FIH 富智康

FIH Mobile Limited
富智康集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

ANNUAL REPORT 2023

Contents

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CORPORATE INFORMATION

as of 7 March 2024

FIH MOBILE LIMITED (THE "COMPANY", AND TOGETHER WITH ITS SUBSIDIARIES, THE "GROUP")
(References to "we", "our" and "us" are references to "the Company" or "the Company's" (as the case may be).)

EXECUTIVE DIRECTORS

CHIH Yu Yang *(Acting Chairman and Chief Executive Officer)*
KUO Wen-Yi
LIN Chia-Yi (also known as Charles LIN)

NON-EXECUTIVE DIRECTOR

CHANG Chuan-Wang

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
CHEN Shu Chuan (also known as Nadia CHEN)
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis)

COMPANY SECRETARY

WONG Kin Yan, Vanessa

REGISTERED OFFICE

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802 West Bay Road
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Cayman Islands

HEAD OFFICE

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Taiwan

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Kowloon
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

LEGAL ADVISORS

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

PRINCIPAL BANKERS

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

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Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

STOCK CODE

2038

WEBSITE

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CHAIRMAN'S STATEMENT

Dear Shareholders,

I am writing to address the challenges and performance of the Group in the fiscal year 2023. 2023 continued to be a very tough period and it is with regret that we report a downturn in our financial results, primarily attributed to various unfavourable factors including slow economic recovery and depressing demand due to persistently high interest rates, geopolitical tensions and accelerating shifts in the industry, coupled with sustained margin erosion pressure due to intensifying competition and existing challenges of industry consolidation trends in the EMS (Electronics Manufacturing Services) business. The most significant contributors to our underwhelming performance were a notable decrease in gross margin resulting from a drop in sales and the necessity to make a substantial expected credit loss allowance in the profit and loss account. Asset utilisation continued to be a major concern and during the year, the Group has continued the asset-light strategy to recalibrate global facilities and realign resources into productive assets and carried out restructuring activities so as to save costs in the long run. All these factors adversely affected the gradual recovery of the Group and undeniably impacted our overall financial performance. Revenue for the year 2023 was US$6,446 million, which represents a decrease of US$2,948 million or 31.4%, when compared with 2022 revenue of US$9,394 million. Loss for the year 2023 attributable to owners of the Company was US$120.7 million, compared to the loss for 2022 of US$72.1 million. Basic loss per share for the year 2023 was US1.52 cents.

In light of these challenges, it is imperative that we adapt and innovate to ensure the long-term sustainability and growth of the Group. To this end, we will remain diligent and disciplined in exercising financial prudence and managing our costs efficiently. Due to the fierce competition, lack of innovation caused slow replacement cycle, and the mobile phone business has turned into a real low margin business yet with high risk of facing underutilisation problem for large EMS. We believe that our expertise in communication technology can be successfully applied to other industries beyond the traditional handset market. Leveraging core technological competencies in the ICT (Information and Communication Technology) industry and integrated capabilities in both hardware and software, the Group has strived and worked diligently to expand capacity and enhance competence in diversified markets, with a particular focus on automotive electronics. This diversification will allow us to tap into new markets and create a more resilient and balanced revenue stream which shield us from the reliance on the highly volatile handset market. The Group will continue to harness its R&D (Research and Development) investments and resources and competence and capacity to innovate and transform. Aligning cohesively with the Group's "2+2" (industry and technology) strategy, the Group has expanded into emerging fields such as automotive electronics, robotics, artificial intelligence, and next-generation communication technologies in recent years and has made tangible achievements. Finally, the Group has dedicated ample resources to business development initiatives in different markets.

The Group understands the importance of maintaining financial stability while pursuing growth opportunities. The Group's financial resources including cash reserves, cash flow and liquidity positions have supported the Group's operations across the range of challenges and headwinds and the Group to operate in an environment riddled with external shocks on a global scale. To maintain the Group's financial resources and bolster the Group's ability to effectively respond to the significant changes in market demand, consumer-buying behaviour, stagnant inflation and rapidly changing global and handset and EMS industry dynamics, the Group will continue to traverse adverse conditions and focus on measures to enhance our overall competitiveness, focus on profitability, streamline operations, optimise resource allocation, improve efficiency and yields and control overall costs and operating expenses to seek to ease pressure on margin erosion, while simultaneously working closely with the Group's partners to fill their demand in a timely manner at a reasonable cost amidst fierce market competition. Looking forward to the fiscal year 2024, I expect the operating environment to remain challenging in the year ahead and the future remains uncertain.

As we navigate these changes, I want to assure our shareholders that we remain dedicated to maximising shareholder value. While the challenges of 2023 were substantial, they have also presented us with an opportunity to evolve and position the Group for long-term success. I would like to express my appreciation on behalf of the Board to our investors, customers, business partners and government officials for the continuous support and trust over the years. I also extend my gratitude to all the management and staff of the Group for their loyalty and contribution they have bestowed and their commitment to the Group's strategies to transform into new sectors to maintain our long-term sustainability and competitiveness. In conclusion, I appreciate the continued support of our shareholders, and I am confident that with our strategic initiatives, we will continue to execute well and make continuous improvements and the Group will emerge stronger, more diversified, and well-positioned for improving financial performance.

With best regards,

CHIH Yu Yang
Acting Chairman

7 March 2024

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

as of 7 March 2024

DIRECTORS

CHIH Yu Yang (Mr.), Chinese (Taiwan) and aged 65, was appointed as the Acting Chairman of the Company effective 1 January 2017. He joined the Company as an executive director in August 2009. He is also the chief executive officer and the chairman of the corporate governance committee respectively of the Company. Mr. Chih is the executive director and chief executive officer of Mobile Drive Netherlands B.V. (a joint venture incorporated in the Netherlands indirectly 50%-owned by the Company) ("Mobile Drive Netherlands"). He is the chairman and non-executive director of Bharat FIH Limited (formerly known as Rising Stars Mobile India Private Limited and then Bharat FIH Private Limited) ("BFIH") and the chairman of FIH Co., Ltd., both being subsidiaries of the Company. He is also a director (previously, the chairman during the period from August 2018 to February 2024) of Chiun Mai Communication Systems, Inc. ("CMCS") and Transluck Holding Limited (formerly known as Transworld Holdings Limited), both being subsidiaries of the Company. He was a director of Evenwell Digitech Inc. (a subsidiary of the Company) from September 2009 to February 2024. He was a director of iCare Diagnostics International Co. Ltd. (a start-up company incorporated in Taiwan) from September 2020 to August 2023. Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. Moreover, he is a director of a subsidiary and an associate of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. ("Hon Hai"), for identification purposes only). He has more than 44 years of extensive experience in the communication industries and also possesses experience in risk management. From 1997 to 2000, Mr. Chih was the vice president and general manager of Communication B.U. in Acer Communications and Multimedia, Inc. (now known as BenQ) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

Dr. KUO Wen-Yi (Mr.), Chinese American and aged 58, was appointed as an executive director of the Company on 29 June 2018. He is also a member of the corporate governance committee of the Company. Dr. Kuo joined the Group in December 2014 and is currently the vice president of the Group. Dr. Kuo has been appointed as the director of Nextpert Inc. (a subsidiary of the Company incorporated in Taiwan) with effect from 22 November 2023. He is also a director of ICI Cayman Limited, a supervisor of 深圳市富宏訊科技有限公司 (Shenzhen Fu Hong Xun Technology Co., Ltd., for identification purposes only) and a supervisor of 益富可視精密工業(深圳)有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd., for identification purposes only) respectively, all being subsidiaries of the Company. Dr. Kuo has more than 29 years of extensive experiences in wireless communication product research and development, international business development, start-up business, corporate management and risk management. Before joining the Company in December 2014, Dr. Kuo was the founder and the chief executive officer of BandRich Inc. ("BandRich") from March 2006 to December 2014. The core businesses of BandRich were product development and sales of 3.5G (also known as High Speed Downlink Packet Access (HSDPA)) and 4G LTE (the Fourth Generation of Mobile Phone Mobile Communication Technology Standards Long-Term Evolution) wireless routers and communication modules for home, vehicle and outdoor applications. BandRich partnered with the world's dominant wireless infrastructure suppliers Ericsson and Alcatel-Lucent and sold products to worldwide operators. From April 2003 to February 2006, Dr. Kuo was the senior director (department head) of Compal Electronics Inc. (a listed company in Taiwan) and was in charge of the business in 3G (the Third Generation of Wireless Mobile Telecommunications Technology) mobile phone. From May 2000 to July 2002, Dr. Kuo was the co-founder and the chief technology officer of Wiscom Technologies ("Wiscom") in New Jersey, the United States of America ("U.S." or the "United States"). Wiscom was focusing on development of 3G mobile phone baseband chip. Wiscom's intellectual property rights were later acquired by Intel Corporation. From April 1999 to May 2000, Dr. Kuo was the principal technical staff member of AT&T Labs, engaged in 3G WCDMA (Wideband Code Division Multiple Access) system researches. From January 1995 to April 1999, Dr. Kuo worked in Bell Laboratories of Lucent Technologies on CDMA (Code Division Multiple Access) and WCDMA research and development on network infrastructures. Dr. Kuo is the inventor of 38 U.S. wireless communications patents. He received the IEEE (Institute of Electrical and Electronics Engineers) Leonard G. Abraham Prize in 2001. He was an adjunct professor at New Jersey Institute of Technology in 1998. Dr. Kuo received a Bachelor Degree of Science in Communications Engineering from National Chiao Tung University, Taiwan in 1987, a Master Degree of Science in Electrical Engineering from National Taiwan University in 1989, and a Doctoral Degree of Philosophy in Electrical Engineering from Purdue University, U.S. in 1994.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

LIN Chia-Yi (also known as Charles LIN) (Mr.), Chinese (Taiwan) and aged 53, was appointed as an executive director of the Company on 10 March 2023. Mr. Lin has over 27 years of experience in communication and computer industries. He is the vice president of the Group, who is mainly responsible for the profit and loss of IDM1 (Innovation, Design, Manufacture) business unit, implementing management by objectives and maintaining customer satisfaction, improving gross profit margin and operating margin and developing core technologies as the primary objectives. Mr. Lin is the chairman (previously, a director during the period from August 2018 to February 2024) of CMCS and a director of Executar International Limited, both being subsidiaries of the Company. Mr. Lin is expertized in the field of premium Smartphone (SP) and interrelated mobile devices and leads the business development, research and development (R&D) engineering, new product introduction (NPI) and manufacturing teams, to provide solid NPI services as well as manufacturing and delivery services to customers. Through performing his roles and functions within the Group, Mr. Lin has accumulated years of experience and competitive advantages in SP design, antenna, mechanical engineering, software development and testing tool development, and is dedicated to realize successful products to customers. In addition, Mr. Lin is currently leading the team in building artificial intelligent core technology based on current core technologies, and has been actively participating in the Group "3+3" (three key industries "electric vehicles, digital health, and robotics industries" and three key technologies "artificial intelligence, semiconductors and next-generation communication technologies") strategy's new business development in robotics segment as an upfront investment for its long-term development. He joined the Group in 2005 and was in charge of the original design manufacturing (ODM) business operation when the Group acquired CMCS. Mr. Lin has led the team to transform feature phone ODM business to SP ODM business successfully in 2012. Furthermore, he has performed multi-functional roles across business operation, R&D engineering, NPI engineering, and manufacturing and built highly trusted partnerships with customers in launching a series of premium SP products since 2017. Before joining the Company, Mr. Lin was the product manager of BenQ (formerly known as Acer Communications and Multimedia, Inc. ("Acer")) and Quanta Computer Inc. from 1996 to 2001. He also worked with Acer as a strategic sourcing officer in which he had been delegated to Netherlands for 2 years and leading of the procurement management team. Mr. Lin joined CMCS in 2001, mainly responsible for product management. Mr. Lin obtained a master's degree in business (MBA) from National Taiwan University in 1994 and a bachelor's degree in marine environmental engineering from National Sun Yat-sen University in 1992.

CHANG Chuan-Wang (Mr.), Chinese (Taiwan) and aged 54, was appointed as a non-executive director of the Company on 29 June 2023. Mr. Chang has about 31 years' experience in the information and communication technology industry. In May 2009, Mr. Chang joined Hon Hai and the Hon Hai Technology Group (comprising Hon Hai, its subsidiaries and associates), focusing on group business strategy, operation control and performance analysis management. Mr. Chang is currently an assistant vice president of the Strategic Controlling Division in Hon Hai. He currently also serves as the executive director of ENNOCONN Corporation (principally operating the business of industrial computer design, manufacture, processing and sale, whose shares are listed on the Taiwan Stock Exchange Corporation) on behalf of Hon Hai. Since April 2023, he is also the chairman of the board of directors, a non-executive director and a member of the remuneration committee of CircuTech International Holdings Limited (whose ultimate controlling shareholder is Hon Hai and whose shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), principally operating the business of IT product sale and distribution). For the period from 2002 to 2008, Mr. Chang was the chairman's special assistant at Jabil Green Point (whose shares were listed on the Taiwan Stock Exchange Corporation and were delisted in April 2007). For the period from 1995 to 2001, he served as the head of the global operations management in Universal Scientific Industrial Co., Ltd. (whose shares were listed on the Taiwan Stock Exchange Corporation and were delisted in June 2010). Mr. Chang obtained a Bachelor's degree in Automatic Control Engineering from Feng Chia University in 1992 and a Master's degree in Business Administration from the Graduate Institute of Management at Feng Chia University in 2007. In 2007, he was awarded the honorary membership of Phi Tau Phi Scholastic Honor Society for his outstanding academic achievements.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

LAU Siu Ki (Mr.), Chinese (Hong Kong) and aged 65, joined the Company as an independent non-executive director in December 2004. He is the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company. He has over 40 years of experience in corporate governance, corporate finance, financial advisory and management, accounting, auditing and risk management. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. He serves as an independent non-executive director of Binhai Investment Company Limited, Embry Holdings Limited, Samson Holding Ltd., TCL Electronics Holdings Limited and IVD Medical Holding Limited, all of which shares are listed on the Stock Exchange. Mr. Lau also serves as company secretary of Yeebo (International Holdings) Limited, Hung Fook Tong Group Holdings Limited and Expert Systems Holdings Limited (all of which shares are listed on the Stock Exchange). In addition, he was an independent non-executive director of Comba Telecom Systems Holdings Limited (whose shares are listed on the Stock Exchange) from 20 June 2003 to 29 December 2023. On 31 October 2019, the Securities and Futures Commission (the "SFC") announced that it had started Market Misconduct Tribunal ("MMT") proceedings against China Medical & Healthcare Group Limited ("CMHGL") and six individuals who were CMHGL directors at the relevant time, including Mr. Lau, for failing to disclose inside information as soon as reasonably practicable. On 12 May 2021, the SFC announced the conclusion of those proceedings and the MMT's findings, including those against Mr. Lau. The Company carefully assessed the MMT's findings, and concluded that it remained in the Company's best interests to retain Mr. Lau as an independent non-executive director and as chairman of its audit, remuneration and nomination and independent board committees. Please see the Company's announcements of 12 and 20 May 2021 and page 119 of the Company's 2021 interim report (as issued and published on 15 September 2021) for further details of the Company's assessment.

CHEN Shu Chuan (also known as Nadia CHEN) (Ms.), Chinese (Taiwan) and aged 55, was appointed as an independent non-executive director of the Company on 19 May 2023. She is also a member of each of the audit committee, remuneration committee and nomination committee of the Company. She has over 35 years of experience in the financial sector, professional knowledge in operational judgement, accounting and financial analysis, operation and management, and also accumulated rich experience in risk management. Ms. Chen has been a board member and speaker of the ACAMS Taiwan Chapter (focusing on providing education and training on AML (Anti-Money Laundering)/CFT (Combating Financing of Terrorism) in Taiwan) since 2018. Since November 2019, she has also been the chairlady of the Female Leadership Committee of the Taiwan Listed Companies Association which is one of Taiwan's most important economic and trade associations aiming to combine outstanding entrepreneurs and professionals to build a platform for mutual exchange and brainstorming and share learning to expand participants' broader and far-reaching horizons and more substantial competitiveness. The total market value of all association members accounts for 20% of the total market value of the Taiwan stock market. Ms. Chen has been appointed as a non-executive director of EasyCard Corporation (a company providing contactless smartcard payment system (EasyCard) service in Taiwan, whose shares are listed on the Emerging Stock Market of Taipei Exchange) with effect from 27 June 2023. She has also been appointed as the chairlady of EasyCard Investment Holding Co., Ltd. (parent company to EasyCard Corporation) with effect from 30 June 2023. Ms. Chen serves as an independent director of IBF Financial Holdings Co., Ltd. (which is a financial holding company engaged mainly in bills finance, securities, and venture capital services, whose shares are listed on the Taiwan Stock Exchange Corporation) and Shieh Yih Machinery Industry Co., Ltd. (which is the world's top five servo punch manufacturer and the world's top 20 machine tools equipment leader with a global presence, whose shares are listed on Taipei Exchange) with effect from 12 June 2020 and 27 May 2022 respectively. She is also an independent director of International Bills Finance Corporation (a wholly-owned subsidiary of IBF Financial Holdings Co., Ltd., which mainly provides bill finance services in Taiwan) with effect from 28 August 2020. Ms. Chen was a board director of Aegis Custody Co., Ltd. (a company providing one-stop blockchain based custodial solutions) during the period from November 2020 to December 2021. Prior to the foregoing, Ms. Chen held certain leadership and senior managerial positions in the banking and financial industry, including a country executive and managing director (Taiwan) in The Bank of New York Mellon Taipei Branch from August 2007 to October 2019, and a chief representative and country manager for Commerzbank AG Taipei Representative Office from November 2002 to August 2007. Ms. Chen received an Executive Master of Business Administration degree with an emphasis in International Finance Management and an International Executive Master of Business Administration degree in International Finance and Investment from National Taipei University in 2000 and 2006 respectively.

CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (Mr.), Chinese (Taiwan) and aged 59, was appointed as an independent non-executive director of the Company on 29 June 2023. He is also a member of each of the audit committee, remuneration committee and nomination committee of the Company. Mr. Chiu has over 31 years' experience in leading foreign banks, large corporate, consulting firm and academy. In recent years, Mr. Chiu proactively engaged in sustainable finance, offshore wind and solar power project finance and advisory business. He has been an advisor and a lecturer of Taiwan Academy of Banking and Finance, focusing on international advanced banking training program and sustainable finance, project finance, international loan syndication and acquisition finance in Taiwan since April 2022 and he will continue to focus on the development of sustainability strategy and management. Mr. Chiu worked at BNP Paribas Taipei Branch during the period from 1997 to 2009 and from 2016 to February 2022, where he held various senior managerial positions such as the interim head of Taiwan branches, managing director and head of Corporate Banking, head of Loan Syndication, Trust and Custodian and also Correspondent Banking. He was also a director of Structured Finance Loan Syndication (Greater China) in BNP Paribas Hong Kong Branch during the period from 2009 to 2011. He was a consultant of E-United Group (a Taiwan company in the steel industry) and was a lecturer at the Banking and Finance Department of the China University of Technology in 2016. Prior to the foregoing, Mr. Chiu held certain leadership and senior managerial positions in the banking and financial industry, including an executive director and head of Global Corporate Banking in J. P. Morgan Taipei Branch during the period from 2012 to 2015, and a director of Fixed Income in Credit Suisse Taipei Branch during the period from 2011 to 2012. In his senior management positions, Mr. Chiu has acted as chairperson or a member of the Business Continuity Planning (BCP) Committee and Internal Control Committee (ICC). He was also a credit approver and a member of Credit Committee at BNP Paribas and has accumulated rich knowledge and experience in risk management. Mr. Chiu received a Bachelor of Science, Industrial Engineering degree from Chung-Yuan Christian University in 1987 and a Master of Business Administration degree from The University of Connecticut in 1994.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

HSIUNG Nai-Pin, Paul (Mr.), Chinese (Taiwan with U.S. nationality) and aged 59, joined the Company as director of business development in January 2003. He is responsible for operations in America region including production, logistics and after-market service since 2012. Prior to that, Mr. Hsiung held various functions and positions in mobile phone industry with the Company. From 2003 to 2008, he was responsible for business development and project management in Florida, U.S. From 2009 to 2012, he was responsible for mobile phone design and development in Florida, U.S., and also product manufacturing at Langfang, China. Before joining the Company, Mr. Hsiung was a director at Test Research, Inc. (a Taiwan listed company) for 8 years and responsible for international sales and marketing. Mr. Hsiung was a director of iCare Diagnostics, Inc. and DirectMDx, Inc. (both of which are incorporated in Delaware, U.S.) between 28 December 2020 to 20 January 2021 respectively. Mr. Hsiung is also a director of certain subsidiaries of the Company, namely Excel Loyal International Limited, FIH Mexico Industry SA de CV, Prospect Right Limited, S&B Industry, Inc. and Sutech Holdings Limited respectively. He was a director of SP International, Inc. (a subsidiary of the Company which was closed) during the period from January 2016 to October 2022. He was a director of FIH (Tian Jin) Precision Industry Co., Ltd. (a subsidiary of the Company incorporated in China) from June 2011 to November 2021. He obtained a Bachelor degree of Applied Physics from Tamkang University, Taiwan and a Master degree of Computer Science from New York Institute of Technology, U.S.

TAM Kam Wah, Danny (Mr.), Chinese (Hong Kong with British nationality) and aged 60, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, investment management, internal control, investor relations, corporate governance, risk management and performance review of the Group. He is a non-executive director of Mobile Drive Netherlands and a non-executive director of BFIH. Mr. Tam has over 36 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. (now known as China Oceanwide Holdings Limited) and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Taxation Institute of Hong Kong and an associate of Hong Kong Institute of Certified Public Accountants. He is also a certified tax adviser. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University, the People's Republic of China in 2005.

