customers;
- (xv) time needed to configure, ramp up and ramp down production to respond to new mobile phone innovations, models and consumer trends;
- (xvi) changes in money markets (e.g. fluctuation of interest rates and foreign exchange rates as well as foreign currency exchange gains and losses) and capital markets; market volatility (e.g. RMB and INR and other currency volatility, stock market volatility); effectiveness of hedging activities;
- (xvii) market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, custom duty exemptions, India's PLI (Production Linked Incentives) scheme, government's blacklisting, negotiation with government on compensations and support, export controls and bans against the Group's major customers, possible boycott of Chinese-made products and Chinese-based services);
- (xviii) booking of income tax payments;
- (xix) unprecedented and uncertain global environment resulting in a wide range of potentially long-term consequences which may give rise to discrete losses or expenses, such as those related to future impairment, disposal and/or write-off of property, plant and equipment, goodwill, intangible assets and equity investments;
- (xx) timing of dispositions of equity investments and resulting profits/losses; performance of the Group's associates and its share of those associates' profits/losses; timing of booking of revaluation gains/losses on equity investments; and
- (xxi) renewing or meeting the conditions of any tax incentives and credits; granting and timing of receipts of incentives, relief packages, compensations and other grants and assistance which may be subject to the applicant having met certain conditions and criteria (like export amount) and such applicant's eligibility and ability to meet all such conditions and criteria.

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company is tentatively scheduled to be closed from Monday, 16 May 2022 to Friday, 20 May 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company which is tentatively scheduled to be held on 20 May 2022, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 13 May 2022.

CORPORATE GOVERNANCE

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

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

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

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

Since the resignation of Mr. Tong as the chairman of the Company, the Company has been searching for the right candidate to fill the position of chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an arrangement by appointing Mr. CHIH Yu Yang (“Mr. Chih”), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company’s executive director and chief executive officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge, experience and network in both the Company and the industry. The Board believes that this arrangement not only is crucial to the continuation in the Group’s implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the

Group's shareholders, investors, customers, suppliers and business partners worldwide, and that the status quo should be maintained when the Group has been facing challenging conditions like the COVID-19 pandemic and on-going developments as well as component storage, particularly when the Group had made consolidated net loss on an annual basis since 2017 until 2020 and records a consolidated net profit for 2021. Although the arrangement deviates from the relevant code provision, the Board considers that the arrangement will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high-caliber individuals of diversified perspectives, with whom three being independent non-executive directors (out of the six Board members). The Board meets regularly to consider major matters affecting the operations of the Group and all directors of the Company are properly and promptly briefed on such matters with adequate, complete and reliable information.

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

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

In the spirit of better corporate governance, the Board will periodically review the effectiveness of this arrangement (and introduce further measures, if necessary) and, through the Company's nomination committee, will endeavour to find a suitable candidate to assume the duties as the chairman of the Company at the right and appropriate time, thereby separating the roles of chairman and chief executive as prescribed under the code provision contained in Paragraph A.2.1 of the CG Code (now known as Paragraph C.2.1 of Part 2 of the Corporate Governance Code taking effect from 1 January 2022 onwards).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the year ended 31 December 2021.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to the date of this announcement, pursuant to the Buy-back Mandate (as defined in the Company's circular dated 21 April 2021) duly approved by the Company's shareholders at the Company's annual general meeting held on 28 May 2021, the Company bought back in multiple batches a total of 91,818,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK\$116,480,570.00. Among these shares so bought back, 44,818,000 shares and 30,000,000 shares were cancelled on 8 July 2021 and 26 July 2021 respectively, whereas the remaining 17,000,000 shares were cancelled on 14 January 2022, in these cases in accordance with the Articles. For details relating to the Buy-back Mandate, please refer to the explanatory statement of the Buy-back Mandate set out in Appendix I to the Company's circular dated 21 April 2021.