CHEN Hui Chung, John (Mr.), Chinese (Taiwan) and aged 62, joined the Company as senior director of finance division in August 2013. He is responsible for treasury, financial investment and financial risk management of the Group. Mr. Chen has over 34 years of experience in finance areas in Taiwan listed companies. Before joining the Company, he was the chief financial officer of Taiwan Synthetic Rubber Corp and Wan Hai Lines Ltd. respectively. Mr. Chen is a non-executive director of BFIH and a director of FIH Co., Ltd., both being subsidiaries of the Company. He received a Bachelor of Transportation and Communication from National Cheng Kung University, Taiwan in 1983 and a MBA from University of California Irvine, U.S. in 1987.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") hereby announces the Company's 2023 annual report incorporating this report of the directors, particularly the audited consolidated results of the Group for the year ended 31 December 2023 (the "current period", "current year", the "year", "reporting year" or "reporting period").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in the consolidated financial statements on pages 192 and 193. The Group is principally engaged as a vertically integrated manufacturing services provider for the handset industry worldwide. It provides a wide range of manufacturing services to its customers in connection with production of handsets. For more details, please refer to the section headed "Business Review — Discussion and Analysis — Introduction" below of this report of the directors.

RESULTS

The results of the Group for the current period are set out in the consolidated financial statements on page 128.

BUSINESS REVIEW

Important

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

The Company refers to its profit warning announcement of 2 November 2023 and its announcement relating to additional inside information about expected 2023 annual performance dated 27 February 2024 respectively, which provided (among other things) certain updates on its expected 2023 annual performance and included information about the various factors that contributed to the Group's consolidated net loss for the current period and that have persisted and were expected to continue into at least the first half of 2024. In this respect, please also refer to "Outlook and Industry Dynamics" below.

This report of the directors contains forward-looking statements regarding the Company's expectations and outlook on the Group's order book, business operations, performance, opportunities, risks, 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/significantly) from those expressed in the forward-looking statements. These risks and uncertainties and factors may include, but may not be limited to, changes in general industry and macro-economic environment (such as intensifying geo-political tensions and political conditions and deglobalisation and de-sinicisation) and the economic performance of the industries and sectors and customers we serve, the potential

effect of events beyond our control (such as the conflict between Russia and Ukraine, conflicts in the Middle East, escalating tensions between China and the United States, changes in energy prices, terrorism, global health epidemics and weather events), the effect of inflationary pressures on our costs of production and margin performance and on the economic outlook of our markets, changes in money markets (such as interest rate hikes and credit crunch and inflationary rate and volatility in foreign exchange rates), the potential effect of fluctuations in the value of the currencies in which we transact business, changes in capital markets, market saturation, weak demand and slow recovery and vigorous competition and handset commoditisation, shifts in customers' demand and preferences and sluggish demand and prolonged replacement cycle and shortened demand visibility and managing fluctuations in customer demand and other customer-related challenges that may occur, the effect of changes in the pricing and margins of products, the risk of customer delays and changes and cancellations or forecast inaccuracies in both ongoing and new programs, the lack of visibility of future orders, particularly in view of changing economic conditions, low asset utilisation, "China Plus One" strategy, and de-risk and decoupling from China and geo-economic fragmentation, friend shoring, near shoring, customer outsourcing strategy and customer concentration risk, growing margin erosion pressure, competitive challenges affecting our customers, our ability to secure new customers and maintain our current customer base and deliver product on a timely basis, seasonality of sales, and higher revenue volatility, changes in sales and product mix, the risks associated with excess and obsolete inventory which includes the risk that inventory purchased on behalf of our customers may not be consumed or otherwise paid for by the customer, the risks associated with excess open purchase order and obsolete inventory (including the risk that inventory purchased on behalf of our customers may not be consumed or otherwise paid for by the customer, resulting in an inventory write-off), the risks of concentration of work for certain customers, the particular risks related to new or recent customers or programs or services (which risks include customer and other delays, start-up costs, potential inability to execute, the establishment of appropriate terms of agreements), changes in commodity/component price, the ability to realise anticipated savings from restructuring or similar actions, the risk that new program wins and/or customer demand may not result in the expected revenue or profitability, our growth and diversification strategies and plans (and potential hindrances thereto), our credit and collection and default risk, risks associated with international sales and operations, pace of technology advancement, and changes in market/legal/regulatory/compliance/government/tax policy (e.g. government's blacklisting and export controls), risks related to information technology systems and data security, the potential adverse impacts of events outside of our control. Although the Group believes these statements are based on and derived from reasonable assumptions, they involve risks, uncertainties and assumptions that are beyond the Group's ability to influence, control or predict, relating to operations, markets and the business and macro environment generally. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual outcomes, including the future results of our business and operations, may vary materially/significantly from those indicated. In addition, new and unpredictable risks, challenges and threats emerge from time to time and it is not possible for the management to predict all such factors or to assess the impacts of such factors on the Group's business. For more details, please see "Outlook and Industry Dynamics" below. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

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

Discussion and Analysis

Introduction

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai (and together with its subsidiaries and associates (as defined in the Listing Rules, the "Hon Hai Technology Group"; Hon Hai is a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader in the handset industry worldwide providing leading-edge manufacturing technology and vertically integrated manufacturing services and product development services to its customers with improved product and service quality, cost effectiveness, increased flexibility, faster volume to market and time to market, and overall value. The Group changed its head office from Langfang, China, to Taipei with effect from 26 March 2021, and the Group has continued to focus on and expand its operation outside Mainland China.

The Company is customer-centric and 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 leading edge end-to-end manufacturing and engineering services to its customers tailored to meet specific market and customer product lifecycle requirements in respect of handsets and other wireless communication devices and consumer electronic products and this full range and wide array of capabilities provide our customers with expertise across the entire value chain. The products and services include unique and innovative product development and design, casings (including casings sold to customers and casings used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly, supply chain services and solutions, and after-market services of return management and services and product repair/refurbish solutions in mobile device and smart consumer electronics devices. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as eReaders, tablets, and voice interaction products like smart speakers. Within design and development, the Group provides customers with a broad spectrum of OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturing) capabilities and our strength lies in delivering product and software development and manufacturing solutions of high complexity that require strong engineering and technical and design proficiency. The Group's ODM offering includes the development of hardware and software platforms and design solutions in collaboration with customers, as well as management of the program's design and development and aspects of the supply chain and manufacturing and cost optimisation. We have a well-established quality management system that focuses on continual process improvement which enables us to consistently deliver high-quality products and services to meet the requirements of customers. Our customers leverage our services to meet their requirements throughout the entire lifecycle of their products and to reduce manufacturing costs, improve supply chain management and efficiency to become more dependable reduce inventory obsolescence, and shorten time to volume and time to market utilizing our large-scale manufacturing infrastructure in various locations and our ability to serve a broad range of end markets. Resourceful supply chain management practices, including diversifying component sources and fostering greater resilience, emerged as a key focus. The Group operates a network of sites and centers of excellence strategically located worldwide in China, India, Vietnam, Taiwan, Mexico and America which can fulfill customers' requirements in different countries and reduce landed costs of products. Technology innovation is at the center of our ability to deliver these end-to- end capabilities. Despite the regional shift in the manufacturing sites; the great China region remains one of the Group's Research and Development (R&D) centers and the integration of these product realisation services along with our global presence increases our ability to continue providing the accelerated time-to-market production and time-to-market solutions to fulfill our clients' demands of high-quality products. These all-round capabilities enable the Group to build strong and long-lasting strategic relationships with our customers and to become an integral part of their business.

The handset manufacturing industry is highly dynamic and competitive and growingly saturated. Since late 2017, the Group has faced challenging market conditions and high margin erosion pressure and contraction of demand, and those conditions have continued into 2023. During periods of recession in the electronics industry and lacking short-term ways to stimulate demand and sales growth, the customers become more price sensitive and remain focused on preserving their bottom lines by holding down costs. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans and currently this is viewed as a significant restraining factor for the market. Even though, component prices are declining due to the weak demand but the key focus still lies on utilisation and unabsorbed overhead costs. The Group was not insulated from the economic swings of recent years because of its global nature of operations with more offshore facilities. The mobile phone market is elastic as it's not a necessity and there are already a lot of phones out there, so if prices were to go up fewer people would buy new phones and fewer people would upgrade their existing phones. Aggressive pricing is a common business dynamic as entry barrier is low, and peers in China and India are very cost competitive and margin erosion pressure on both the Group's casing and system assembly business is extremely high and continues to increase, especially when market demand is weak and there is excessive inventory and surplus capacity and the market sector is mired in overcapacity. The availability of excess manufacturing capacity at many of our competitors creates intense pricing and competitive pressure on the EMS industry as a whole. Idle cost of the Group has been increasing as capacity utilisation (including factory buildings) is deteriorating despite the Group has been aggressively disposing of idle assets. To ensure that the Group has been prepared for an uncertain demand environment, over the past several years, it has aggressively restructured its business operations and carried out downsizing and consolidation activities and eliminated the used, obsolete, redundant, surplus and loss-making/under-performing assets to become an asset-light corporate group and a lean and flat organisation and reduced headcounts and strengthened business development capability and cut costs and expenses with the intention of improving utilisation and realising cost savings in the long term and further cutting its fixed overheads and burdens and preserving cash, and such downsizing and trimming activities have continued into 2023. The consolidation activities included consolidation of the buildings and production facilities within the manufacturing sites, largely to align our capacity and infrastructure with current and anticipated customer demand. Through the extra effort made, the Group successfully sold land and buildings in Hangzhou, the sale was completed during the current period, which recorded a before-tax gain on disposal of United States dollars ("US$" or "USD") 6.2 million in December 2022 and US$78.5 million in April 2023. Furthermore, the Group has made provision for compensations to the lessees and the service providers of US$12.8 million in April 2023. In addition, the Group successfully sold land, buildings and structures in Hungary, which recorded a before-tax gain of around US$8.7 million in July 2023, as announced by the Company on 7 July 2023, and the Group successfully sold certain buildings, structures and facilities in Beijing, which recorded a before-tax gain of approximately US$14.3 million in September 2023, as announced by the Company on 7 June 2023. In accordance with IAS (International Accounting Standard) 16 and IAS 40, we should de-recognise the assets when we lose control over them. Therefore, these gain on disposal are recognised when the transfer of ownership takes place. We do not expect similar disposal gains of huge amount in coming years.

2023 was a fraught period of economic slowdown. Despite the gradual relief from the pandemic and the alleviation of supply chain bottlenecks, the global economy continues to be impacted by various ongoing factors such as stubborn inflation, high interest rates, restrictive financial conditions, feeble global trade and investment, and geo-political realignments. According to IMF latest report published in October 2023, world economic growth will slow from 3.5% in 2022 to 3% in 2023, which remains well below the historical average. By sector, the global electronics sector's growth remained wane. The S&P Global PMI data released in January 2024 suggests that the headline PMI, covering manufacturing and services across over 40 economies, rose to 51.0 in December 2023, yet remain well below the survey's long-run average of 53.2. A closer look reveals that manufacturing continued to be a key drag on the global economy, with factory output dropping marginally in December for a seventh successive month. The fall underscores a pronounced and ongoing decline in the operational conditions within the global electronics manufacturing landscape.

To curb inflation resulting from the COVID-19 pandemic and the Russia-Ukraine conflict, major economies such as the U.S. and Europe have raised interest rates sharply since the start of 2022. For instance, the tight monetary stance adopted by the Federal Reserve System ("FED") led to steady hikes in the benchmark interest rate. Since 2022, the FED has raised rates 11 times thus far to a range of 5.25% to 5.5%, a 22-year high. Affected by these aggressive interest rate hikes, inflation eased over the past year but still remained at a high level compared to the FED's target rate of 2%, indicating the presence of ongoing inflation pressures. Although the interest rate hikes could curb the rampant inflation, they also affected people's purchasing power, dampening consumer appetites and pushing them to curb or postpone discretionary spending, such as on mobile phones. On top of this, they also made it difficult for businesses to clear inventory and increase investment. As customers become more cautious about placing orders, demand visibility is significantly shortened, making it challenging for the Group to predict order books, arrange material sourcing, plan for personnel and demand, and schedule production efficiently. Asset utilisation remains a challenge amid these uncertainties.

In this high inflationary environment, it is crucial for the Company to prioritise effective cost management and continuously seek avenues for optimising operational efficiency. By identifying opportunities for process improvements and embracing innovative strategies, the Company can, to some extent, mitigate the impact of rising costs and adapt to the evolving market dynamics and enhance the cost competitiveness amidst the challenges posed by inflation. On the other hand, the mix of products ordered by and shipped to major customers will affect the Group's gross margins as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services. Cost reductions without compromising on quality, especially cost containment in parts of our supply chains, is a tough work. During the downturn, delivering top-notch customer service is of paramount importance as this will enable us to stand tall in the future, even when service and cost are competing priorities. Every player in the industry is striving to gain and maintain competitive differentiation by adopting new approaches or by realising latent sources of success in existing operations. In the quest for recovery, companies in the handset industry are competing against each other to increase their market presence and share while continuing to face challenges like slim operating margins, low visibility, high inflation, shortening replacement lifecycle and managing a global supply chain. Our customers are trying to overcome these challenges through innovations and launching new products and services.

In addition, rising geopolitical tensions across the world in recent years could aggravate the already subdued global economy. A series of international geopolitical events, such as the protracted U.S.-China trade wars, the ongoing Russia-Ukraine war, and the Israel-Hamas war, have all cast a shadow over the global economic landscape, making the global economic development more unpredictable. Particularly, tensions between the U.S. and China have escalated over the past few years and caused ripple effects across the global economy. In 2023, the United States expanded a series of export controls on key technologies/equipment and imposed a set of sanctions against China, such as the prohibition of exporting chips, semiconductor equipment, and software to Chinese technology giants, as well as the expansion of U.S. trade blacklists. Moreover, the White House also announced an executive order restricting investment in high-tech industries such as quantum computing and artificial intelligence in China in August 2023. In turn, China also took steps for retaliation, such as curbing exports of niche metals critical to chips and other tech, banning exports of technology for making rare-earth magnets, and imposing other restrictions related to vital industrial metals. The U.S.-China trade war and the resulting restrictions have intensified calls in the U.S. and other countries to reduce dependence on China, leading many multinational corporations to move out of China in recent years. As for the ongoing Russia-Ukraine war, while the overall impact of the war on the economy was relatively smaller compared to the previous year, the future development of the conflict remains highly uncertain. The escalation of geopolitical tensions, as Federal Reserve Governor Lisa Cook said on 8 November 2023, could lead to lower economic activity and increased fragmentation of global trade flows and financial intermediation, raising financing and production costs and contributing to more sustained supply chain challenges and inflationary pressures. Moreover, an IMF blog post on 28 August 2023, also underscored the costs raised by fragmentation, indicating that greater international trade restrictions could potentially reduce global economic output by as much as 7% over the long term.

China, the world's second-largest economy, plays a crucial role in global economic recovery, as developed nations grapple with persistent high inflation, rising interest rates, and sluggish economic growth following the pandemic. However, China's economy and exports have faced external and internal pressures throughout the year. China experienced a robust beginning following three years of COVID-19 restrictions but had a bumpy recovery over the past year. Amid domestic and international headwinds, China's official figures show that its economy grew at 5.2% in 2023. Although it surpassed the government's target, it still recorded one of its slowest rates in more than three decades, indicating that the recovery is relatively slow. In addition, ratings agency Moody's also downgraded its outlook on China's government credit ratings to negative from stable in December 2023, citing risks related to structurally and persistently lower medium-term economic growth and ongoing challenges in its property sector. Regarding China's Manufacturing Purchasing Managers' Index ("PMI"), a sensitive indicator, it recorded a value of 49 in December 2023, suggesting that China's manufacturing activity remained in contraction territory. It's also worth mentioning that, in 2023, major global economies faced the issue of inflation; however, China was in the midst of a deflationary crisis. In 2023, China's Consumer Price Index (CPI) remained persistently below 0.5%, with several months even showing negative growth. This reflects the current imbalance in the domestic market in China, where demand recovery lags behind supply. To date, various statistics and indicators still highlight a weakened momentum in China's post-pandemic economic recovery.

Throughout the year, China's recovery was under whelming. Its economic growth remained impeded by various structural and non-structural headwinds, including tepid global and domestic demand, geopolitical tensions, demographic and labour market challenges, high debt levels, and a real estate crisis, among others. Firstly, the global economic slowdown led to a decline in global demand for Chinese goods, affecting exports. Meanwhile, China's sluggish domestic demand has further exacerbated the challenges to economic growth. Secondly, the "de-risking" move by the developed world in recent years and the reworking of supply chains have reduced foreign direct investment into China. According to data published in China's balance of international payments (BOP), China recorded its first-ever quarterly deficit in foreign direct investment (FDI) in the third quarter of 2023. Thirdly, greater life expectancy, combined with lower fertility rates, is resulting in a rapidly aging society. For a country whose economy remains reliant on affordable sources of labor to drive its manufacturing sector, China's aging working population presents a serious economic problem. These shifts will lead to reduced productivity, and as China's large surplus labor pool begins to dwindle, manufacturing wages will increase, and the sector will decrease in profitability. Furthermore, high youth unemployment in China is also deteriorating. The unemployment rate for youth continued to climb in the first half of this year and reached a record high of 21.3% in June, prompting the government to suspend publishing data on the issue for five months. Fourthly, ballooning local government debt and the housing/property market have become the 'grey rhinos' of China. The Chinese property market fell into crisis in recent years. The downturn is likely to drag on, posing a major threat to China's growth prospects over the next three to five years.

REPORT OF THE DIRECTORS

Numerous ongoing economic headwinds have pushed consumers to curb or postpone discretionary spending, leading to increased channel inventory and hindering smartphone vendors' investments and operations in several markets. These challenges played a pivotal role in sapping momentum for smartphone sales in 2023. Moreover, additional unfavorable factors, such as prolonged phone replacement times, phone commoditisation, and the growth of the refurbished smartphone market scale, have further exacerbated the challenges faced by the smartphone market. According to preliminary data from the International Data Corporation (IDC) Worldwide Quarterly Mobile Phone Tracker, global smartphone shipments declined 3.2% year over year to 1.17 billion units in 2023, marking the lowest full-year volume in a decade. To mitigate the concentration risk of dependence on a single customer, product, and region, the Group is committed to diversifying revenue contributions from mobile phones and devoting additional resources to business development functions and capabilities. However, inherent difficulties exist in penetrating existing customers and developing new ones. Facing strong headwinds, customers are compelled to minimise risks, optimise costs, and may shift production between EMS (Electronic Manufacturing Services) and ODM service providers for various reasons. These include changes in the competitive landscape and consumer behaviour, the "China Plus One" strategy, deglobalisation, reshoring, near-shoring, demand for products, market acceptance of new products and models, global economy fluctuations, regional geopolitical tensions, reshoring plans of suppliers/customers, labor costs, pricing concessions, more favourable payment terms and conditions, tax efficiency, risk diversification, enterprise risk management, environmental, social and governance ("ESG") compliance, optimisation of logistics costs and value chain, quality of engineering and product development services, on-time delivery, and tax benefits. Customers may also adjust their outsourcing strategies and the amount of business they outsource to integrate vertically, consolidate through their supply chain capacity, rotate their supply chain partners, or increase specialisation through further contracting or concentrating the location of their EMS suppliers.

The Group continues to monitor the dynamics and impacts of the global economic and financial environment, alongside geo-political tensions. By carefully reading and responding to the market, especially movements of its competitors, the Group can better understand the status of market inventory and liability, and how the market will recover from the current turbulence. The Group works to manage our risk, strategies, capital structure, treasury risk management, organisation, priorities, costs, overheads, footprint, credit risks, receivables collection, working capital management, capital expenditures, and resources in a proactive manner. This approach helps us anticipate and prepare for any necessary changes, make continuous improvements, and maintain a lean, agile, and cost-competitive position. With the R&D capabilities and competencies and know-how in working with a wide range of materials and craftsmanship and the provision of a wide spectrum of value-adding design services and manufacturing solutions ranging from traditional metal stamping and plastic injection to system assembly solutions, the Group is able to fulfill its customers' changing and diverse needs in performance, cost, volume-to-market, time-to-market and manufacturability and product design requirements and offer comprehensive and competitive one-stop-shopping manufacturing solutions that are customised to each customer's needs worldwide. To maintain our market position and strengthen our competitiveness, we have taken proactive measures to drive the development of innovative and captivating design solutions that cater to the evolving needs and preferences of our target market. Our global design teams are focused on delivering flexible solutions and expertise which aims to help customers reduce overall product costs, improve time-to-market, introduce competitively differentiated products, and drive hardware innovations. By leveraging the power of innovation and collaboration within our organisation, we strive to achieve operational excellence and gain a stronger competitive edge.

As a whole, the market for OEM and ODM services is characterised by rapidly changing technology and continuing process development, and the Group devoted resources to these two areas to enhance our capabilities and long term sustainability. As the technological landscape continues to change and our customers continue to pursue new, exciting frontiers with their products, the Group must constantly evolve our business model to provide competitive services attractive to a wide breadth of industries. Our continued effort on business diversification and development and transformation and downsizing and remaining lean and expanding overseas operations and making continuous improvements are critical to the long term sustainability and competitiveness of the Group and strategically positioning the Group to take advantage of the future growth prospects of OEM/ODM industry and makes us a stronger and trusted long term partner to our customers. The Group adopted a proactive and aggressive business strategy, establishing a dedicated business development team to drive expansion into new markets and seize growth opportunities. We believe our strategic focus on developing innovative design solutions, fortifying supply chain management, diligently managing costs through effective bill-of-material oversight, and improving our value add through streamlined production processes positions. Through these initiatives, our customer-centric approach can promote increased efficient customer response, particularly for customer relationships that extend across multiple production locations when more customers are now increasingly evaluating supply chain alternatives in Asia Pacific region and establish the Group as a prominent force in the industry, unlocking our full potential for sustainable growth. Since the EMS industry is a low margin industry, in order to meet the customers' cost expectations, the Group has to lean out all processes.

Key Relationships with Customers, Suppliers and Employees

Key relationships with Customers

In addition to fostering manufacturing flexibility across various international production sites, the Group's strategic approach and business model champion collaborative partnerships with customers. This approach spans from the initial concept design stage to the culmination of the production process, encompassing aspects such as sourcing, development, production start-ups, mechanical design, assembly, and after-market services for finished products. The Group is devoted to delivering a comprehensive range of cost-competitive, vertically-integrated global supply chain solutions tailored to diverse volume requirements.

These initiatives not only expedite production start-ups and efficiently transition new products to mass production but also play a pivotal role in accelerating product time-to-volume, time-to-market, and scaling production to meet rapidly changing customer demands. Recognising the current market demand and supply situation, customers can leverage the Group's supply chain solutions throughout the entire life cycle of their products, facilitating the launch of new products into the highly competitive marketplace within an expedited timeframe. This approach reduces the costs associated with delivering high-quality products to the market, shortens supply chain cycle times, minimises working capital requirements for inventory, and ultimately lowers the overall total cost of ownership.

Acknowledging the critical significance of supply chain management, the Group places a priority on strengthening practices to ensure the smooth and efficient delivery of components and materials. Through meticulous supply chain optimisation, the goal is to minimise costs, improve lead times, and establish a distinct competitive advantage within the industry. Leveraging supply chain practices globally enables the Group to respond effectively to the current market demand and best material costs, minimise lead times, enhance the efficiency of planning cycles to meet customer demand volatility, optimise asset utilisation, and effectively manage inventory levels.

Cost management remains a crucial element of the overall strategy. The Group maintains rigorous oversight of the Bill of Materials (BOM), actively seeking opportunities to maximise cost-efficiency while upholding unwavering product quality standards. This involves sustaining strong relationships with suppliers to negotiate favourable pricing terms, exploring alternative sourcing options, and continually evaluating quality and value of components, and suppliers' performance.

Rapid changes in technology and craftsmanship, evolving industry standards and requirements, handset market landscape, consumer behaviour, and requirements for continuous improvement in products and services resulted in shorter product life cycles. The Group secures front-end trends by working closely with supply chain and suppliers (including Hon Hai Technology Group via vertical integration), managing both procurement and inventory and quick response manufacturing services and creating win-win for both the Group and customers by developing practical and total solutions which can enhance competitiveness of customers via continuous and close interaction with the materials/component marketplace. We operate flexible manufacturing facilities and design our processes to accommodate customers with multiple product lines and configurations. Simultaneously, we are dedicated to enhancing our Manufacturing Value Add (MVA) by streamlining production processes, reducing waste, and improving operational efficiency. By elevating our MVA, we can optimise productivity, reduce manufacturing costs, and expedite product delivery, thus solidifying our competitive position in the market. All these help to foster and maintain the Group's long-term relationship with customers and expand these relationships to include additional product categories and services. Such repeatable execution driven by a collaborative and customer-centric culture that continuously evaluates and optimises our business processes and adapts to ever-changing macro-economic conditions and provides clear value to customers. The building up of such competencies is also critical to the development of new customers.

As mentioned above, due to the deterioration of the global economy and China's slower-than-expected economic recovery, uncertainty persists in the global demand for consumer electronic products. Regarding the smartphone market, in addition to economic headwinds, it has encountered other significant challenges in recent years. Factors such as market saturation and the ongoing impact of prolonged replacement cycles, mainly resulting from improving device quality, along with the lack of product differentiation and innovation, contribute to these challenges. As the end-market demand becomes sluggish, uncertain, and volatile, these unfavorable factors intensify the competition in the global handset market. Our customers are more cautious in their demand planning, expense and cost control, and cash flow management. Demand visibility is greatly shortened. Some customers have too many inventory on hand and still fight hard to consume those inventory and they are inclined to cancel potential new projects (even some which are already ranged under development by ODMs) to push out the new models to a later time frame to reduce risk and working capital requirement.

In light of the high uncertainty of handset demand, customers which own manufacturing facilities and capabilities may reduce outsourcing so as to optimise its own capacity utilisation. One of the Group's customers had been keen to find new manufacturing partners in China and India and reduced the percentage of outsourcing to us and this has been affecting the sales to this customer significantly. On the other hand, customers may fail to successfully sell their products, and customers' products may not be price competitive and fail to gain widespread commercial acceptance and customers may experience dramatic market share shifts in demand which may cause them to lose market share or even downside/exit businesses. As the margins of the customers are reduced, they are prone to cut the prices of the hand sets we sell to them and margin erosion pressure on us is extremely high. At the same time, the Group has been aggressive in getting more orders in order to optimise utilisation. If production volume is low, we will have huge unabsorbed manufacturing overhead costs and idle costs which will affect the already low gross profit margin. This explains why the Group has been putting effort into cutting costs and terminating loss-making/ under-performing operations.

The short-term nature of the Group's customers' commitments and demand visibility and the rapid changes in demand for their products reduced our ability to accurately estimate future demand and requirements and the timing and predict order book of our customers with reasonable certainty. This made it difficult to plan and schedule production and shipment, and resource planning and hiring in an efficient and cost-effective manner so as to optimise utilisation of our assets and workforce and capacity and at the same time fulfilling orders. Yields and efficiencies were greatly affected and idle costs increased dramatically and margin erosion pressure continued to be extremely high. To mitigate the challenges posed by low demand visibility, we are enhancing our business development efforts in different regions by assigning key account managers to be located close to our clients. This proximity will improve communication efficiency and the close interaction enables us to respond quickly to their needs, fostering stronger relationships and gaining better visibility into their demand patterns. We will also critically review the expansion of service and product offerings to a wider range of solutions that cater to diverse customer requirements. By having more options available, we increase our chances of securing contracts and winning bids, thus enhancing our demand visibility. There is also a need to continuously improve our cost competitiveness of our BOM and MVA through various measures. These include enhancing supply chain flexibility, optimising resource utilisation, and exploring diversified collaboration models to meet the unique needs of different customers. Strengthening customer relationships, collaborating closely with key customers and suppliers, adopting flexible production and inventory management strategies, and diversifying our customer base and product offerings will enable us to better anticipate and respond to changing demand patterns. Through these proactive measures, we aim to improve demand visibility. But as the uncertainties are high, the Group had to control overheads and reduce inventory level and open purchase order exposure and liabilities and get rid of idle assets to reduce idle costs and remain lean but agile and streamline production processes and monitor closely market and competition landscape and labour availability and review business model and contribution margin performance of the orders and credit position of customers and communicate well with customers and determine the levels and volume of business that the Group can take. The geo-political tensions and untamed inflation had stalled the global economy and the repercussion affected all of our customers.

As the Group's customers in different segments faced different types of headwinds, the Group's segment performance in different countries was affected by different degrees and extent and in different areas. As the current economic crisis unfolded against the backdrop of a keen competitive market environment, slow recovery, and reduced income and the increase in borrowing costs put a strain on the solvency of customers and companies, the Group had kept monitoring the credit and collection and default risks. In particular, the Group has been controlling business amounts and capping trade receivables amount with HMD Global Oy ("HMD") to control credit exposure and made adequate expected credit loss allowances in the book to reflect the collection and default risks.

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

In light of the handset market saturation, the Group has to be technologically innovative and intensifies its focus on manufacturing efficiency and productivity and devotes resources to keep pace with technological changes in the industry and adapt our services so that our customers can use better and cost competitive solutions in their products. Regardless of the size and scale of the customer, we establish the long term business relationships with our customers by providing high quality products and services of global standards at competitive prices in an efficient manner, manufacturing industry-leading and state-of-the-art products for its customers in different countries, offering customised services and solutions and flexibility to customers, and creating customer delight and satisfaction among passionate people engaged in a world-class manufacturing environment, and continues to prolong, develop, penetrate and foster closer relationships and partnerships with them for mutual benefit of the Group and such customers in the long run and leverage talents of the Group. The Group believes its long term business relationship with major customers are the result of the Group's proven track record of meeting commitments in quality and delivery and delivering the core value and services which are crucial to the increase of customers' competitiveness in the growingly difficult and competitive and saturated market. We are a high-performance, accountable organisation with a talented and engaged workforce that is deeply passionate about driving growth and development through excelling customer service and offerings. But there has been more than usual pressure on pricing coming from the largest players in the industry fighting against the deteriorating trend in market share development and prolonged replacement cycle time and all of the Group's customers have been facing keen competitions in the handset market and intensifying challenges of various kinds, both operational and financial and winning business is subject to lengthy, competitive bid selection processes and we have to dedicate significant development expenditures and engineering resources in pursuit of a single customer opportunity. To reduce concentration risk, we focus on identifying and developing relationships with new customers that meet our targeted profile, which includes financial stability, need for OEM/ODM services or turnkey manufacturing, growth potential and long-term relationship stability. The Group has also made concentrated efforts to devote resources and effort on business development capability and continue to explore opportunities in new projects, new products, new industry sectors and new customer development in different countries on the solid foundation of existing products and service offerings and domain expertise and customers. Confronting with more diversified product lines and customer demands, the Group deliberately enhanced the core competence and differentiated us from our competitors by means of keeping pace with technological changes and competitive conditions in OEM and ODM industry, effectively adapting our services as our customers react to technological and craftsmanship and market and macro-economic changes and competitive conditions in their respective market segments, optimising and streamlining production and lean manufacturing process, upgrading equipment, improving quality and responsiveness and flexibility and yield, magnifying efficiency, escalating automation, executing solid cost-control measure and cultivating talents.

From Enterprise Risk Management (ERM) perspective, the Group has been operating in a highly competitive and dynamic market without growth a sustainable business with a well-balanced and diversified portfolios from a customer and product and geographical diversification perspective and is looking for continuous improvement all the time with ample resources dedicated to competence building and R&D capability.

Major customers

The Group's major customers consist of reputational brands, which offer creditable products and have already secured a substantial market share in their market of expertise. The Group's strategy revolves around establishing and nurturing long-term business relationships with leading companies with size and growth characteristics and seek to expand these relationships to encompass additional product lines and services, continuously develop and penetrate Chinese and overseas and international brand customers, put efforts to grow and diversify its lineup. We strive to expand its production capacity in India and Vietnam in order to meet the needs of customers to develop markets overseas and we have been successful to capitalize on the growth of domestic market in these countries and have continued to actively develop new customers of different industries in India and diversify both customer and product base. However, the Group's customers continued to face several unavoidable macroeconomic problems inclusive of Ukraine-Russia warfare which disturbed the world's supply chain and the surging inflation rate across all countries together with quantitative tightening policy have pushed up the risk of economic depression in the globe. On the demand side, under the difficult economic situation and fears of an economic slowdown, income elasticity of demand is high and customer preference has been changed to saving more money to support the growing living cost; in other words, the decline in demand in durable goods including consumer electronics in 2023 continues to be the most impactful reason to worsen the Group's customers' business performance and the competition pressure continues as the market slows down and most channels are still filled with inventory. Positive experience with prior model is not significant in affecting the demand of smartphones. This indicates that consumers have less loyalty towards a particular brand of smartphone. They are more willing to try and switch to different brands because they are expose to many others type of smartphones. Competitors have to fight for the remaining very limited demands if existing inventory cannot cover and this is why we were pessimistic for 2023 demand and our conservative stance for 2024 demand. The Group relies on a relatively small number of customers for a substantial portion of our sales, and the performance of our customers in the end markets and their outsourcing strategies could affect/reduce our shipment performance directly and significantly.

To reduce concentration risk, new customer development is crucial to the Group and the Group focused on expanding its customer portfolio and adopted a proactive and aggressive business strategy and established a dedicated business development team to identify and develop relationships with new customers that meet the Group's targeted profile, which includes good market growth potential, the need for OEM/ODM services or turnkey manufacturing solutions on a global basis, viability, financial stability and long-term relationship stability can drive expansion into new markets and seize growth opportunities and reduce concentration risks. But it is a fact it is growingly difficult to develop new customers of large or significant size and the time needed for new customer development can be very long and this is why the customer portfolio of the Group includes some small customers and the Group has to put tremendous effort and resources to expand overseas and there have been some successes.

(i) The Group's key Chinese customer initially focused on its domestic market, capital, technical and know-how advances. But in these years, the customer has shifted focus to global expansion and made extremely success in different countries and markets (like India and other developing countries especially Central and Eastern Europe and Southern America). As the macroeconomic challenges continue to take place around the world, this customer has adjusted its 2023 corporate strategies to focus on operation optimisation, future business development such as EV and emphasis not only on the scale but also the profitability. The piled-up inventory since the second quarter of 2023 and the lukewarm demand were the main reasons that smartphone vendors were hesitate to ramp up. In the third quarter 2023, the destocking finally come to an end, and the sign of economy rebound has surfaced. Fueled by the reduced BOM cost amid the de-escalation of supply chain disruptions, this customer achieved a record-high gross margin and successfully reached the lowest inventory levels in 11 quarters. With the premiumisation strategy and positive feedback on the latest flagship smartphone, this customer is the only one company who saw a positive year-over-year shipment changes in the third quarter of 2023 in China. IDC concluded 146 million smartphones shipped in India in 2023, with a nominal 1% growth YoY and thanks to the 11% shipments growth in second half which compensate the 10% decline in the first half of 2023. Although India smartphone market achieved 1% shipments growth, the market share ranking of this customer dropped from number 2 to number 4 due to the shipments to the online channel drop yet it was still able to continue lead the entry level (sub-US$100) segment in India.

(ii) An established U.S.-based Internet company in the long run is one of the major customer of the Group. Along with a long history of cooperation, the Group provides comprehensive engineering and production services to deliver superior, reliable, and trustworthy premium smartphones that meet the customer's demand. To differentiate ourselves from competitors, we collaborate with this customer from the NPI (New Program Introduction) stage and promptly ramp up production to meet the customer's time-to-market and time-to-volume strategies. We continuously develop automation robot software, robot central control systems, and AI inspection algorithms to reduce labor dependency and eliminate manual inconsistencies. In addition, we employ real-time big data analysis and visualisation tools to improve yield and support the customer in all aspects of production. To mitigate the risk of concentration in a particular region/country, we offer competitive geographical advantages and management excellence to this customer to mitigate the concentration risk on certain region/country. Despite the macroeconomic downturn, this customer continues to put its effort one quipping more and more advance AI technologies on its device. The prestige brand image, trustworthy quality and innovated technologies are the unique characteristics of this customer, and those elements will help our customer to navigate through this sudden economic slowdown and gain the applicable market share.

(iii) Hon Hai Precision Industry Co. Ltd. is one of the world's largest electronics manufacturer and acquired Ensky Technology Pte. Ltd. ("Ensky") on 1 January 2020 as a wholly-owned subsidiary of Hon Hai. Ensky has a long-established relationship with U.S. customers and sells consumer electronic products to them. Due to the change of its business model since 2022, the buying entity was gradually transitioned from Ensky to Hon Hai. There has been very strong market demand for eReaders and voice interaction products as one of the U.S. customers has been growing very fast and dominant worldwide. 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 of these consumer electronic products due to the Group's strong engineering and global operation and manufacturing capabilities, which can cope with customer global diversification development and do high end and more complicated programs, and satisfy the end customer's requirements and expectations in terms of the ability to ramp up production in a reduced timeframe while achieving very high yield rate. But there are many challenges as the macroeconomic environment is not good and market research indicates that consumers are not budget-conscious. In addition, smart speakers now become increasingly saturated in the U.S. market. The sales to Hon Hai are grouped under Asia segment as Hon Hai is incorporated in Taiwan. Hon Hai is listed on the Taiwan Stock Exchange Corporation and the ultimate controlling shareholder of the Group.

(iv) Sharp Corporation ("Sharp") is a connected person of the Company pursuant to the Listing Rules, as it is an associate of Hon Hai, the ultimate controlling shareholder of the Company. Sharp offers a variety of electronic products including smart phones, home appliances, displays and other IoT devices. The current selling markets of this customer include Japan, Taiwan, Indonesia and U.S., with more than 90% of total shipments going to its home market, Japan for the last decade. Starting from Japan telecommunications carriers adjusting the order volume in anticipation of the recent demand decline, the Japan mobile market has seen lots of turbulences. On 15 May 2023, Japanese electronics company Kyocera has announced its officially leaving the consumer smartphone business due to decreased demand for its products. "We can no longer find marketability for the general market", Kyocera President Hideo Tanimoto said. Less than a few weeks after the announcement, the fifth ranking vendor, FCNT, three successors of Fujitsu Ltd.'s mobile phone business, filed for bankruptcy protection with Tokyo District Court under the civil rehabilitation law on 30 May 2023, leaving debts of 143.1 billion yen in total due to depreciation of yen and severe competition. Recognising an opportunity, Sharp has unveiled multiple new phones this year to meet diverse consumer demands. In line with its commitment to promoting a sustainable economy, Sharp has introduced the AQUOS wish3 — an eco-friendly mobile phone that incorporates a back cover and specific internal components made from recycled materials, thereby increasing the recycled material content to 60%. AQUOS wish3 is positioned as an entry-level phone yet equipped with 5G and dust and water resistance which has proven to be an appealing option for seniors. On the other hand, Sharp continues to explore the non-mobile phone business and has offered other electronic devices such as MiFi routers and tablets with the help of the Group's R&D resources and capabilities.

(v) HMD is an independent Finnish company. In 2023, HMD announced that they were entering the market independently as a force to create a new world for telecommunications with a multi-brand strategy including Nokia and other partners as well as HMD original devices, focused on consumer needs. Previously, HMD — the home of Nokia phones' — was an exclusive partnership HMD have held for the past seven years. HMD is a leader in sustainability with their repairable devices, and the top choice for taking a digital detox. In addition, HMD offers a suite of solutions for enterprise customers. The company is driven by the needs of its customers and puts sustain ability, longevity, security, durability, and afford ability at the core of everything it does. Sustain ability is legitimately wired into their business, products and culture.

(vi) A new India customer became a major customer in the first half of 2023. It was set up in 2006 and engaged in the business of supplying telecommunication equipment and providing services in the nature of installation, commissioning, erection and maintenance thereof and managing telecommunications network of service providers and its business in India grew rapidly. The Group provided system assembly manufacturing services for hardware like base band unit, remote radio head and adaptive/active antenna to this customer.

Referring to above, one of the top five customers of the Group is the Hon Hai Technology Group (to which Hon Hai and Sharp belong). The revenue derived from the sales of goods and rendering of services by the Group to Hon Hai and Sharp in Hon Hai Technology Group accounted for approximately 15.43% and 7.58% 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 23.67% 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 88.98% of the Group's total revenue, four of them have had long-term and well-established relationships with the Group for over five years whilst other one have been the Group's customers for around three years. These major customers are not required to commit to a certain minimum purchase value or volume from the Group over a set period and we bid on a program-by-program basis and typically receive customer purchase orders for specific quantities and timing of products. Our customer-focused factories are flexible and adaptable and can be reconfigured as needed to meet customer-specific product requirements and fluctuations in volumes. However, volatility in demand will impact our material requirement planning and production planning and asset utilisation. Demand visibility is the ability to see undistorted and accurate demand within the timeframe necessary to react to it. The more visible is the demand, the greater the likelihood of reliable demand forecast. Better visibility into supply chains translates to fewer disruptions, increased customer satisfaction and lower costs. A majority of supply agreements entered into with customers require the customer to purchase unused inventory that we have purchased to fulfill the forecasted manufacturing demand committed by customers. Some of these agreements require us to provide specific price reductions to our customers over the term of the contracts. In the current dynamic and highly competitive handset industry characterized by prolonged replacement time, innovation and enhanced user experience and product pricing and quality are paramount and loss of or changes in market position of any of these customers or their products in any region may materially and adversely affect the Group's business, financial condition and results of operation, especially in view of the concentration of its sales to these customers. In addition, if one or more of our major customers were to become insolvent or otherwise become unable to pay us on a timely basis, or at all, our financial condition could be jeopardised. The Group's reliance on major customers means that the Group's performance is intricately tied to the performance and competitiveness and development of these customers and their outsourcing and offshoring or onshoring strategy in a challenging handset industry and global economic environment with a lot of OEM and ODM competitors and the Group has to keep monitoring the current economic environment and market landscape and the change of market trend and end customer behaviour and the potential impacts on both the general economy and consumption power and preferences and credit position of customers the Group serves, as well as end markets and individual market and geographical segment of the Group. The Group continues to closely manage and control expenses and headcount and capital resources to remain lean and agile and maximise preparedness and the ability to respond in a quick manner as external circumstances and uncontrollable and unpredictable geo-political situation change. But as reiterated, idle costs are high and it needs time to get rid of idle assets.

The current credit period extended 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 expected credit loss allowance for the current year was US$133.8 million, a notable increase when compared to the expected credit loss allowance of US$80.5 million in 2022. In 2022, the pandemic stalled the economic engine worldwide, and the repercussions of this were not limited to any one industry. Those unfavourable factors including the hit of slow-moving global economy, high inflation and interest rates and protracted Ukraine warfare and cost-of-living crisis and keen competition and drop of demand and poor business performance, continued to put a strain on the solvency of customers and companies in 2023 and there was a drop of demand for the Group's products and services from these customers. Some of the Group's customers, including major customers like HMD, which distributes phones to Europe and Africa, experienced financial distress and tight cash flow. The Group faced significant challenges in recovering trade receivables from HMD, leading to a substantial increase in overdue amounts, collection risk, and default risk to an extremely high level. Facing challenges in recovering trade receivable from HMD, the Company implemented risk minimisation measures in the second half of 2022. These measures included capping the trade receivable balance with HMD and aligning shipment quantities with payment statuses.