The above share buy-backs are summarised as follows:

Date of buy-back	No. of Shares bought back	Price per Share		Aggregate consideration paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
7 June 2021	2,400,000	1.23	1.23	2,952,000.00
8 June 2021	2,400,000	1.23	1.22	2,942,000.00
9 June 2021	2,400,000	1.24	1.23	2,972,000.00
10 June 2021	2,400,000	1.25	1.25	3,000,000.00
11 June 2021	2,400,000	1.25	1.24	2,989,990.00
15 June 2021	2,466,000	1.24	1.23	3,047,180.00
16 June 2021	3,000,000	1.23	1.22	3,675,000.00
17 June 2021	2,400,000	1.24	1.23	2,966,000.00
18 June 2021	2,500,000	1.23	1.22	3,065,000.00
21 June 2021	2,400,000	1.24	1.22	2,966,270.00
22 June 2021	3,100,000	1.23	1.23	3,813,000.00
23 June 2021	2,400,000	1.27	1.26	3,038,000.00
24 June 2021	3,000,000	1.27	1.26	3,798,000.00
25 June 2021	2,600,000	1.28	1.27	3,318,000.00
28 June 2021	700,000	1.28	1.28	896,000.00
29 June 2021	3,452,000	1.30	1.28	4,453,080.00
30 June 2021	4,800,000	1.28	1.27	6,139,280.00
2 July 2021	3,125,000	1.27	1.26	3,962,500.00
5 July 2021	3,700,000	1.27	1.26	4,692,000.00
6 July 2021	4,300,000	1.27	1.26	5,447,500.00
7 July 2021	4,500,000	1.26	1.26	5,670,000.00
8 July 2021	8,500,000	1.26	1.19	10,530,000.00
9 July 2021	5,875,000	1.23	1.16	7,120,860.00
22 December 2021	1,913,000	1.24	1.24	2,372,120.00
23 December 2021	1,354,000	1.27	1.26	1,719,390.00
30 December 2021	2,000,000	1.35	1.34	2,695,000.00
31 December 2021	1,733,000	1.36	1.35	2,340,160.00
5 January 2022	4,034,000	1.39	1.38	5,591,920.00
6 January 2022	1,755,000	1.40	1.37	2,415,570.00
7 January 2022	4,211,000	1.41	1.39	5,892,750.00
	<u>91,818,000</u>			<u>116,480,570.00</u>

For details about each of the above share buy-backs and share cancellations, please refer to the next day disclosure returns and monthly returns as issued and published from 7 June 2021 to 7 February 2022 (both dates inclusive).

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

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

AUDIT COMMITTEE AND EXTERNAL AUDITOR

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

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2021 and the annual report 2021 of the Company and recommended the same to the Board for approval.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2021. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

DISCLOSURE OF INFORMATION ON WEBSITES

The annual report 2021 of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and made available on the websites of the Stock Exchange and the Company respectively in due course.

DEFINITIONS

“Articles”	the amended and restated articles of association of the Company
“associate(s)”	having the meaning as defined in the Listing Rules
“Board”	the board of directors of the Company
“CG Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, being the past version effective up to 31 December 2021 which shall remain applicable to the Company in respect of the current period
“Company”, “we”, “our” or “us”	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“current period” or “reporting period” or “current year”	the year ended 31 December 2021
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only), a limited liability company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange Corporation and the ultimate controlling Shareholder
“Hon Hai Technology Group”	Hon Hai, its subsidiaries and/or associates (as the case may be)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“INR”	Indian rupee, the lawful currency of India
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“Manual”	the Corporate Governance Compliance Manual of the Company adopted by the Board on 15 April 2010, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	ordinary share(s) with a nominal value of US\$0.04 each in the share capital of the Company
“Share Option Scheme”	the share option scheme of the Company adopted by the Board on 17 October 2013 and by the Shareholders on 26 November 2013, as amended from time to time in accordance with the terms contained therein. The share option scheme will be valid and effective for a period of 10 years until (inclusive of) 25 November 2023
“Share Scheme”	the share scheme of the Company adopted by the Board on 17 October 2013 and by the Shareholders on 26 November 2013, as amended from time to time in accordance with the terms contained therein. The share scheme will be valid and effective for a period of 10 years until (inclusive of) 25 November 2023
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“U.S.”	the United States of America
“US\$” or “USD”	United States dollars, the lawful currency of the U.S.

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 15 March 2022

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