For the ongoing feature phone projects, shipment quantities were restricted to the corresponding amount of payments made by HMD, preventing outstanding trade receivables exceeding a preset cap amount. Despite HMD's unsuccessful fund raising efforts in 2022 and continued poor cash position in 2023, the Company vigilantly monitored the level of outstanding trade receivables. It also evaluated HMD's ability to continue as a going concern, assessing the risk to the collection of overdue trade receivables and associated default risk. As at 31 December 2023, the management assessed the expected credit loss allowance of trade receivable due from HMD with a gross carrying amount of US$215.3 million individually. Management of the Company confirmed that, due to the deterioration of HMD's financial performance, it was acknowledged that there was a significant increase in the credit risk of the trade receivables due from HMD, leading to the recognition that HMD might not be able to meet its obligations as they came due, based on what is known and knowable. To assess the expected credit loss allowance for trade receivable, an independent external valuer was appointed to assist in estimating the expected credit loss allowance for the trade receivable, determining an appropriate probability of default rate, estimated loss given default rate, and incorporating forward-looking adjustments.

Based on the result of the assessment for HMD, a life time expected credit loss (not credit-impaired) of US$137.8 million was recognised during the year ended 31 December 2023 (2022: US$77.5 million). Pursuant to International Financial Reporting Standard ("IFRS") 9, the Group utilises a provision matrix to calculate expected credit loss allowances for trade receivables that are not credit-impaired or have increasing credit risk. The provision matrix is based on the aging of debtor groups with similar loss patterns. The provision rate is derived from the Group's historical observed default rates, considering forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed, and changes in forward-looking information are taken into consideration. Given the high uncertainties in the global economy, the handset market, and heightened geopolitical tensions, the Group re-evaluated expected credit loss allowances by increasing the percentage for overdue trade receivables during the current period.

Additionally, the Group has smaller customers, and exposure to financially troubled customers or suppliers may adversely affect our financial results. The Company will continue to closely monitor the situation, factors affecting cash position, and payment and creditworthiness of customers. If necessary, it will adjust credit limits, credit days, and/or control the volume of business with these customers, taking necessary collection actions and credit control actions (such as shipment blocks) according to the Company's policy. Adequate expected credit loss allowances arising from trade receivables will be made in accordance with the requirements of relevant accounting standards and the outlook of the credit position of the customers. Management will regularly review information about specific customers, ensuring that adequate impairment allowances have been provided for credit-impaired debtors evident to management as being in financial difficulty or trouble. Furthermore, we adjusted our supply chain management planning by giving high priority to shipping out slow-moving components projects first to avoid excess inventory accumulation. The Company continued to reduce excess open purchase orders and component inventory amounts. The Group will also dramatically reduce the sales amount to HMD in 2024 to reduce overall risk.

On top of mobile devices manufacturing business, the Group also has a strong after-market Services including reverse logistics, repair/refurbish services and manufacturing services locate in North America region which offer integrated solutions providing American customers the end-to-end value-added manufacturing services and after-market-service covering the entire product life cycle with best-in-class quality, cost and ability to deliver under the circumstance of global supply chain restructure. The services include after-market management, repair/refurbish services, product asset-recovery, excess inventory on-line sales service, integrated regional manufacturing, packaging, and fulfillment. Forward/reverse logistics and manufacturing expertise are provided by the Group to multiple product lines like drones, drone devices, smart home devices, set-top boxes, IoT products, medical product, and automotive electronics and its customers including name brand OEM, mobile carriers and retail channels. The Group aims to keep growing fulfillment service and regional manufacturing services to automotive and medical industry. The core competencies which the Group upholds and demonstrates in this part of business are (1) strong core team with talents and expertise in the field of both EMS and after-market services area; (2) geographically central HUB location advantage in Dallas Texas for logistic services and proximity location advantage of boarder Mexico factory for manufacturing strategies under global supply chain restructure; (3) robust quality system and crucial certifications, such as ISO 13485 for medical and IATF 16949 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 global supply chain supports from FIH global resources; and (6) E2E (End-to-End), complete after-market service solutions and online-offline operation integrations, and customised service-models.

Key Relationships with Suppliers

(i) *Supply chain management:*

Supply chain performance is always a key indicator in determining operation execution excellence within the Group. To address time-to-market, volume-to-market and time-to-volume requirements in this business, performance of manufacturing operation depends on quality, in-time availability and cost of components and other raw materials, and highly efficient management to inventory. Supply instability will affect our production schedule and then shipment to customers. In particular, the impact of a delay or interruption in supply from a single-sourced component supplier can be catastrophic and we may be required to source these items from other third parties on a delayed basis or on less favourable terms. The Group sources components and other materials required for conducting businesses from Hon Hai and 1,497 reputable and qualified suppliers around the world. The Group has maintained stable business relationships over a long history with almost all of them and a dedicated team maps the supply and demand balances of each supplier and maintains an overview of market risks and works closely with internal engineering teams, among other tasks. Maintaining on-time delivery of quality material at best-in-class competitive pricing and, at the same time, avoiding being restrained by certain key supply sources has been a constant challenge to procurement team of the Group. In addition to managing cost of top critical material, the Group will from time to time take necessary actions in maintaining a suitable dynamics among inventory, outstanding purchase order and working capital. Customers do not usually accept price increase when cost rise resulted from increasing material cost. Adequate cash reserve is always kept by the Group in warranting sustainability of its operations. Considering unprecedented challenges presented by unbounded circumstances over the past couple years, the rise and fall of business has practically been largely dictated by supply chain performance, by its deliverables. Geopolitical uncertainties inclusive unabating U.S.-China confrontational relationship, Russia-Ukraine conflict, more recent Israeli-Hamas clashes, continual high inflation and tight monetary policy among major economies continue to dictate global economy in 2023. Vendors delivering basic materials and components including chipsets, memory, electronic parts, display modules, camera modules, batteries, connectors, enclosures, and packaging material together make up the supply partners of the Group. They are selected through a clear set of requirements developed over a long supply management history. It contains specifically technical requirements, quality and reliability standard, price competitiveness, technical competence, innovation and engineering capacity, logistics requirement, service assessment, commercial terms, customers' requirement, capacity, peer recognition in the industry and financial strength. Vendors are then evaluated and admitted through qualification processes defined within the Group. Supply availability and price fluctuations of materials and components are constantly being studied and followed. Exposure to supply disruption potentially caused by excessive dependency on consolidated purchasing sources is determined to be low. And supplier performance measurement (TQSCE, i.e. Technology, Quality, Supply, Cost and ESG) is continuously being taken and monitored by the operation on a regular basis.

Components may not always be readily available at times of supply in constraint. The Group, from time to time, may not be able to continually obtain sufficient supply in meeting production schedules. And it is one of the reasons why it is challenging to publish order books and shipment volume forecast on regular basis. Purchases made to top five suppliers in spend by the Group accounted for approximately 45.9% of total purchases made in the current period. Whilst the Group could have worked with many accessible sources in the market, over the years the Group has continually consolidated its spend to limited number of key suppliers to continually enjoy ease of procurement processing, supply continuity and favourable commercial terms (especially in pricing). All top five suppliers in spend have had a long lasting and well-developed business partnership with the Group over the last five years or longer. They are not bounded by contract, nor are asked to keep manufacturing capacity, or, to produce and supply or guarantee minimum supply to the Group. At such, liability exposure is considered well administered for the Group. Given best-in class pricing is secured through purchase consolidation with handful of key suppliers, safety buffer planned and built on top of the demand keeps supply disruption risk in the form of supply delay or interruption to ODM business reasonably contained. Customers are informed and are aware of continuing supply challenge. Information is always adequately shared to customers on a timely manner. Contingency is always built in, it can be triggered when situation arises. Additionally, good number of alternative sources available in the market are always kept as fallback to always work with. Except chipset, memory and certain key components, the Group does not anticipate experiencing unforeseen market fluctuations such as significant material cost increase or supply delay in case the Group decides to engage with a new supply source. Its capacity in practicing best in class material pricing in the industry clearly displays procurement proficiency and commercial strength of the Group, it is considered a core competence built upon benefits leveraged through scale of its operations, bulk volume in purchase, and continuous close participation and networking with the market. One of the top five suppliers in spend to the Group is Hon Hai Technology Group. Hon Hai is the ultimate controlling shareholder of the Company and hence a connected person of the Company pursuant to the Listing Rules. Purchases attributable to the Hon Hai Technology Group accounted for approximately 8.6% of the Group's total purchases in the current period.

Procurement team may employ basic tools and appropriate tactics to contain demand/supply dynamics from time to time. Pricing and supply requirements are communicated and negotiated with designated sources on a quarterly basis. Session for next coming quarter usually starts from third week entering into a new quarter and lasts till two weeks before quarter ends, i.e. when experiencing supply instability/disruption, by supply visibility, they will basically be dealt with one quarter or longer before they may actually occur later in time; in some cases, in extreme situation, unforeseen disruptions may come up at very short notice, and those shall be resolved with intense senior management level escalation and follow-up review with the suppliers or through near term allocation adjustment. Planning and maintaining visibility are the basics in securing supply. Near term forecast is continually offered to suppliers on weekly basis, longer term numbers are shared through sourcing team. Planning and visibility are built on top of demand forecasting confirmation received from suppliers. Communication and negotiation taking place in each quarter are tools in determining pricing and supply in future quarters, bargain/trade-off is being made well before actual delivery confirm is given. Preferential supply strategy, in TQSCE, is always the guide in decision making. Demand and supply dynamics has shifted since late 2022, high level tactics have been adjusted to, (1) leverage preferential sources, balance demand/supply; (2) explore additional options if supply fails to meet demand in time; (3) drive best market pricing by commodity; (4) request reasonable order lead time, maintain minimum order coverage; and (5) seek supply from open market when necessary.

Regardless market dynamics, material availability in a full square kit is fundamentally essential in manufacturing, for which functionality or dollar value of the component will make no difference to production operation. If a product can be manufactured into one and shipped in time is all that matters. No doubt, keeping a demand supply balance with agility is critically important to our business success.

For details, please refer to the section headed "The Group's Value Chain" of the Company's separate 2023 environmental, social and governance report ("2023 ESG Report") as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report of the directors.

In response to potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has worked out and followed its business plan with goal to expand customer base and product categories and its supply mix, effective systems in internal control and ERM are implemented and maintained to assess and contain such risks. For details, please refer to the section headed "Accountability and Audit" of the Company's 2023 corporate governance report, which forms part of the Company's 2023 annual report incorporating this report of the directors. In order to cope with mounting geo-political risk, global economy slowdown, weak demand, inflation risk and to minimise impact on operations, the Group continually examines market situation and general economy and material supply and market price trends and maintains close association and communication with customers, suppliers and logistic service companies through flexible and efficient procurement and sales strategies.

(ii) *Material supply and price:*

Adjustment cycle continues into 2023. Restoring inventory back to healthy level has been and still is top priority in business. Supply constraint which troubled entire electronics industry over the last three years had started to dissipate since the third quarter 2022. It had drastically turned into over-supply toward end of 2022. Demand stayed to be illusive and remained to be highly volatile with very limited forward visibility.

It is fair to say no supply constraint is experienced in 2023. Irrational and unrealistic supply limitations are no longer in existence. Demand is expected to be filled with supply after terms are suitably negotiated and agreed upon. Adjustment in handset industry has been lagging, behind most other consumer electronics businesses. Consumer spending has been weak since the second half of 2022. Worries about economy's future continue to grow. Post-COVID market in China did show resilient recovery during March 2023, yet momentum failed to persist, it lasted only for the month. China export continued to be weak given fragile global economy and as result of continuing relocation of manufacturing capacity to outside of China. China domestic market has been an over-supply market. Huge capacity built over the decades as global factory for global demand is now available for domestic market, yet market has been struggling in making adjustment and identifying new opportunity for future growth. U.S. market has shown better resilience in the past months. Inventory has come down within a high consumer pricing environment.

In the past ten months, there are sectors where dwindling demands have prompted decisions to sustain the market through limit supply. Good examples are main chipset, memory, LCD cell and some key ICs. And, at the same time, there are certain semiconductor sectors in automotive application, in AI server market, supply in those applications remains tight, lead time could have been reduced yet is till long, pricing holds strong. Supply strategy implemented by key IC suppliers has showcased additional market force. In such case, component pricing is no longer dictated entirely by demand and supply dynamics alone. In contrast to a weak market demand, leading semiconductor makers raised their selling prices from beginning of 2023 up to 10% or more by claims on higher cost. EE active component pricing went down 1.5% passive parts came lower around 3%. Memory pricing is always extremely sensitive, is always subject to change from day to day. Memory pricing came to pre-COVID level, to the point where resorted to sustaining pricing through limiting production output. Memory pricing made a turn toward end of third quarter and started to rise. It is projected price will continue to rise in coming quarter. Custom-made components were more vulnerable and were tied to specific product demand, in which case, on a broader scale, display pricing came 4% lower; battery went down for nearly 2%, even sub-tier material rose and held at high level. Camera module went down 5%, charger was 6% lower.

Far as we can see, no supply challenge is expected, pricing is expected to come down in most commodities as clearing channel inventory continues; inflation and tight monetary policy in major economies, geopolitical conflict inclusive Russia-Ukraine conflict, continuing U.S.-China confrontational relationship and recent Israeli-Hamas clashes are apparent uncertainties. Though market visibility is limited, we're cautiously optimistic. If any, worry will have to be if market can hold up, if recession may escalate, how hard and how long. The Group continues to commit its efforts to try to overcome business difficulties and put in efforts to negotiate, discuss and arrange with its customers, vendors, suppliers and logistics partners to share risk, champion mutual benefits and foster long-term relationship among the parties in difficult times. In addition, there are also other challenging conditions that the Group has faced since late 2017 have continued into 2023 and is expected to continue into 2024.

Key Relationships with Employees

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

Fushan Technology Vietnam is recently having more and more positive changes like diversified customers, expanding production and factories. Along with these, the human factor is also being emphasised because we mind that employee bring core values to our business. Accompanying FIH Group, we care about our employees through 4 core values: Care, Confidence, Determination, and Integrity by creating a good working atmosphere that people are respecting each other and to be recognised and trusted in their job assignment. Employees have a chance to make creativeness in their job and innovation to reduce the cost and increase work efficiency and better-quality result and also create equal chance for everyone. So that's why Fushan changed the "Thursday sharing" to "Kaizen sharing" where the innovative ideas are revealed even though they are just valuable ideas that have not been applied. Besides, the Company is always showing our caring to employees working life through benefit in kinds such as premium insurance to take care individual and their own family; team building program for indirect labor (IDL) to be organised twice per year to help employees not only to refresh their mind after working time but also enhance sharing with each other and highly motivation from Leadership to their subordinates. Especially, we are preparing to celebrate 10th anniversary of company history establishment with the key leading point "Fushan empowering Future".

Sustainable development with harmonious relationship is one of our policy. We always care, listen to employees' feedbacks and issues in their daily work through the "Skip Level Coffee" Program — meeting directly with company's representative every two weeks. In 2023, we have already conduct over 40 batches with around 300 issues — closed 86% and opened 14% and "shop-floor tour" program (listen to employee voice in the workshop) already conduct 50 tours with 551 issues and closed 92%, 8% opened. Besides, we have the opportunity to exchange and learn about the cultures of other countries through cultural sharing programs such as India's Diwali festival. Moreover, Fushaners also demonstrate the spirit of social community through the Blood donation activity where over 200 members successfully donated blood within 4 hours only.

Regarding Fushan Training program, we are continuing with our strategy of "customised training courses by Business requirements and self-learning culture mindset" since 2022 until now and maintaining sustainability training program such as periodically re-training to enhance knowledge and responsibility for employee like: Cyber security (over 900 trainees), ESD training (around 500 trainees), Integrity & anti-corruption (applied to all employees), Quality Awareness (over 300 trainees), Corporate Social Responsibility ("CSR") & Environment, Health and Safety ("EHS") Management System Awareness (over 490 trainees). In addition, we make new training course for human cultivation according with career development, adapting to the change. For Fresher, we conduct 3 sections of "Fresher training program" to help Fresher members quickly adapt with culture and job in Fushan. For

Manager, we apply new training course "Manager roles training" which promote the management skills and provide enough procedures processes and make them have a good awareness of their roles and responsibilities in their daily management. Continually with Fushan trainer (44 sections with over 800 attendances) is outstanding training activities to promote self-learning culture and sharing culture for all employees. Besides above substantiality training courses mentioned, we also adapt the requirement from customers like SPC course & 6 sigma course.

In addition to internal training, employees are encouraged to attend external trainings or seminar which organise by VCCI (Vietnam Chamber of Commerce and Industry) or ILO (International Labour Organisation) like "Dialogue at workplace"; "Factory improvement tool" and "Collective bargaining". Along with the development of technology, to kaizen & support daily operation, to reduce paperwork and manual work, it could be said that 2023 is the year for HR Digital Transformation with some main achievements to upgrade HRIS system for better service in terms of paperless and efficiency.

India's electronic manufacturing industry has witnessed a sharp transition in the last few years with various initiatives to market electronics. In the face of fierce competition to attract and retain employees at a time when limited resources with experience are available, we have ensured 100% customer demand fulfilment in the core where the direct labour workforce are impacted by seasons, festivals, and by other factors (i.e. exams, marriage). India sites are witnessing, low volumes due to business downturn, the human resources key goals are to optimise headcount and create leaner, more efficient businesses model. AP (Andhra Pradesh) Site had moved from 24x7 operation into 24x6 to bring in better efficiencies. Despite the constant changes, we have maintained the motivational level of the workforce through series of learning and engaging sessions, New product skills, effective communication, team building and completed Hazardous Substance Process Management ("HSPM") awareness session for new client business readiness including internal audit certification.

In TN (Tamil Nadu) site the direct labour engagement at Dormitories on Vinayaga Chaturthi, Ayudhapooja was celebrated with gaiety. Actively facilitated potential new business/customer visits to factory. In recent get together event, the Diwali celebrations at BFIH, wellness event — with our healthcare partner arranged, dental, eye, health check-up for direct labour/Indirect direct labour at TN site. State police personnel gave cyber safety/mobile phone safety for women-training at TN dormitory. In addition, front line team leads and key personnel participated in blood donation camp organised by AP SriCity on the eve of police commemoration week became memorable.

As part of the CSR activity, BFIH is proud to collaborate with SEB's to promote education, health, and livelihoods in remote tribal communities near Vellore, Tamil Nadu, India. As part of the health program in collaboration with SEB's, BFIH provided meals to nearly 500 students for across nine SEB's schools. This initiative has significantly reduced school dropouts in the region and parents are motivated to send their children to school. BFIH prepared, aligned and are fully subscribed to the principles of RBR (Responsible Business Alliance) and SA 8000: 2014 from the second quarter of 2023. The preparation to the certification and qualification process for both started from April 2023. Lastly, HR has been 100% compliant to employee financial well-being in EPF & ESI Contributions paid on time.

Over the past year, in view of the Group's changes in product portfolio and excess capacity, we have undertaken initiatives to restructure our business operations with the intention of diversification, improving utilisation and realising cost savings and remaining as an asset-light and lean group. These initiatives included the restructuring the under performing parts of its manufacturing operations and disposing idle assets, moving production between facilities (new business in Vietnam and India) and reducing the level of staff, realigning our business process and reorganising our management, largely to align our capacity and infrastructure with current and anticipated customer demand. The employee size in China is also reduced due to business downturn but our goals are to retain key talents for business transformation and maintain optimise headcount for more efficient operation.

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.

As of 31 December 2023, the Group had a total of 36,657 (31 December 2022: 44,055) employees. Total staff costs incurred during the current period amounted to US$270 million (full-year 2022: US$371 million) and the year-on-year decrease was mainly due to the optimisation and rightsizing of staff force according to business needs.

The Group offers a comprehensive and competitive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance, contributions and productivity. The Group treats all employees equally and fairly, and evaluates employee performance (including determining promotions and wage increments) objectively based on merit, ability, and competence. To encourage employee retention, the Group has implemented annual bonuses, time-based/performance-based incentives and other incentive programs. Employee retention is always a big challenge for all corporations. In a highly competitive global economy and as product development and manufacture are both complicated processes and require professionals and experts, retaining qualified and skilled key employees is essential for the sustainable competitive advantage. Offering competitive compensation and benefits, favourable working environment, broader customer reach, bigger scale in resources, training and job rotation coupling with better career prospect across various products and programs and business lines are undertaken as actions for the Group to increase the employee loyalty and retention rate. In particular, further to the Company's circular as issued and published on 13 April 2023 and the Company's announcement dated 19 May 2023, the Company has adopted a new share scheme (the "New Share Scheme") and a new share option scheme (the "New Share Option Scheme") respectively on 19 May 2023 following the approval of its shareholders, pursuant to which (among other things) the Board (or its duly authorised officer(s) or delegate(s)) may offer share awards or share options (as the case may be) to the eligible employees of the Group upon and subject to the respective terms and conditions set out therein (for a summary of the principal terms of the New Share Scheme and the New Share Option Scheme respectively, please refer to the Company's circular as issued and published on 13 April 2023). Both the New Share Scheme and the New Share Option Scheme comply with the requirements of Chapter 17 of the Listing Rules. Employees also enjoy insurance coverage provided by the Group. The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Directors' Remuneration Policy of the Company as amended from time to time (for details, please refer to the section headed "Remuneration Committee — Directors' Remuneration Policy" of the Company's 2023 corporate governance report, forming part of the Company's 2023 annual report incorporating this report of the directors) as well as the recommendations of the Company's remuneration committee.

For more details about the Group's key relationships with its employees, please refer to the section headed "People-Oriented" of the Company's separate 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report of the directors.

Review of Results and Operations

Financial Performance

The financial KPIs (Key Performance Indicators) include year-on-year changes in sales, gross margins, net margin, and return on equity. For peer analysis, as peers may have different histories, backgrounds, company goals, DNA, business and growth strategies, growth drivers, customers, market dynamics, organisational culture, leadership, risk profile and appetite, shareholder structure and background, business models (such as outsourcing or insourcing or co-sourcing or nearshoring) and life cycle, client profile and base and mix, revenue and product mix (casing versus system assembly and other non-handset businesses), product offerings, specific operating processes, operational scale, product and service strategy, differentiation, positioning, and diversification, risk appetite, geographical presence, business segments, market trends, pricing strategy and policy, geographical footprint, government support, ESG compliance and promotion, tax incentives entitlement, competitive edges, core competencies, R&D capabilities, asset utilisation, cash flow and position, creditworthiness, dividend policy, capital structure, and cost structure, it may be difficult to make direct comparisons at the consolidated group account level.

Gross profit and gross margins are common financial KPIs for a manufacturing business, measuring how effectively the company turns its revenue into profit. They reflect how much of its sales a company retains after paying the upfront costs of producing the goods or services it sells. This metric serves as a great indicator of a company's financial health, revealing whether a business can pay its operating expenses while having funds left for growth. A higher percentage of gross profit indicates a stronger ability to control the cost of sales and the quality of products, which encompasses variable costs such as BOM cost, direct labor costs, variable manufacturing costs, overheads and yields, and efficiency. This improvement in efficiency can enhance the contribution margin to cover fixed overheads. Low utilisation results in unabsorbed fixed overheads. The more profitable the business, the greater the funds available to cover operating expenses and ultimately pass on to the shareholders. Within a given company, changes in gross margin over time provide useful insight into internal improvements in sales management, capacity utilisation, supply chain and procurement management, efficiency optimisation, risk management, operation management, inventory control, productivity, quality control, yield control, direct cost control, manufacturing overheads control, or changes in pricing policies, activity levels, overall cost competitiveness, and the market landscape.

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

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

In the first half of 2023, the Group recognised consolidated revenue of US$2,677 million, representing a decrease of US$1,448 million or 35.1%, compared to US$4,125 million for the same period last year. In the second half of 2022, as capacity and production ramped up, pandemic-induced supply chain constraints that had been impacting the market since 2021 eased. These constraints were no longer the most pressing issue, as component orders were quickly cut, and suppliers started to be concerned about oversupply and inventory accumulation. The industry shifted to a demand-constrained market, and end customers became even more price-sensitive. The latest models, carrying a hefty price tag, became inaccessible to budget-conscious consumers who were only seeking affordable handsets. By 'price-conscious,' we mean being sensitive to price increases and changing their behaviours (such as changing brands, shopping around, not buying at all, etc.) when prices go up. Meanwhile, marketing budgets have grown as competition intensifies. Brands now collaborate more with media outlets to reach consumers. The increase in costs is passed on through higher retail pricing, putting pressure on consumers. There is a growing perception that innovation in new models has slowed, often providing only incremental improvements, and consumers are now keeping their smartphones for longer periods before considering an upgrade. The allure of frequent upgrades, which was more prevalent in previous years, has diminished. This deceleration in the frequency of upgrade cycles poses challenges for achieving continuous growth in smartphone sales.

Due to the drop in demand, many handset brands faced inventory accumulation challenges and struggled to clear inventory since the third quarter of 2022. The year-on-year decline in global handset shipment statistics reflected weaker market demand due to a higher cost of living, a deteriorating economy, a lengthier replacement cycle, and a growing refurbished smartphone market. Companies are always looking for ways to price their products to stay ahead of the competition. As the handset market becomes demand-constrained, the Group adopted a proactive and aggressive business strategy, establishing a dedicated business development team to drive expansion into new markets and seize growth opportunities. In the section headed "Geographical Segment" below of this report of the directors, detailed explanations are provided on the year-on-year change in sales for individual customers.

In the year of 2023, although the world is gradually recovering from the crisis of COVID-19, its impact on the business continues to persist and even expand. Customers, faced with supply chain disruptions during the previous COVID-19 period, significantly increased their order demands to secure larger quantities and increased their inventory levels to avoid stockout. This exaggerated demand does not stem from genuine market demand growth. As the supply chain returned to normal, customers were faced with excessive inventory, resulting in a reduction, postponement, or even cancellation of new orders. In light of this challenge, the Group is actively monitoring market sales trends in real-time, closely communicating with customers to assess the confidence and accuracy of demand forecasts, shortening material procurement lead times, and ensuring prudent and timely inventory management to avoid excessive or premature stocking that may lead to idle resources and financial burden. In order to consume the excess inventory, customers have also started to cancel or postpone the new product Request for Proposal (RFP) processes. In response, the Group continues to actively participate in the new RFP proposals from existing customers and is also exploring opportunities to develop relationships with new customers and expand its product lines. In addition, the global economic challenges arising from high inflation and interest rates, depreciation in emerging market currencies and resulting fluctuation in consumer demand, resulting in severe economic instability, were more challenging to the Group's operations.

The Asia segment is the largest geographical segment of the Group. China's economy rebounded in 2023 shortly after the Chinese Government dismantled its heavy-handed COVID-19 controls in December 2022, lifting businesses and consumers out of crippling pandemic disruptions. China's better-than-expected GDP growth in the first quarter was spearheaded by a sharp rebound in consumer spending, especially in services, non-durable goods, and semi-durable goods. This rebound, however, seemed largely self-contained, and some analysts believed that the strong growth reported in the first quarter was the product of the 'backloading' of economic activity from the fourth quarter of 2022, which was weighed down by pandemic restrictions and then a chaotic reopening. Weak goods imports were evidence that the strong headline growth number did not translate into wider regional benefits, and headwinds from a global slowdown point to a bumpy ride ahead. A more than year-long sweeping streak of global monetary policy tightening to rein in red-hot inflation dented world economic growth, leaving many countries, including China, reliant on domestic demand to spur momentum. Vendors are passing on inflationary component costs to users, which is dampening demand further. Heavy sales and promotions helped deplete existing inventory rather than drive shipment growth.

On top of the OEM business, to face the challenges posed by formidable competition from ODM enterprises, the Group has to devote resources and effort on innovative design solutions, efficient supply chain and cost management, and the enhancement of our MVA. To navigate the highly competitive landscape, we have to align our strategies with market demands, prioritise operational excellence, and capitalise on our strengths. The Group strived to invest in R&D and improve efficiency and maintain a good and stable yield by enhancing production automation, asset utilisation and capacity, quality assurance and quality control, and tighter control on manufacturing overheads and capital expenditure. The Group's automation engineering team continued to increase automation coverage across different manufacturing processes to diminish the impact of rising labour costs and enhance efficiency. The Group's dedicated and professional procurement team were leveraged to sourcing materials with competitive prices. Furthermore, there was continuous strong support from the Hon Hai Technology Group to offer in scale, component support and stable supply of key components and a vertically integrated supply chain that allows for production synergies. The Group can leverage on the Hon Hai Technology Group's resources, giving the Group more flexibility in outsourcing capacity. By doing so, we aim to enhance our competitiveness, seize growth opportunities, and successfully navigate the dynamic business environment. By closely monitoring the economic indicators and making informed decisions, we aim to position our business for long-term success and capitalise on any opportunities that may arise. Factors such as market dynamics, policy changes, and other economic variables will continue to influence the overall business environment. We remain vigilant and adaptable to these changes, ensuring that our strategies are aligned with the evolving market conditions and increase sales and shipments as low asset utilisation resulted in idle costs and assets, and unabsorbed overheads and the risk of the need to book additional asset impairment loss increased.

Profit and Loss account

The Group recognised a consolidated revenue of US$6,446 million in the current period, representing a decrease of US$2,948 million or 31.4%, when compared to US$9,394 million for the same period last year. The reasons for the year-on-year decline in sales are stated above. Consumer demand continues to face a very challenging environment amid the global economic slowdown in 2023. The global consumer electronics market is adversely affected by various headwinds, including prolonged geopolitical uncertainty, a slowdown in the global economy, slow recovery, cost-of-living crisis, reduced propensity to spend, rapid increase in budget-minded users, limited visibility, inflationary pressure, high interest rates and cost of borrowing, commoditisation, and increasing life cycle of smart phones. Low and middle-income groups have continued to be materially impacted by inflation, and many have reduced non-essential spending. Net loss attributable to owners of the Company for the current period was US$120.7 million, as compared to net loss attributable to the owners of the Company of US$72.1 million for the corresponding period last year. The attributable factors are:

(I) Decline in gross profit: The Group recognised a gross profit of US$110 million in current period, representing an decrease of US$82 million when compared to US$192 million for the same period last year. Gross profit margin for the current period was 1.70%, compared to 2.04% for the same period last year and the deterioration in gross profit margin was due to the significant drop in the sales revenue and contribution margin as a result of sluggish handset demand and keen competition and huge margin erosion pressure and unabsorbed overheads resulted from comparatively low asset utilisation. The gross margin of both the system assembly business and casing business is also razor-thin due to intensifying competition triggered by excess capacity in the market. Both system assembly and casing factories face strict competition from peers as the production process is mature and well-adopted by competitors. As visibility is shortened, orders become more low-volume, reducing revenue per SMT line and increasing SG&A expenses. Higher-mix manufacturing requires frequent reconfiguring of SMT lines for shorter production runs. SMT lines run slower to assure quality, inventory must be frequently restocked, and increased testing is required. The larger EMS companies are highly leveraging resources by taking orders for extended production runs where they can manufacture in low-labor-cost regions like Asia. The shrinking of profit margin and huge margin erosion pressure continue to be common industry norms.

In the competitive EMS industry with excess capacity, profit margins were razor-thin and relatively low as component prices were on average and key focus lay on the labour costs and capacity utilisation and yield and cost control. To meet its customers' cost expectations, it must lean out all processes. Most of the orders are low margin and push adaptable EMS companies to seek profit by increasing productivity and more effectively managing their supply chains. Cost savings are nearly always passed along to customers. The market was pessimistic for 2023 demand and the challenging conditions that the Group faced since late 2017 continued into 2023 and most channels were still filled with inventory and peers had to fight for the remaining very limited demands if existing inventory could not cover. A lot of peers are working on specialization to stand out and gain market share, and they are also looking at vertical integration to control their supply chains better. The competition pressure becomes growingly huge and the difficult operational environment that the Group operates and faces prevail and there is continued pressure on the Group's gross margins generally and this was aggravated by the sluggish demand due to prolonged phone replacement as a result of lack of upgrades and the threat of soaring inflation and interest rate hikes and persistent existence of surplus capacity in the market and sales recovery of the Group was constrained, including constantly becoming and remaining more cost-efficient in order to reduce the losses. As the margins of the customers were reduced, they were prone to cut the prices of the handsets we sold to them and margin erosion pressure on us was extremely high. The margin compression risk continues as sales growth is driven by the system assembly business, which has very low gross margin. The casing factories have been facing strictest competition as the production process is mature and well adopted by competitors, resulting in the shrinking profit margin and erosion pressure is extremely high and these becomes an industry norm. In China, the general casing manufacturing industry faced excess production capacity and crowded competition, and the gross margin of the Group's casing business continues to face huge pressure. The low entry barrier and availability of excess manufacturing capacity at many of our competitors and the Group created intense pricing and competitive pressure on the EMS industry as a whole and a majority of the market participants faced challenges with respect to the operating margin. China peers were particularly very cost competitive and the Group had to relocate some of the productions to India and Vietnam to capitalize on the huge domestic market there. In addition, some customers, who adopted the China Plus One policy, also asked the Group to move some of the manufacturing activities overseas in order to reduce the reliance on China supply chain. It is well acknowledged that some countries have approached mobile phone market saturation and demand dropped and cut-throat competition continues to increase and prices continue to be driven down to gain competitive edge and a majority of the market participants face challenges with respect to the shrinking operating margin in the EMS industry and EMS providers today must survive year-to-year on razor-thin profit margins and do whatever is necessary to survive. As market volatility and uncertainties increased dramatically and handset replacement cycle lengthened and demand dropped significantly, all these unfavourable factors intensified the competition of the global handset market and our customers were more cautious in their product roadmap and procurement planning, inventory control, cash flow management and demand forward visibility was greatly shortened.

At the same time, the Group had been aggressive in getting more orders in order to optimise asset utilisation and adopted a proactive and aggressive business strategy and established a dedicated business development team to pursue new and exciting frontiers and drive expansion into new markets and seize growth opportunities. There is a need to optimise our workforce utilisation rate, which is affected by a number of factors, including hiring of new employees, reliable forecast and projection of demand for our products and services, and thereby maintaining an appropriate workforce in each of our operating sites, management of attrition, training and development and matching the skill sets of our employees to the needs of the customers and industry are very important. The average cost of manufacturing labour in China is higher than neighboring countries like India and Vietnam and the adoption of "China Plus One" policy to mitigate supply chain risk of China prompted manufacturers to move out of China. The Group had been putting effort on continuous development and penetration of the Chinese and international brand customers, expanding production capacity in India and Vietnam and R&D and ODM capability in India and increasing local sourcing in India. The markets with fastest-growing demand were mostly developing countries such as India and Africa where the average income level was low and people tended to purchase much affordable mobile phones, which were low-end and mid-end models with lower margins. In particular, strong USD affected the purchasing power of the people and they became more price-sensitive and curtailed non-essential and discretionary spending and kept more cash. In order to meet the shift in consumer market and customers' demands, the Group accepted more low-end devices manufacturing orders which contributed to profit erosion too. Feature phone sales to penetrating the smartphone sector penetrating the smartphone sector downside pressure as high inflationary rates affected HMD sales of low end feature phones in African continent and India. Elevated inflation rates erode consumer purchasing power and afford ability, consequently dampening the demand for feature phones. We also capped the trade receivable amount to control risks. In this inflationary environment, it is crucial for the Group to prioritise effective cost management and continuously seek avenues for optimising operational efficiency. By identifying opportunities for process improvements and embracing innovative strategies, we put effort to mitigate the impact of rising costs and adapt to the evolving market dynamics. These proactive measures will maintain the Group's competitive position amidst the challenges posed by inflation.

While the Group continues to closely monitor the rapidly-changing and competitive handset market and conditions and the Group's capacity and asset utilisation, the Group has continued to carry out rightsizing/restructuring activities, including the optimization of staff force and disposal and/or liquidation of under-utilised/depreciated/obsolete assets. In view of the Group's changes in product portfolio and excess capacity, in 2020, the Group refined its approach and took necessary steps to become an asset-light corporate group and impaired and/or wrote off various under-utilised/obsolete assets of US$42.7 million and the restructuring continued into 2021 and 2022 as it took time to carry out the downsizing and restructuring works and streamline the operations. Thanks to the rightsizing/restructuring carried out in the past couple of years, the Group becomes leaner and the company-wide cost trimming initiative and headcount cut resulted in annual savings in expenses which helped reduce costs and overheads in the long run. Despite of the Group's continuous effort to dispose of under-utilised/obsolete/depreciated assets in the past years, with the protracted Ukraine war and slow down of global economy which weakened handset demand, capacity and asset utilisation of the Group continued to be bad and disappointing and the idle costs and unabsorbed overheads were still high. People were also heavy burdens on the Group. The global economy slowdown continued to affect the recovery path of the Group seriously and demand sluggishness greatly reduced room for improving asset utilisation and capacity optimisation and there was a desperate need to optimise operations' workforce utilisation. To effectively address these challenges, we took decisive action in the first quarter of 2023 to reduce operational costs and enhance organisational efficiency. This included implementing a restructuring initiative in Northern China with the aim of retaining only top talent within the organisation to ensure a streamlined and high-performing workforce and prioritise spending related to future business. These rightsizing/restructuring activities have given rise to, among others: (a) severance payments, booked as general and administrative ("G&A") expenses, upon the optimisation of staff force, totaling US$26.3 million for the current period, compared to a total of US$17 million for the year ended 31 December 2022; and (b) gains from asset disposals, write-off, and impairment of US$0.1 million for the current period, compared to total losses of US$2.2 million for the year ended 31 December 2022. We will continue to review and monitor external market dynamics, the performance of the business, phone demand, and evaluate if there is a need to shut down loss-making/under performing operations and carry out restructuring activities.

(II) Other income, gains, and losses for the current period were US$229.5 million, representing an increase of US$96.9 million from that for the same period last year.

(i) On 2 November 2022, the local government of Hangzhou, Zhejiang Province, PRC, and Honxun Electrical Industry (Hangzhou) Co., Ltd. (an indirect wholly-owned subsidiary of the Company) entered into compensation agreements, under which the local authority resumed ownership of the land and properties. The gain on the disposal is recorded on the Group's consolidated statement of profit or loss over the years according to the cancellation of land use rights and related certificates in relation to the properties. The details were disclosed in the Company's discloseable transaction announcement dated 2 November 2022. A before-tax gain on the disposal of US$78.5 million was recorded in the first half of 2023 (Nil in the first half of 2022 and US$6.2 million in the second half of 2022). Furthermore, the Group made provision for compensations to the lessees and service providers of US$12.8 million in the current period. In addition, the Group entered into an agreement for the sale of land and buildings in Hungary on 7 July 2023 and also disposed of certain buildings in Beijing, as announced by the Company on 7 June 2023, generating a gain on disposal of US$8.7 million and US$14.3 million, respectively.

(ii) There was a year-on-year decrease in service income by US$14 million (for the year ended 31 December 2023: US$11 million, for the year ended 31 December 2022: US$25 million) due to a decrease in the product development service provided to customers. Regarding interest income, as the group held more USD and after the FED continuously raised the interest rate, the USD interest rate was much higher than that of Renminbi ("RMB"), and the interest income increased by US$8.4 million (for the year ended 31 December 2023: US$52.5 million, for the year ended 31 December 2022: US$44.1 million).

(iii) There was also a year-on-year decrease in foreign exchange gain by US$7.7 million (for the year ended 31 December 2023: gain of US$5.5 million, for the year ended 31 December 2022: gain of US$13.2 million). In the first half of 2022, the group experienced a foreign exchange gain of US$13.6 million, due to its holding of USD assets and the appreciation of USD during the period. On 7 December 2022, the Chinese Government lifted zero-COVID controls and the RMB appreciated against USD in the first quarter of 2023 and the Group recorded foreign exchange loss. But the economic recovery lacked momentum and FED continued to raise interest rates to fight inflation, the RMB turned to depreciate against USD in the second quarter of 2023. As a whole, during the current period, the decrease in foreign exchange gain is mainly due to the decrease in foreign exchange gain generated on the forward contracts entered into by the Group and the decrease in foreign exchange revaluation gain of USD-denominated trade receivables balance as the appreciation of USD against RMB was weaken in 2023 comparing to 2022. Exchange rates of RMB and USD will continue to be volatile and the Group will continue to maintain its consistent hedging strategy to minimise foreign exchange exposure caused by exchange rate volatility.

(III) There was an increase in expected credit loss allowance of US$53.3 million, mainly due to the long overdue trade receivables balance of HMD. As explained, market continued to be extremely tough and global economic and political uncertainties, market volatility, and reduction in end market demand seriously affected the business and cash position of some of the Company's customer and collectively increased the credit risk and there was a need for the Group to make adequate expected credit loss allowances in the book to reflect the actual and potential collection risks of these customers. Pursuant to IFRS 9, the Group performs impairment assessment on trade receivables under expected credit loss model. For customer with increasing credit risk, the management appointed an independent valuer to assist in the estimation of the expected credit loss allowance of the trade receivables due from such customer by determining an appropriate probability of default rate, forward looking adjustments and estimated loss given default (LGD) rate. LGD denotes the share of losses, i.e. the actual receivables loss in the event of customer default, or what is expected to be irrecoverable from among the assets in insolvency proceedings. The Group uses a provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor's aging of groups of various debtors that have similar loss patterns. The provision rate is based on the Group's historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of the high uncertainties of the global economy and weak consumption power and handset market and geo-political tensions, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the period. During the current period, based on the provision matrix and the assessment, the Group provided net impairment loss under expected credit loss model of US$133.8 million (2022: US$80.5 million) and the accumulated amount of expected credit loss allowance made as at 31 December 2023 was US$225.3 million.

(IV) The Group took aggressive steps to minimise operating expenses, headcount, and control capital expenditures to better align with the future needs of the business. Regarding operating expenses, for the current period, it was US$219 million, compared to US$263 million for the same period last year. For selling expenses, the decrease of US$4 million was mainly due to a reduction in sampling fees and customer duty with a decline in sales, and staff cost savings caused by prior restructuring/rightsizing initiatives. For G&A expenses, the decrease of US$23 million was mainly because of staff cost savings of US$13 million resulted from the prior optimisation of G&A headcount, service fees payment being reduced by US$9 million after restructuring, and no share options expenses of BFIH as an acceleration of vesting under IFRS 2 upon the cancellation of BFIH's share options in the current year (first half of 2022: US$9.5 million). The total decrease was partly offset by the increase of severance payment of US$9.3 million (2023: US$26.3 million; 2022: US$17 million) during the current year. For R&D expenses, the decrease of US$17 million was due to reduced payment of professional service fee and molding expenses for development of handsets and a decrease in staff cost after restructuring/rightsizing. The Group will continue to focus on prioritising spending related to future business and avoiding cost overruns.

(V) Regarding interest expenses, since 2022, the FED has raised rates 11 times thus far to a range of 5.25% to 5.5%, a 22-year high. Affected by these aggressive interest rate hikes, inflation eased over the past year but still remained at a high level compared to the FED's target rate of 2%, indicating the presence of ongoing inflation pressures. In the current period, although we borrowed less USD, yet U.S. interest rate increased dramatically, and the interest rate during current period was high compared to the interest rate in the first half of 2022 and interest expenses increased. As a whole, there was a decrease in net interest income for the Group during the current period. Interest income and interest expenses for the year ended 31 December 2023 were US$52.5 million and US$60.6 million, respectively, and net interest expense was US$8.1 million. In contrast, the interest income and interest expenses for the same period in 2022 were US$44.1 million and US$29.6 million, respectively, and net interest income was US$14.5 million.

(VI) There was also a year-on-year increase in the share of losses of the Group's loss-making associates and joint venture, which were accounted for using the equity method in the Group's consolidated financial statements. During the current period, the share of losses of the Group's associates and joint venture amounted to US$0.3 million and US$20.2 million, respectively (compared with losses of US$3.1 million and US$4.4 million for the same period in 2022). The share of loss of the joint venture includes the share of impairment of goodwill of US$16.2 million, as the joint venture suffered a loss due to hardware sales facing strong headwinds, and the EV market in mainland China is becoming hyper-competitive, impacting both the volume and selling price. The margin erosion pressure is becoming increasingly high.

(VII) Income tax expenses during the current period was US$20.9 million, when compared to income tax expenses of US$12.5 million for the same period of 2022 and the year-on-year increase was mainly due to the US$8.7 million income tax expenses recognised on the gain of disposal of land and the properties of Honxun mentioned above.

Despite most of the world's major economies having re-opened, there are still many other challenges and it needs time for the Group to turn around. China, the world's second-largest economy, is beset by a series of other crises, from a debt-laden property sector to flagging consumer confidence, global inflation, the threat of recession elsewhere and geopolitical tensions with the U.S.

As demand is weak and the market is growingly saturated and macro-economics and geo-political landscape are tough and dynamic and volatile, a lot of uncertainties will continue to affect our performance and our current/past operating results and earnings/losses may not be indicative of our future operating results and earnings/losses and risk profile and quarterly performances. It is also too complex for longer term forecast to last and hold, the Group remains vigilant to the challenges which will unfold over time and will be prepared and reacts to the best of its capacity and makes business decision of terminating loss making operations and reducing headcount in a decisive manner.

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, banking facilities and liquidity positions) and working capital remain sufficient to finance its continuing operations and capital commitments; (b) the Group would have sufficient funds to satisfy its working capital and capital expenditure requirements for the forthcoming 18-month period; and (c) no significant events nor circumstances might adversely affect the Group's ability to fulfill its financial obligations or meet its debt covenants in a material respect. However, to seek to ensure that the Group will maintain that, and given the significant decline in market demand and slowdown of economy and Ukraine warfare and high inflation and strong USD and interest rate hikes, the Group has continued to focus on proactive measures to control overall costs and operating expenses and improve yield and efficiency, and to seek to ease pressure on margin erosion, while at the same time working closely with customers to fulfill their demand at a reasonable cost in a timely manner amidst fierce market competition and build up business development capability, and with suppliers to secure stable supply of materials and components. Support of local government is of equal importance. It is the Group's business strategy to become more asset-light and lean, and accordingly, the Group has continued its regular review of the need to carry out downsizing/restructuring of the under-performing/loss-making parts of its manufacturing operations, headcount reduction and has generally suspended capital expenditure on non-critical investments and/or capital assets and has also got rid of its obsolete, depreciated and under-utilised assets. Utilisation will continue to be a burden and can only be improved gradually when the market ultimately picks up momentum. The Company will continue to closely monitor the situation and asset utilisation, and where it considers necessary, will implement further appropriate measures like carrying out further rightsizing and restructuring activities which can improve utilisation and realise cost savings. The Company has been working hard and doing everything that it reasonably can to improve its performance through these long-lasting challenging times. As a whole, there is a continuous need to 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 a need to improve yield to lower manufacturing costs, conduct the benchmarking of cost leaders' processes and costs of external EMS to improve the competitiveness of the Group's manufacturing costs, yield, efficiency and core competence. It is also the long term commitment of the Group to invest in R&D competence building and business development capability. In conclusion, good vendor management, supply chain management, manufacturing management, business control management, environment protection, quality management, corporate governance, order fulfillment and inventory management are critical to ensure cost efficient operations on a global basis. The Company will keep matters under close review as 2024 progresses.

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 7.7% negative, when compared with the ROE for the same period last year of 4% negative. The ROE declined as a result of increased loss making.

Basic loss per share for the current period was US1.52 cents.

Dividends

The Company has adopted the following dividend policy, aiming to enhance transparency and facilitate its shareholders and potential investors in making more informed investment decisions. The form, frequency, and amount of dividends to be declared each year, along with the dividend pay-out ratio, will be dependent upon the Group's business outlook and strategy, financial performance, cash flow generated from operations, projected working capital, capital structure, future expansion plans, capital expenditure and requirements, cash position, and other relevant factors that the Board may from time to time deem appropriate.

The performance of the Group has been volatile in the past couple of years, with economic slowdown, a drop in handset demand, U.S. ban, geopolitical tensions, soaring inflation, interest rate hikes, and a strong USD leading to uncertainties for the coming periods. The Group needs time to recover (please refer to the section headed "Outlook and Industry Dynamics" below of this report of the directors) and to maintain a healthy capital structure. Therefore, the Company will continue to closely monitor the situation, and when it considers necessary, will adjust and/or enhance its dividend policy, as appropriate.

On 7 March 2024, the Board resolved not to recommend the payment of a final dividend for the current period.

On 22 December 2021, the Company announced that the Company proposed to spin-off and separately list the equity shares of BFIH, its Indian subsidiary which is one of the largest Electronics Manufacturing Services providers in India, on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE"), which are the two main stock exchanges in India (the "Proposed Spin-off"). In that announcement, the Company also announced that the Stock Exchange had confirmed that the Company might proceed with the Proposed Spin-off pursuant to Practice Note 15 of the Listing Rules and that BFIH had filed its draft red herring prospectus in relation to the Proposed Spin-off with the Securities and Exchange Board of India ("SEBI"), BSE and NSE. To give due regard to the interests of the shareholders of the Company by allowing them to directly benefit from the Proposed Spin-off (and taking into account that the Company would not be able to provide its shareholders with an assured entitlement to the equity shares of BFIH pursuant to the Proposed Spin-off due to the legal restrictions and practical difficulties involved) and subject to the Proposed Spin-off being completed, the Company proposed to pay a special cash dividend to the shareholders of the Company of an aggregate amount which would not be less than 40% of the net proceeds to be received by the Company from the sale of existing equity shares in BFIH pursuant to the Proposed Spin-off.

As noted in the Company's announcement dated 20 October 2022, in view of the market conditions, the Company has decided to delay the timetable for the Proposed Spin-off and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve.

Further to the Company's announcement dated 20 October 2022, on 12 May 2023, the Company announced that, in view of the market conditions since then, BFIH has decided to further delay the timetable for its Proposed Spin-off, which accordingly will not be open for subscription by 9 June 2023, being the last date on which the Proposed Spin-off can be opened for subscription according to the final observations received from SEBI on 10 June 2022. The Company still considers that the Proposed Spin-off (if it proceeds) will be commercially beneficial to the

Company and BFIH and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve.

Accordingly, if the Proposed Spin-off proceeds, details of the special cash dividend, including the amount and timing of payment, will be announced by the Company in due course.

Meanwhile, as noted in the above announcements of the Company, shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the approvals from the relevant regulators in India, market conditions and other factors, and accordingly, there is no assurance that the Proposed Spin-off and the proposed payment of a special cash dividend by the Company following the completion of the Proposed Spin-off will take place or as to when it may take place.

Diversification

The Group has been engaged in 5G, IoV (Internet of Vehicles) and AI (Artificial Intelligence) since 2019 for building up the Internet and the mobile ecosystem, actively expanding the Group's participation in the relevant product and service segments of the 5G, IoV and AI businesses through the utilisation of the Group's expertise and experience and core competencies in providing its innovative software design and hardware development services as well as wireless communication and information exchange technologies in support of the development of such business segments together with ancillary networks and ecosystem. At the end of December 2021, the Mobile Drive Group ("Mobile Drive") previously wholly-owned by the Group has become jointly owned by the Group and Stellantis N.V. ("Stellantis"), one of the world's leading automakers and a mobility provider, combining with wide resource and solid experience from both sides, Mobile Drive leveraged its expertise in wireless communication and automotive industry to focus on the software and hardware integration to develop a smart cockpit solution for in-vehicle infotainment system. With that, Mobile Drive's respective financial results, assets and liabilities have no longer been consolidated into the Group's financial statements and the share of profits/losses has been accounted for by equity method in the Group's consolidated financial statements. The Group has become the strongest anchor partner for the joint venture to provide all the supports from the hardware manufacturing side. In 2021, Mobile Drive has received the highest level of ISO 26262 certification, a recognition of unsurpassed R&D capabilities, marking a significant milestone for the company. Strictly following the ISO 26262 specifications, Mobile Drive continues providing high-quality, end-to-end Smart Cockpit and Advanced Driver Assistance Systems (ADAS) solutions with the highest functional safety and reliability to its customers. Extending the success of installing Mobile Drive's ADAS solution on LUXGEN's car in 2022, Mobile Drive announced the first fully self-developed ADAS in Taiwan, which has been in mass production and shipping in the mid of 2023. In collaboration with generative AI technology, Mobile Drive has successfully achieved software-defined cars and has not only generated significant discussions when its ADAS introduced late last year but has also received positive reviews from users after practical usage. The Group leveraged some of its less utilised capacities and incorporated its past experience in information and communications technology industry to actively expanded its portfolio of in-car electronic products. In addition to the Telematics Box (T-BOX), which is equipped with the certified Emergency Call (eCall) system, other products include the Central Control Unit (CCU), Zonal Control Unit (ZCU), Electronic Smart Mirrors (E-Mirrors), Power Distribution Center (PDC), Smart Keyless Entry Systems, and various display screens and camera monitoring products.

In addition, 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. Countries are now leading the charge on embracing a circular economy surrounding smartphones that encourages repairs, refurbishments and upgrades instead of replacement. The Group's After Market Services (AMS) division provides comprehensive capabilities of return management and services and product repair/refurbish solutions in mobile device, drone and smart consumer electronics devices in both North America and Great China markets. The capabilities from SUR (Same Unit Repair), refurbishment, Fulfilment to Call Center Service…which will cover customer's product warranty policy and improve customer satisfaction. The service centers and hubs 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. Thanks to the growth of the drone market in the last two years, AMS team has become one of the largest drone after-market-service providers in the field. The extensive global expertise provided a solid foundation for serving existing and potential clients regardless of national boundaries.

Changes in Overseas Operation

For the past three decades, Western businesses have heavily invested in China due to its low labour and manufacturing costs, as well as its growing consumer market. However, this has led to an over-reliance on China for their business interests, which can be risky given geopolitical tensions and unforeseen disruptions. With a backdrop of trade tensions and increasing production costs in China, zero-COVID-19 policy in the past years has accelerated existing trends in encouraging multinational companies to adopt The "China Plus One" strategy to reduce companies' dependence on China and encourage companies to diversify their operations by expanding outside of China and establish production hubs in other promising developing nations in Southeast Asia such as India and Vietnam, while still maintaining a presence in the country. These nations, with its varied economic strengths and strategic trade agreements, offers a compelling case for investment and they are not just an alternative but a complementary addition to China, providing both market diversification and cost advantages. Even before the pandemic, many companies were beginning to seek cost-competitive options to China to alleviate supply chain risks. The vulnerabilities of what was believed to be a reliable Chinese manufacturing and distribution process were exposed by the pandemic, and have contributed to the fast-track of a manufacturing shift to other Asian countries. Closer economic ties between Association of Southeast Asian Nations (ASEAN) countries and both mainland China and the U.S. encourage production relocation to the ASEAN-six countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The 10 ASEAN member states are becoming more integrated economically with mainland China, while the ASEAN-six countries are also part of a nascent US-led partnership that aims to counterbalance mainland China's economic influence in the Indo-Pacific region. The China Plus One strategy is not about choosing between China and another country; it's about leveraging the strengths of multiple hubs to build a more resilient, agile, and cost-effective supply chain. It's a nuanced approach that requires careful planning, deep regional understanding, and strategic execution. For ASEAN countries, this is not just an opportunity but a call to action — to upgrade their capabilities, streamline regulations, and position themselves as indispensable cogs in the new global supply chain machinery. Companies increasingly believe that diversifying the sourcing portfolio from China will help address numerous challenges, whether in supply chain, logistics or availability of raw materials. India and Southeast Asia in particular are undertaking initiatives and implementing policies that will facilitate their emergence as the new hubs for manufacturing. Although China will remain a key player, it is expected that many more businesses will move towards a China Plus One supply chain strategy in the future. To promote new investments, Southeast Asian countries are increasing the ease of doing business, implementing tax cuts, offering fiscal incentives for special economic zones/industrial parks, and boosting infrastructure spending. With supply chains stretched thin and backups at ports in the first half of 2022 and China's zero-COVID policy, some of the Group's customers have been asking to carry out some of the production out of China to reduce reliance. On the other hand, near shoring is becoming growingly popular. Near shoring happens when a customer decides to outsource work to companies that are less expensive and geographically closer to their end markets. Near shoring is gaining speed and relevance as "deglobalisation" continues to take place, accelerated by growing tensions between the U.S. and China. As China's export dominance wanes, a massive opportunity is opening for other emerging market countries to fill the void, including Mexico, India, and Southeast Asian nations. The Group believes that maintaining a global footprint and expertise and regional capacity and capability are vital to reduce obsolescence and maximise cost competitiveness whilst simultaneously retaining the capacity to supply products and services around the world at comparable quality, and mitigating supply chain risk and improving overall production efficiency and diversifying country risk whilst providing customers the ability to quickly adapt to external ever-changing regional, trade and manufacturing dynamics. The customers are also growingly demanding a board range of manufacturing solutions and services globally and at the same time transitioning to regional support in local areas to take advantage of time to volume and time to market and specific customisation as this is key to their winning in those markets. This expansion and customer and product diversification effort and vertical integration strategy and service offerings (in particular ODM services) will continue with larger expansion in India with huge domestic market which continues to grow in coming years. India, with its robust manufacturing sector and favourable government policies, has emerged as a significant beneficiary of this strategy and India is quickly becoming the "China Plus One" location, as supply chains move West, out of China. India also benefits from a cost advantage with positive demographic tailwinds. India is also experiencing growth in manufacturing clusters on the back of a production-linked scheme that offers revenue-linked subsidies. India also has attractive attributes such as a diverse business landscape, a large pool of skilled and affordable workforce (particularly in the manufacturing sector), competitive labour costs, huge domestic market with growing spending ability and robust GDP, large English-speaking young population, strategic location, strong macroeconomic indicators, and as table political environment and all these making India an attractive destination for businesses looking to reduce production costs. Additionally, on the policy front, India's favourable business environment, including the development of new industrial corridors, initiatives including Make-in-India and FDI (Foreign Direct Investment) liberalisation have made it easier for businesses to set up operations in India and helped bolster India's position as a promising player in the supply chain. By leveraging India's strengths, global businesses can effectively mitigate risks and ensure business continuity and resilient supply chains. At present, there is a lot of focus on Vietnam and India, as both countries are critical economic zones for new supply chain connections and both Vietnam and India can complement each other in the Indo-Pacific supply chain network.

(a) India Operation

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

According to the International Data Corporation's (IDC) Worldwide Quarterly Mobile Phone Tracker, India's smartphone market faced a 1% YoY (year-over-year) shipments growth with 146 million units shipped in 2023. This came on the heels of a challenging first half and a stronger than expected shipments with several new model launches in the last quarter of 2023. Most vendors chose to reduce their product prices and offer additional channel margins in the last quarter to better manage the inventory levels as consumer demand was still weak. India smartphone ASP achieved a record of US$255, rising 14% YoY in 2023, and also marked the third consecutive year of double-digit ASP growth. The high ASP can be attributed to the increasing share of the premium-segment (US$600+) from 6% in 2022 to 10% in 2023, along with a rapid uptake in 5G shipments to a record 55% share.

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

BFIH conducts its operations across three campuses based in the states of Andhra Pradesh and Tamil Nadu in India, each of which integrates manufacturing, warehousing, logistics and accommodation facilities. Its campuses comprise an aggregate of approximately 90+ production lines consisting of surface mount technology (SMT) lines, full product assembly lines and sub-assembly mechanics lines. Its campuses are staffed with a workforce of over 12,000 of whom approximately 82% are women. BFIH's operations are enhanced by its product R&D teams who operate at its R&D centre based at the Indian Institute of Technology (Madras) Research Park. BFIH's R&D capabilities enable it to offer customers innovative EMS and ODM solutions, and also provide technological solutions to increase operational and cost efficiencies in its own processes.

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

Rising Stars Hi-tech Private Limited (RSHT), a wholly-owned subsidiary of BFIH, was incorporated in 2021. It is an Electronics Manufacturing Services (EMS) company whose principal business includes manufacturing of Television, Electric vehicles, Telecom, IT hardware devices and other electronic parts and components. Currently, all Telecom business is processed under RSHT while all future IT Hardware business shall also be processed under it. RSHT is also shortlisted under PLI schemes for the categories of Telecom and IT Hardware, and is expected to receive Telecom scheme incentives in the near term.

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

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

BFIH is keen to do export business as BFIH's location in India provides it with a geographical advantage and enables it to deliver products to local markets in those regions quickly and at competitive cost. In past, it exported some feature phones to the Middle East and continues to explore opportunities to collaborate with mobile operators in Europe and the U.S., with a view to exporting mobile phones and hearables that they can offer to their network customers. In furtherance to its export strategy, BFIH has started exporting desktop monitors to Netherlands and shall soon be exporting to USA before the close of 2023. In addition to mobile phone and hearables exports, BFIH intends to explore other opportunities that global OEM customers present as part of their own strategy of geographic diversification in their manufacturing and supply chains, and which leverage on the geo-political advantages that India offers. BFIH expects that the Production Linked

Incentives (PLIs) that it is eligible for, as well as certain duty remission policies for exports, will further enhance its export opportunities. It intends to explore the benefits of the Mobility in Harmony (MIH) Open EV alliance at the global level for product development and exports. The key short-term objective of the telecom and networking products BFIH is to gain market share in EMS services of this industry as well as explore opportunities to export our telecom and networking products. Currently, no component shortage is being witnessed which can have a material impact on BFIH's operations. Rising inflation and a rise in input costs is weakening demand for mass market smartphone models and this remains as the biggest risk on business in 2023.

On 13 May 2023, the Group published an announcement which updated the market on the possible major transaction relating to the possible spin-off and separate listing of BFIH and reference was made to the Company's announcement dated 20 October 2022 and the Company's 2022 annual report as issued and published on 13 April 2023. BFIH received final observations from the Securities and Exchange Board of India ("SEBI") on 10 June 2022, which meant that BFIH could file a red herring prospectus with SEBI and such other authorities as may be required and subsequently launched the proposed spin-off. In view of the market conditions since the date of the 20 October 2022 announcement, BFIH decided to further delay the timetable for its proposed spin-off, which accordingly would not be open for subscription by 9 June 2023, being the last date on which the proposed spin-off could be open for subscription according to the final observations received from SEBI. The Company still considers that the Proposed Spin-off (if it proceeds) will be commercially beneficial to the Company and the Company intends to continue to pursue the Proposed Spin-off when market conditions improve. Shareholders and potential investors of the Company should note that the proposed spin-off is subject to, among other things, applicable laws and regulations, market conditions and other factors and accordingly, there is no assurance that the proposed spin-off will take place or as to when it may take place. Further announcement(s) will be made by the Company in respect of the proposed spin-off as and when appropriate.

(b) *Vietnam Operation*

Vietnam has been one of the world's fastest growing emerging markets in the past decade, which is boosted by strong foreign direct investment inflows into its manufacturing sector. Encouraging foreign investment is a major policy of the Government of Vietnam and rapid growth of manufacturing exports and large new inflows of foreign direct investment have been important growth drivers for Vietnam. The outstanding feature that helps Vietnam to attract foreign investment is stable politics and social security. Vietnam has a favourable geographical position for trade with the world, being both a regional connection center and a gateway to penetrate economies in the western region of the Indochinese Peninsula. With a population of almost 100 million people, Vietnam is a low-cost manufacturer with an abundant supply of qualified workforce with very competitive labour costs, making it an attractive hub for production. Many manufacturers in the global supply chain of major firms are gradually focusing on Vietnam and the demand for skilled labour keeps increasing. In addition, with 12 new free trade agreements, and Vietnam's accession to the ASEAN (Association of Southeast Asian Nations), Economic Community (AEC), it is a good opportunity to connect Vietnam with the region's market of more than 600 million people and world market. Vietnam's institutions, laws have been gradually improved in association with integration, not only creating good conditions for investors to operate in the long-term, but also helping businesses participate in supply chains and favourable global value. Poor global economy and Ukraine-Russia war and high inflation in many import countries have affected manufacturing sector of Vietnam, especially in first half of 2023, many companies faced difficulties and had to cut headcounts. However, in 2023 Vietnam has successfully controlled inflation, Vietnam's average inflation increased by 3.25%, reaching the target set by the National Assembly of controlling inflation at 4.5%. This is the 12th consecutive year that Vietnam has maintained a single-digit inflation level since high inflation in 2011, contributing to ensuring macroeconomic stability.

There is a growing trend of electronics manufacturing migrating into Vietnam. This brings ample opportunities to our Vietnam site Fushan Technology (Vietnam) Limited Liability Company (a subsidiary of the Company, incorporated in Vietnam) ("Fushan") to diversify its business as more and more customers are approaching Fushan with wide a range of products of different categories, from home appliances, feature phones and smart phones, car accessories, ICT (Information and Communications Technology), EV projects, tablets, etc. The business diversification route of Fushan started in early 2019, from manufacturing traditional mobile phones to more complicated smartphones, smart speakers and IoT modules. For further diversification and utilising the new opportunities, Fushan expanded its business licenses, acquired relevant processing certifications and placed further investment on training enhance and diversify the skills of its existing experienced workforce to ensure that Fushan can meet the product manufacturing and customer requirements. The factory also aims for further diversification of customer focus and operation efficiency elevation to increase its competitiveness to the next level. In 2022, Fushan started its own sales operation to capture local and international business opportunities and the factory has succeeded in receiving great and promising responses. Fushan has been leveraging its own strengths and seizing this opportunity to create another milestone.

Up to this day, the continued tightening of monetary policies in most countries has had a significant impact on global businesses, economies, investments, and consumer activities. This has led to increased risks in the banking system, as well as in public and corporate debt. The Chinese economy is experiencing a slow recovery with numerous uncertainties. Moreover, high inflation rates in certain import markets affected. These factors led to Vietnam's GDP growth only reaching 5.05%, lower than target by one percentage point but Vietnam is still in group of countries with high growth rates. In 2024, Vietnam targets economic growth of 6–6.5% while IMF forecasts Vietnam's GDP growth will reach 5.8% in 2024 and 6.9% in 2025.

Geographical Segments (please refer to note 5 of "Revenue and Segment Information" to the consolidated financial statements)

The Group determines operating segments based on reports reviewed by management for the purpose of allocating resources to the segment and assessing its performance. Segment profit (loss) represents the gross profit earned (loss incurred) by each segment, service income, and certain gains and losses (included in other income, gains and losses), after deducting all selling expenses and impairment loss under the expected credit loss model, net of reversal. The Group's operations are organised into three operating segments based on the location of customers, and segment profit (loss) represents the gross profit earned (loss incurred) by each segment, service income, and certain gains and losses (included in other income, gains and losses), after deducting all selling expenses and impairment loss under the expected credit loss model, net of reversal. Aligning with the Hon Hai Technology Group strategies and adapting to the fast-changing consumer appetite for future technology demand, the Group's future business plan will focus on remaining lean and asset light, agile global business development and competence building in non-phone areas leveraging the Group's competitive advantages in telecommunication, hardware/software integration mechanical/material and phone production expertise, diversifying in terms of customer, products, and geography, being technologically advanced, and continually monitoring market competition, macro-economic conditions, geo-political tensions, economic slowdown, market demand, and credit and collection risks of customers. On the demand side, people are not only happy to use the same device for longer, which has been the lasting trend for a few years now, but there is also continuous pressure from global economic uncertainty on one hand and the growing appeal of used devices on the other. The global economy remained in a fragile state in 2023, with the impact of inflation lingering and the slow pace of economic growth continuing to subdue demand for mobile phones, and consumers giving up replacement purchases. In terms of device afford ability, premium phones will benefit from the polarisation of the handset market, as higher-income groups of consumers will be less affected by the weaker economy, while customers in the low- and mid-range part of the market are expected to become even more cost-conscious. Opposite to the consecutive decline of new smartphone shipments, the used smartphone market continues to grow. In 2023, there were 309 million units of used smartphones shipped, representing a 9.5% increase over 2022. The market for second-hand phones is expected to grow with a much higher compound annual growth rate of 8.8% from 2022 to 2027 according to an IDC report. As explained, the handset market now becomes demand-constrained, and the competition pressure continues as the market slows down. OEMs and ODMs have to fight for the remaining very limited demands and have better control over their inventory.

Asia Segment

The Group's main regional markets in the Asia segment are Mainland China, India, Japan and Taiwan (Hon Hai) and these markets continued to face significant difficulties during the period. Demand in China is set to remain subdued as consumers ease back on how regularly they upgrade their smartphones. Weak demand and high inventory caused customers to become more cautious and realign their focus on risk mitigation, drastically cutting back orders for both feature phones and smartphones. The revenue of the Asia segment in the current period was US$3,798 million, representing a decrease of US$1,999 million or 34.5% when compared to US$5,798 million for the same period last year. The result for the current period was US$70 million, representing a decrease of US$38 million when compared with the result for the same period last year, and the decline was mainly due to the decrease in shipments to customers (including Hon Hai) resulting from poor demand and a change in the outsourcing strategy of one major customer who found new manufacturing partners in China and India. In India, local competitors have become a serious threat to our India operation by passing on the PLI (Product Linked Incentive) scheme benefit to this customer. For Sharp phone business, inflation in Japan and the devaluation of the Japanese yen have led to the rise of domestic prices, and the willingness of terminal customers to change machines is reduced. Sharp is actively looking for production partners outside of China to counterbalance the higher labor costs of China. For the manufacturing of consumer electronic products for Hon Hai, the macro-economic environment is not good, and consumer spending on electronic devices is still weak. The customer of HH for e-Book and smart speakers has a lot of inventory on hand, and the inventory carrying cost is very high. It becomes more conservative, controlling the budget, procurement volume, and inventory very tightly. Additionally, as the market is stagnant, competitors of Hon Hai offer much more competitive prices and very aggressive investment.

According to IDC, the Asia-Pacific region, including Japan and China, continued to lead the global smartphone market in 2023. Smartphone shipments in the Asia-Pacific region decreased by 4.1%, reaching 581 million units, accounting for 49.9% of the total global smartphone shipments. Among them, smartphone shipments in China decreased by 5.0% year-on-year to 271.3 million units in 2023. Although smartphone shipments in China turned positive in the last quarter of 2023 due to the launch of new products and replenishment effects, smartphone shipments in China in 2023 remained at the lowest level in a decade. Additionally, in India, smartphone shipments increased slightly by 1% year-on-year to 146 million units in 2023, with a 11% increase in the second half of the year, offsetting the significant decline of 10% in the first half. Shipments in the fourth quarter increased by 26% due to the launch of several new models, exceeding expectations.

During the current period, the loss of sales to the above major customers accounted for the large year-on-year decline in sales of the Asia segment. Despite these factors, the Asia segment remained the Group's core performance contributor in 2023. The decline in demand directly affected the utilisation of capacity and assets (particularly land and buildings), and there was a need to continue downsizing and restructuring activities, downsizing or terminating loss-making operations, and selling idle assets. During the period, the Group carried out a large-scale redundancy action in Northern China to optimise the headcounts. The poor situation is anticipated to continue into 2023, affecting the performance and recovery of the Asia segments in 2024.

Europe Segment

The recorded revenue of the Europe segment in the current period was US$1,051 million, representing a decrease of US$101 million or 8.8% when compared to US$1,152 million for the same period last year. The recorded loss of this segment was US$128 million, compared with the recorded loss of US$51 million for the same period last year, and the decline was mainly due to a decrease in shipment resulting from continuous tight control on shipment to HMD and the need to make additional expected credit loss allowance of US$137.8 million during the current year for overdue trade receivables of HMD.

The worldwide feature phone market continued to decline. In emerging markets, the ongoing decline was primarily the result of brand makers and mobile operators transitioning product portfolios away from feature phones to affordable entry-level smartphones, affecting sales of HMD (a Finnish company) to these markets. The feature phone market mainly consists of price-sensitive consumers in emerging countries like India, Africa, and Southeast Asia, where network coverage is limited. However, as these emerging market governments invest in improving network infrastructure, the feature phone market faces challenges such as the decreasing price of smartphones, limited innovation in feature phones, and a growing consumer preference for smartphones. Projections indicate a decrease in the global feature phone market revenue from US$10.6 billion in 2024 to US$8.7 billion in 2028, with a compound annual growth rate of -4.95%. This has a significant impact on HMD, as it operates in a shrinking and competitive feature phone market. This dynamic poses a risk to HMD's market share and revenue.

The Group used to adopt a proactive approach and monitor and control outstanding trade receivables with HMD and implemented risk control strategies and actions against HMD to mitigate the impact of its financial situation. HMD's unsuccessful fund raising in 2022, coupled with escalating overdue trade receivables, prompted the Group to adopt an even more cautious approach. Starting from the second half of 2022, the Group ceased to accept new Nokia-branded feature phone projects and only continued the production of in-the-market products (IMP) and capped the trade receivable amount with HMD. As HMD has nearly used all the credit limit available, the balance of trade credit became small, and we aligned shipment quantities with payment statuses, and HMD could only get the shipment of phones upon paying an equivalent amount of cash. Since June 2023, on top of requesting HMD to prepay before shipment, FIH has refrained from initiating new projects with HMD, except for a U.S. operator project expected to conclude by June 2024. All other ongoing projects are slated to terminate shipments at the end of March 2024. This underscores the evolving nature of our project timelines and the need for strategic adjustments. In addition, our supply chain management planning has been adjusted to prioritise the shipment of slow-moving component projects, mitigating the risk of surplus and obsolete inventory. All of above measures lead to the year-on-year decline in sales of the Europe segment. Recognising the limited and diminished growth opportunities in feature phones, FIH emphasises the importance of adopting new technologies/emerging technology trends to innovate and enhance its products and services and moving away from the feature phone market. This strategic shift aligns with FIH's goal to position itself at the forefront of technological advancements, emphasising the importance of adopting new technologies to innovate and enhance its products and services.

On the other hand, one of the Group's another major customers, which is a U.S.-based Internet customer with a strong foothold in the States, expanded its sales in Europe and exhibited strong and encouraging growth. In spite of the overall decrease in smartphone shipments in the European region, this major customer has expanded its market reach by introducing its flagship hardware to additional European countries. The expansion partially offsets the decline in sales to the HMD of Europe segment. According to a YouGov poll conducted in 2023 across 18 international markets, in general, European market tends to have lower proportions of consumers who are conscious about mobile phone prices.

America Segment

For the America segment, core businesses include the selling of phones manufactured in China and Vietnam to a U.S.-based Internet customer, and provision of services including reverse logistics, repair and refurbishment of smartphone for OEMs and carriers, and electronic products after-market services by the Group's entities located in the U.S. and Mexico. Due to significantly dampened consumer demand, inflation, and economic uncertainties, the recorded revenue of the Group's America segment in the current period was US$1,597 million, representing a decrease of US$848 million, or 34.7% when compared to US$2,445 million for the same period last year, and the decline was directly led by the low consumer sentiment and weak demand. The result for the current period was US$48 million, representing a decrease of US$23 million due to drop in volume when compared with result for the same period last year.

A major customer of the Group is an established U.S.-based Internet company, with whom the Group has a long history of cooperation. The Group provides comprehensive engineering and production services to deliver superior, reliable, and trustworthy premium smartphones that meet the customer's demand. To differentiate ourselves from competitors, we collaborate with this customer from the NPI (New Program Introduction) stage and promptly ramp up production to meet the customer's time-to-market and time-to-volume strategies. We continuously develop automation robot software, robot central control systems, and AI inspection algorithms to reduce labor dependency and eliminate manual inconsistencies. In addition, we employ real-time big data analysis and visualisation tools to improve yield and support the customer in all aspects of production. To mitigate the risk of concentration in a particular region/country, we offer competitive geographical advantages and management excellence to this customer. The pandemic situation has improved in the first half of 2023, and the supply chain returned to normal, with no short-term risks of material shortages foreseen. This indicated a relatively stable supply of materials and components. Given the external environment's influence, the overall market conditions remain unfavorable, and there was a slight decline in sales in 2023 compared to 2022, which could be attributed to market recession, intensified competition, lower-than-anticipated demand, or other factors impacting business operations. In summary, 2023 presents challenges such as a sluggish market and external uncertainties that have impacted the performance. However, with the supply chain normalising and stabilised material supplies, we are better equipped to tackle these challenges.

In the year 2023, although the world is gradually recovering from the crisis of COVID-19, its impact on the business continues to persist and even expand. As the supply chain has returned to normal, customers have not only indeed been faced with excessive inventory but also sluggish consumer demand. As mentioned above, fewer new phones have been sold, yet more and more used phones have appeared in the market. According to IDC data, the North America market alone took 26.4% of the global used smartphone market share in 2023, and the shipment volumes are expected to increase continuously with a CAGR of 8.8% from 2022 to 2027. In order to consume the excess inventory and survive under weak demand, one of the Group's smartphone customers had reduced its order and postponed the new product Request for Proposal (RFP) processes. In response, the Group has shifted its focus on existing mobile phone customers and actively developed relationships with new customers to expand its product lines. Currently, The Group is in the production of a wearable product designed specifically for kids and delivering a 5G Fixed Wireless Access (FWA) for new customers, and engaging in discussions regarding new product designs, development, and production with potential clients. It is expected that growth will continue in the fields of wearables and 5G FWA.

Building upon the R&D capabilities established since 2021, the Group puts strong efforts on customer and product diversification and aims to diversify its product lines from low-margin mobile phones and routers to encompass wireless communication devices. In line with this strategy, the Group has been actively responding to emerging customer demands by venturing into the design and manufacturing of wireless data modules for globally recognised brands. By collaborating closely with customers, the Group is also exploring opportunities in the realm of final terminal devices. The Group has secured partnerships for eBook design and manufacturing, as well as for the burgeoning market of e-ink related products, IoT devices and automounts robots for recycling business. In the field of Electric Vehicles (EV), the Group is collaborating with a customer on LTE cluster manufacturing for 2-wheeled vehicles. Furthermore, leveraging its solid hardware and software design expertise and capabilities, the Group has gained the trust of top-tier automotive manufacturers and has entered the new domain of automotive products and commenced shipments in the beginning of 2024. We are committed to fostering stronger and more cohesive relationships with our existing customers while actively reaching out to potential new clients.

The Group has a strong after-market services including reverse logistics, repair/refurbish services and manufacturing services located in North America region which offer integrated solutions providing American customers the end-to-end value-added manufacturing services and after-market-service covering the entire product life cycle. In the last three years, the Group has invested and upgraded various manufacturing capabilities at the Mexico site. It is including SMT capacity and plastic injection molding machines. Not only preparing for the potential demand in the next 5 years' growth but also providing a Vertical Integration solution to customers who looking for simplified supply chain in American region. Besides, thanks to the global supply chain restructuring, foresee there will be more projects transferred from Asia in the near future. Mexican Peso ended 2023 with its best performance in decades and it may keep driving the operation cost up in 2024. And the Mexico president election will be conducted in June this year, a strong Mexican Peso is expected.

Due to abovementioned unfavourable factors, like other geographical segments, the performance of the America segment had a negative impact on the Group's sales performance during current period. The Group will closely monitor the future development of this segment and assess the impact of this segment on the Group's overall performance and cash flow.

Peers

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

For our peers of casing business, they are companies listed in the PRC or Hong Kong and have been the vendors of our customers for a long time with well-established business relationships with the Group's customers. They also have customers, which are not customers of the Group. As the current macroeconomic situation become more fragile, although they have put efforts on diversifying and optimising their product mix to promote long-term growth, their proportion of revenue from mobile phones remain relatively large, which make their financials susceptible to fluctuations in smartphone demand in 2023. Performance of our casing peers in 2023 are listed as follows:

(i) Peer 1 is a PRC-listed company with shares listed on the Shenzhen Stock Exchange. Its core business includes consumer electronics precision structural parts and modules, electronic connectors, smart electronic product components, new energy vehicle connectors and modules, robots, and industrial Internet. Since 2018, the company has aimed to lower the proportion of revenue from mobile phones, boosting margin performance by expanding into the tablet, notebook, and smart wearables business. In the third quarter of 2023, its revenue declined by 1.4% year-over-year, primarily due to the decrease in global shipments of smartphones, tablets, and notebook products amid weak demand. However, its gross profit margin increased by 3.9 percentage points, benefiting from the optimisation of the product mix. Notably, the new energy business is experiencing rapid growth, with higher and gradually increasing margins.

(ii) Peer 2 is a Hong Kong-listed company whose business includes handset casings and high-precision components, household and sports goods, network communications facilities, and smart electrical appliance casings. In the first half of 2023, the company recorded a 29.9% year-over-year decline in revenue, since multiple economic headwinds and the weak Android smartphone market have adversely affected its handset-related business. However, the company's gross profit margin improved by 2.4%, driven by the increased revenue proportion from key North American smartphone customer. In fact, over the past few years, the company has experienced a continuous decline in revenue due to the persistently sluggish smartphone market. To enhance its operational performance, the company is shifting focus towards more profitable products, including tri-proof and high-precision components, and VR/AR related business. Furthermore, in order to streamline its organisational structure, in the first quarter of 2023, the company spun off its household and sports goods business, which is now listed on the Shenzhen Stock Exchange, and entered into a sale and purchase agreement with an independent third party for the disposal of its smart electrical appliance casing business.

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 weak consumer purchasing power 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 Hong Kong, U.S., and PRC, 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 2023 are listed as follows:

(i) Peer 1 is a Hong Kong listed company whose business includes consumer electronics (assembly, components, and parts), new intelligent products, and new energy vehicle. In the third quarter of 2023, the company reported a dramatic 31% revenue increase, benefiting from a significant increase in smartphone shipments of its North American and Android customers. Although, the company's revenue from EMS/ODM and components still accounts for a large portion of total sales. it has been accelerating the expansion of diversified products, including new intelligent products such as smart home, gaming hardware, robotics, unmanned aerial vehicles, residential energy storage products, etc. In particular, its residential energy storage has been experiencing a rapid growth, due to the ongoing robust demand and the increasing penetration rate in Europe. Also, its revenue from new energy vehicle business has been continuing to soar, benefitting from the significant increase of new energy vehicle shipments of its parent company. As for profitability, the company's gross profit margin went up by 3.2 percentage points year-over-year in the third quarter of 2023. This improvement can be attributed to an increased proportion of high-margin revenue from new energy vehicle and residential energy storage, along with improved capacity utilisation in consumer electronics.

(ii) Peer 2 is a reputable U.S. listed company which is an EMS provider focusing on delivering complete design, engineering and manufacturing services to automotive, computing, consumer, industrial, infrastructure, medical, clean technology and mobile OEMs. In the third quarter of 2023, the company reported a 3.8% decline in revenue. This decrease was attributed to a broader downturn in the consumer electronics market during that period, amidst ongoing challenges. However, despite this decline, net profit increased by 2.4%, and the gross profit margin saw a year-over-year improvement of 1.3%, primarily due to favourable mix with growth in higher-margin automotive and clean technology business. The company's strategic approach of fully diversifying product categories and geographical allocations played a crucial role in positioning it more robustly to navigate the prevailing headwinds.

(iii) Peer 3 is a Shenzhen listed company whose main business is EMS service for consumer electronics, network communication product, smart wearable devices and automotive electronics. The company has aggressively built its capacities in India and Vietnam, directly competing with the Group. Even more, one of the Group's customer is proceeding to partner with the company for the establishment of manufacturing resources in Vietnam to develop the local market and the whole Southeast Asia region. With the mass production of new products for its Chinese customers and high production capacity utilisation across facilities, the company achieved a remarkable revenue growth of +86.1% year-on-year in the third quarter of 2023. Despite the growth in the mobile phone business, the company is expanding its product portfolio to non-mobile phone business including smart wearables and new energy products, and moving into the automotive electronics segment. Additionally, the company is consolidating its business units and relocating its resources to promising business, such as automotive electronics segment which witnessed a more than 500% revenue increase in the third quarter of 2023.

(iv) Peer 4 is a Shenzhen listed company having several business segments including precise components, structural parts and module, charger, assembly, materials and automotive components. In the recent years, the company has restructured its organisation and aggressively developed the emerging consumer electronics products, including AR/VR, smart robotics, and foldable phones, in line with its core strategy — "vertical integration". Additionally, the company is increasing the capacity for the new business, like automotive and photovoltaics inverter. However, its consumer electronics business still maintains a significant proportion of its revenue. Consequently, amidst the persistently weak overall economic environment, its revenue for the third quarter of 2023 experienced a decline of 5.1%, with a 0.8% decrease in the gross profit margin.

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

Investments

On the basis that the value of each of the investments mentioned below as of 31 December 2023 is less than 5% of the Group's total assets as at 31 December 2023, the Company does not consider any such investment as a significant investment for the purposes of the Listing Rules.

Investments in Business relating to Nokia-branded Products

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

HMD switched its supply chain from a single vendor model to a multi-ODM set-up since the second quarter of 2019. Up to now, all of HMD's smartphone portfolio is manufactured by the other ODMs. For the manufacturing side, the feature phone business continued to be managed with a focus on profitability, to maintain portfolio competitiveness. HMD has managed to reach an agreement with Nokia and according to the agreement, HMD is allowed to sell their products alongside Nokia products. Hence, the agreement enables HMD to ramp-up their brand awareness while still reaping the benefits from the Nokia brand.

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 2023. 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.

Other Investments

The Group invested US$1 million in CloudMinds Inc. ("CloudMinds"), an operator of cloud-based AI robots in China in 2015. The company has filed an IPO application with the U.S. SEC (Securities and Exchange Commission) in December 2019. Due to the impact of COVID-19, global economic downfall, and sanction imposed by U.S. Department of Commerce, Bureau of Industry and Security (BIS), the company decided to change its listing market to Hong Kong. Hence, CloudMinds has completed its recapitalisation process and several rounds of financing to enhance its future technology development and financial status starting from the end of 2020. In the second half year of 2022, CloudMinds has initiated its Pre-IPO round and currently in the preparation stage of IPO and monitoring the capital market to determine the best time to file for the listing application. Based on the recent performance 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 2023. The Group took corresponding adjustment to the fair value change in this investment.

Augentix Inc, founded in 2014 in Taiwan, is a fabless multimedia SoC (System on Chip) design company offering proprietary algorithms products with efficient intelligent vision applications. Thus, since the product introduction, it has been widely used in the field of home IoT (Internet of Things), professional IP camera, and consumer surveillance by leading brands around the globe. Against the global economic headwinds in 2023, Augentix still achieved a 2.5-fold increase in shipments, with nearly 88% revenue growth. Additionally, Augentix is extending its product offering to SoC solutions for automotive cameras, actively expanding the product mix. 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. In November 2023, Augentix has successfully completed a new round of financing to reenforce its cash position and financial strength. Along with all the orders on hand, Augentix is expecting a notable growth this year. As at 31 December 2023, the Group's stake in Augentix is 1.09% 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 creator 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 secured over 250 global patents for wireless power technology and is establishing Cota RF wireless power at a distance as a global standard for wireless power transmission/transfer (WPT) systems and has announced several Cota-enabled products coming to market, including Cota Forever Magnetic Phone Charger, Cota Power Station, Cota Asset Tracker, Cota-powered IoT sensor, Cota Power Table, Cota Universal Base, ePaper RFID Tags, Cota-enabled security camera and so forth. Notably, the Cota Forever Magnetic Phone Charger was named a CES 2024 Innovation award winner, it is also Ossia's 7th CES Innovation awards. Ossia's Cota Real Wireless Power also received the 2024 Smart City Innovation of the Year award and Wireless Technology Innovation award from IoT Breakthrough, a leading market intelligence organisation. The Group will be a preferred partner and contract manufacturer for Ossia's customers wanting to build or integrate Cota wireless power into their devices, sensors, automotive applications and IoT products.

SoundHound (Nasdaq: SOUN), is a global leader in conversational intelligence, offers voice AI solutions that let businesses offer incredible conversational experiences to their customers. Built on proprietary technology, SoundHound's voice AI delivers best-in-class speed and accuracy in numerous languages to product creators across automotive, TV, and IoT, and to customer service industries via groundbreaking AI-driven products like Smart Answering, Smart Ordering, and Dynamic Interaction™, a real-time, multi modal customer service interface. Along with SoundHound Chat AI, a powerful voice assistant with integrated Generative AI, SoundHound powers millions of products and services, and processes billions of interactions each year for world class businesses. The Group participated in SoundHound's more than US$100 million PIPE (Private Investment in Public Equity) round of financing for SoundHound with a US$1 million investments together with a number of the other investors of this round included Oracle, Qatar First Bank, Koch Industries, MKaNN, VIZIO, HTC, Structural Capital, and so forth. After the completion of the PIPE round, SoundHound closed its SPAC merger transaction, becoming a NASDAQ listed company (NASDAQ: SOUN). The recent surge in demand of conversational AI is giving SoundHound a unique advantage and has made SoundHound the obvious partners for the companies looking for to embracing such technology. From January to September 2023, the company achieved a revenue of US$28.72 million, indicating a 33% year-on-year growth. The increase in revenue primarily resulted from the growing customer base in Germany and Korea. To broaden its product applications, SoundHound completed a merger with SYNQ3 on 3 January 2024. SYNQ3 specialises in AI-powered automated ordering solutions for enterprise brands, enhancing the ordering process for restaurant guests. This integration is expected to expand SoundHound's market presence, covering ten thousands of locations and implementing advanced generative AI capabilities.

Founded in 2007, Acevector Limited (Formerly known as Snapdeal) is a leading e-commerce platform in India, started as a coupon booklet business, but transformed into an online deal 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. On 21 December 2021, Snapdeal filed the Draft Red Herring Prospectus (DRHP) toward the SEBI for the purpose of IPO. However, due to the obligation to protect investors, SEBI started to tighten the IPO regulation and required technology companies to be profitable before going public. In light of this, Snapdeal has carefully evaluated the situation and has made the decision to withdraw the DRHP in December 2022. At the same time, it consolidated its business units under a group brand and changed its name from Snapdeal to Acevector. In the period from January to September 2023, the company is actively managing its operating expenses, leading to a significant improvement compared with last year.

The Group made a strategic investment in GFT Ventures I in March 2022. GFT Ventures I is a private fund with the initial target of US$100 million, yet, due to the overwhelming demand, the fund was closed on over US$137 million in committed capital.

The fund focuses on series seed or A stage startups in several specific areas including AI/Data Science, Automation, other Frontier technology. The fund has nine active startup investments that are fantastic opportunities.

As the Group has been expanding in different industries in recent years, strategic investment is one of the movements to develop new businesses and diversify the dependency on mobile phone and single customer. The general partners of the fund have over 20 years experiences in venture capital, AI and semiconductor fields. Leveraged by their knowledge, the Group would have insights, more opportunities and exposures to the emerging technology companies.

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

On 31 December 2021, the Group has closed the deal and introduced Stellantis, world's number 4 leading automakers and mobility provider, to invest US$40 million in Mobile Drive Group, which was automotive technology focused and wholly-owned by the Group. After closing, Mobile Drive Group has become a joint venture which is equally owned by the Group and Stellantis. The investment in Mobile Drive Group and the subsequent share of profits/losses of Mobile Drive Group will be accounted for by equity method in the Group's consolidated financial statements.

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

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

As at 31 December 2023, the fair value of the Group's equity investments designated as FVTOCI was US$62 million, which represented 1.4% 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. 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 arise. The Group is not currently aware of any potential cause which would lead to any substantial loss arising from the change in the fair value of the Group's investments in certain listed companies during the current period. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring and evaluating good investment potential opportunities that can add value to the Group, though at this stage, the Group does not currently have any plan for a significant investment contemplated by the Listing Rules.

As the mobile phone market has become a mature market with less gained traction, the market is in dire need of new applications to drive its growth, such as 5G, satellite communications, and AI. Notably, many new smartphones have already integrated the generative AI functionality. Counterpoint's report indicates that AI phones are positioned to revolutionise the smartphone market, which the shipment for AI phones is expected to reach 522 million units, equivalent to a CAGR of 83%. At the same time, Canalys also anticipates that AI phones will drive replacement demand, with an overall smartphone shipments rebound to 1.17 billion units in 2024, reflecting a 4% growth from 2023. As for the automotive market, the ACES trends (autonomous driving, connected vehicles, electrification of the power train, and shared mobility) are driving rapid changes in the automotive industry. McKinsey predicts that the global automotive software and electronics market is expected to reach US$460 billion by 2030, representing a 6% CAGR. Due to the fast pace of market changes, the Group continually seeks the investment opportunities in the industries with huge potentials, and adjusted investment strategies to be more focused on 5G, IoV (Internet of Vehicle), medical electronics and AI, which include but not limited to AI robots, IoT smart devices, smart home products, IVI (In-Vehicle Infotainment) and telematics system, V2X (Vehicle-to-Everything) technologies, or others for synergies creation via establishing strategic partnerships with technology companies. In addition, to fulfill the commitment of achieving Net Zero in 2050, the Group is taking a proactive approach to put green investing as one of the top priorities. By engaging with companies that are devoted to developing various green and eco-friendly technologies and products, the Group will focus on discovering the related industrial investment opportunities in operating efficiency enhancement, low-emission energy sources, and low-carbon transition, helping communities, enterprises, countries, and the Group itself to mitigate climate change and promote sustainability.

Among the characteristics that the Group looks for in determining the attractiveness of investment candidates are complementary technology ancillary to and in support of the Group's business operations and new business including IoV; favourable long-term growth prospects; and cultural fit with the Group. The Group has an experienced investment team and will continue to hire talents and has prioritised investments of comparatively low risks and with long-term growth prospect which may take years before the investment can be realised. As a whole, the Group will be cautious on expanding its investment portfolio to create synergies but at the same time to cope with the possible uncertain economic environment and volatility of the capital market.

Since 31 December 2021, the Mobile Drive Group previously wholly-owned by the Group has become a joint venture which is 50%-owned by the Group and Stellantis individually, and the subsequent share of profits/losses of the joint venture will be accounted for by equity method in the Group's consolidated financial statements. During the current period, there had been no material acquisitions and disposals of the Group's subsidiaries and associates and joint venture(s). 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. Also, on 12 September 2023, the Company announced the Group's disposal of the entire equity interest in FIH (Tian Jin) Precision Industry Co., Ltd. to Tianjin Haofa Storage and Transportation Co., Ltd. (for identification purposes only) at a consideration of RMB95,400,000. Further, on 2 November 2023, the Company announced the Group's cooperation with Beijing Asia Unicom Aviation Education Technology Group Co., Ltd. (for identification purposes only) to establish and operate (through a PRC joint venture) a middle-level vocational school within the Group's Langfang industrial park. For details, please refer to the Company's announcements.

Compliance with Relevant Laws and Regulations

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

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

During the current period, as advised by the relevant local legal and tax departments of the Group, the newly-promulgated local laws and regulations applicable to the Group's operations in the PRC, India and Vietnam (being the jurisdictions which are considered, in terms of the scale of businesses and operations as well as the number of employees, factory units and office units, to reflect the comparatively significant impacts of the Group's overall business unit/group operations) that have a significant impact on the Group are highlighted and summarised as follows:

PRC

In relation to the PRC value-added tax (VAT), please refer to the background and previous developments as described in page 116 of the Company's 2023 interim report as issued and published on 14 September 2023. The draft Value-Added Tax Law (consultation draft) (Draft VAT Law) is still pending the approval of the National People's Congress. At this stage, the Group's PRC subsidiaries will continue to monitor the legislation process of the VAT regime and assess the potential impacts of the Draft VAT Law on their operations in anticipation of its enactment.

In relation to the draft revisions to the PRC Company Law for public consultation, please refer to the background and previous developments as described in page 116 of the Company's 2023 interim report as issued and published on 14 September 2023. On 29 December 2023, the PRC National People's Congress formally approved the latest revisions to the PRC Company Law (Revised Company Law) which will come into effect on 1 July 2024 with a universal impact on all PRC companies (including foreign-invested entities), covering substantial changes in areas such as corporate governance, capital contribution, management responsibilities, corporate information disclosure, corporate litigation and registrations. In particular, the governance structures and constitutional documents of the Group's PRC subsidiaries being foreign-invested entities (Group FIEs), together with their respective business, legal or compliance models and practices, shall be adjusted to accommodate the corresponding requirements under the Revised Company Law, which may imply additional costs of legal/regulatory compliance. Pending the 1 July 2024 effective date, the Group FIEs have been assessing the impacts of the Revised Company Law and (as appropriate) will devise and implement appropriate corporate initiatives and actions.

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 116 of the Company's 2023 interim report as issued and published on 14 September 2023. In particular, the governance structures and constitutional documents of the Group FIEs, together with their respective business, legal or compliance models and practices, shall be adjusted to accommodate the corresponding requirements under the PRC Company Law, which may imply additional costs of legal/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 (currently, the Revised Company Law), the Group FIEs have been assessing the impacts of the FIL and (as mentioned above) the Revised Company Law and (as appropriate) will devise and implement appropriate corporate initiatives and actions prior to 31 December 2024 being the expiry date of the 5-year transition period.

India

During the current period, the newly-promulgated Indian laws and regulations did not have a significant impact on the Group's Indian subsidiaries and their operations.

Vietnam

On 29 November 2023, the Vietnam National Assembly issued the Resolution No. 107/2023/QH15 on application of additional corporate income tax in accordance with the Global Base Erosion (GloBE) Rules on Global Minimum Tax (GloBE Rules), becoming effective from 1 January 2024. As appropriate, additional taxes will be imposed on the taxable income (if any) of the Group's Vietnamese subsidiaries and paid by the end of 2025. This may increase tax costs of the Group's Vietnamese subsidiaries. However, the Vietnamese government is also developing policies to amend the local corporate income tax law to support businesses (including those of the Vietnamese subsidiaries) which have been adversely affected by the imposition of the aforesaid additional corporate income tax pursuant to the GloBE Rules.

In relation to the policy of reduction of VAT from 10% to 8% which took effect from 1 July 2023, please refer to the background and previous development as described in pages 116 and 117 of the Company's 2023 interim report as issued and published on 14 September 2023. According to the Vietnamese government's Decree No. 94/2023/ND-CP dated 28 December 2023, the aforesaid policy has been extended and continued to apply until 30 June 2024. It follows that the Group's Vietnamese subsidiaries and their customers could continue to enjoy the cost-saving benefits derived from such VAT reduction for a longer period.

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 ESG aspects, please refer to the Company's separate 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report of the directors.

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

Liquidity and Financial Resources

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

As at 31 December 2023, the Group had a cash balance of US$1,845 million (31 December 2022: US$1,825 million). Free cash flow, representing the net cash from operating activities of US$103 million (31 December 2022: net cash from operating activities of US$409 million) minus capital expenditure of US$93 million (31 December 2022: US$143 million), was US$10 million inflows (31 December 2022: US$266 million inflows). The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest-bearing external borrowings of US$704 million (31 December 2022: US$676 million) over total assets of US$4,319 million (31 December 2022: US$5,510 million), was 16.3% (31 December 2022: 12.27%). All of the external borrowings were denominated in USD (31 December 2022: USD and RMB). 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 5.96% to 6.25% (31 December 2022: fixed rate ranging from 2.20% to 5.41%) per annum, with an original maturity of one to seven months (31 December 2022: one to seven months).

As at 31 December 2023, the Group's cash and cash equivalents were mainly held in USD, RMB and Indian rupees ("INR").

Net cash from operating activities during the current period was US$103 million.

Net cash used in investing activities during the current period was US$40 million, of which, mainly, US$93 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$26 million represented placement of bank deposits, US$83 million represented proceeds from disposal of property, plant and equipment, investment properties and assets classified as held for sale and US$3 million represented purchase of equity instruments at fair value through other comprehensive income.

Net cash used in financing activities during the current period was US$37 million, primarily due to net increase in bank borrowings of US$29 million, payments on repurchase of ordinary shares of US$3 million, interest paid on bank borrowings of US$57 million, payment on capital reduction of a subsidiary of US$3 million and repayment of lease liabilities of US$2 million.

Exposures to Currency Risks and Related Hedges

As inflation has reached a 40-year high in U.S., the U.S. Federal Reserve has continuously imposed interest rate hikes in order to counter the negative impacts led by inflation. As the result, USD has been strengthened against all other major currencies around the world. In order to mitigate foreign exchange risks, the Group actively utilised both natural hedge technique and financial methods to manage its foreign currency exposures including entering into the short-term forward foreign exchange contracts (usually with tenors of less than three months) from time to time to hedge the currency risks resulting from its operations and investments denominated in foreign currencies. Please refer to note 32 to the consolidated financial statements.

Capital Commitments

As at 31 December 2023, the capital commitments of the Group were US$32 million (31 December 2022: US$6.3 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 2023 and 31 December 2022.

Contingent Liability

There was no material contingent liability for the Group as at 31 December 2023 and 31 December 2022.

Donations

The Group has, in the financial year ended 31 December 2023, made donations for charitable or other purposes to a total amount of approximately US$397,000.

Outlook and Industry Dynamics

Market and OEM Industry Review and Challenges to the Group

In the electronics industry, the entry barrier for OEM industry is very low and its profit margin is limited, so when the gross margin of the market declines, only those with a large scale of production can survive. Due to the competitive environments, OEMs willingly reduce their profit margins in order to secure the contracting relationships with major brand manufacturers to meet their capacity. Especially, as the economy of China is opening up, China has attracted low-end and established favourable investment conditions. As China has taken over the low-end manufacturing chain, the competition in the industry has intensified, further reducing the profit margin of OEMs. This is why the Group has kept monitoring the current economic environment and market landscape and its potential impact on both the general economy and consumption power and preferences of customers we served as well as our end markets and closely manage and control our costs and capital resources so that the Group 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.

Increase in domestic production costs and insufficient supply of the talents. Compared to the consumers' need for the customised production and the accelerating upgrades of its related technology, a lack of high-level compound talents has become a bottleneck, restricting the development of the industry. As social values change, the supply of grassroots employees is also generally insufficient. As the costs for labour recruitment and production are gradually increasing while the product development cycle in the industry is shortening and the demand for better and more outputs is continuing, more grassroots labour are in need for the producers. However, the rapid development of the domestic economy and the acceleration of the rise in salary level have placed higher demands on the cost control capabilities of enterprises in the industry. As a result, for the cost saving purpose, enterprises in the industry are actively developing industrial robots, building smart factories and committing to improve the production efficiency.

Keen Competition and Margin Erosion Pressure

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

Macroeconomic Headwinds

2023 was one of the most challenging, uncertain, and global unrest years in decades, the compounding impacts put additional upward pressure on prices and caused high inflation, which led most central banks around the world continue to raise interest rates to fight inflation. Looking ahead, the market holds a cautiously optimistic outlook for the future economy. According to the IMF's January 2024 report, global economy growth is projected at 3.1% in 2024 and 3.2% in 2025, with the 2024 forecast 0.2 percentage point higher than the previous report in October 2023 on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China. Nevertheless, forecasts for both 2024 and 2025 remain below the historical average of 3.8% (2000–2019). This is due to factors such as elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Specifically, developed economies are expected to experience a slight decline in 2024, followed by an increase in 2025, with the Eurozone recovering from low growth in 2023 and the U.S. undergoing a slowdown. Emerging markets and developing economies are anticipated to achieve stable growth in both 2024 and 2025. Regarding inflation, in the midst of unwinding supply-side issues and restrictive monetary policy, global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025, with the 2025 forecast revised down. In the United States, the FED also remains cautious about the economic outlook in 2024 despite market optimism about the possibility of a soft landing. At the FED's January 2024 meeting, it announced to hold the interest rate steady and made it clear that it was not ready to start cutting rates with inflation still running above the central bank's target. Shortly afterward, the Bureau of Labor Statistics reported that headline CPI and core CPI rose by 3.1% and 3.9%, respectively in January. This exceeded market expectations and suggested that the significant economic recalibration in the U.S. following the pandemic has yet to reach its conclusion.

Smartphone Market Outlook

Regarding the outlook of the smartphone market, given the ongoing macroeconomic headwinds coupled with the impact on demand, the market is expected to continue facing challenges, but momentum is moving quickly toward recovery. Although 2023 marked the lowest full-year shipments in a decade, driven largely by macroeconomic challenges and elevated inventory early in the year, growth in the second half of the year has cemented the expected recovery for 2024. Primarily, according to the latest report of IDC, the fourth quarter of 2023 saw 8.5% year-on-year growth with 326.1 million shipments, higher than the forecasted 7.3% growth, mainly because low-end Android smartphones' rapid expansion in emerging markets in the second half of 2023. Looking ahead to 2024, with the development and widespread adoption of new technologies such as 5G, satellite communication, and generative AI, the market is hopeful for a recovery. Likewise, in Qualcomm's latest earnings call, the company projected that global smartphone shipments would remain stable or experience a slight increase in 2024 and a high single-digit to low double-digit percentage growth in 5G phones. Meanwhile, MediaTek also forecasted that the smartphone market will return to low single-digit percentage growth in 2024, driven by the adoption of generative AI which will drive a wave of smartphone upgrades and the penetration rate of 5G phones is expected to increase to 60%.

In terms of the largest smartphone market, China, 2023 also marked the lowest shipments volume in a decade, attributed to a soft economic recovery along with weak consumer confidence. While the Chinese smartphone market remains challenged, it is moving towards recovery with the fourth quarter of 2023 with a year-on-year growth of 1.2%, marking the end of ten consecutive quarters of year-on-year decline. The resilient high-end consumers in the tier 1–3 cities were the key drivers, fueling demand for flagship products. In contrast, demand for low- to mid-range devices remained weak, hindering the overall market growth as they constitute over half of the smartphone market in China. Reviewing the entirety of 2023, the overall smartphone market remained sluggish in the first half-year due to economic conditions and in the second half-year, with an improvement in the economic environment and increased enthusiasm and attention towards the smartphone market, demand gradually improved. However, brand companies maintained a cautious and conservative attitude towards shipments. Looking forward, according to IDC's December 2023 report of the China smartphone market, the shipments is projected to reach 287 million units in 2024, marking a 3.6% year-on-year increase and achieving the first annual growth since 2021. Meanwhile, the market is closely monitoring whether future fiscal and monetary policies in China can enhance consumer confidence, consequently driving the overall recovery of the smartphone market.

Regarding the Indian smartphone market, according to an IDC report published in February 2024, India's smartphone shipments grew by 1% year-over-year to 146 million in 2023. Over the year, the growth was hampered by factors such as inventory challenges, minimal improvements in inflation, and fluctuating demand for most of the year. The first half of the year was challenging due to ongoing macroeconomic turbulence leading to low demand and an inventory build-up. Yet, the market started recovering in the second half of the year supported by 5G upgrades and several new models launches. Looking ahead to 2024, despite better macroeconomic conditions, premiumisation and diffusion of affordable 5G, as the major challenges faced in the previous year are expected to persist, continuing to impact the new year, the road to recovery for the Indian smartphone market appears strained. As per IDC's estimation, there will be flat to low single-digit annual growth in 2024, primarily driven by upgraders in the (US$200 to US$400) segment, supported by financing schemes, extended warranties, and upgrade programs. In addition, it's worth noting that the 2024 Indian elections could impact the Indian smartphone industry through potential changes in government policies on manufacturing, import tariffs, and digital infrastructure investments, affecting consumer confidence and spending, regulatory environments, and encouraging local versus international manufacturers, thereby shaping the market's growth and competitive landscape.

Geopolitical Tensions

In 2024, ongoing geopolitical risks are expected to persist, continuously impacting the global economy and reshaping international structures. The escalating tech war between the U.S. and China, in particular, is projected to continue its detrimental impact on the global economy. This confrontation has already affected various sectors, including trade, technology, and investment, over recent years. An IMF blog post from 28 August 2023, underscores the costs of fragmentation, indicating that greater international trade restrictions could potentially reduce global economic output by as much as 7% over the long term. In addition, it's worth mentioning that 2024 has been dubbed a "super election year" or even the biggest election year in history, with more than 60 countries worldwide set to hold national elections. This widespread political activity is expected to further impact global market dynamics. As for the United States, the November 2024 election may heighten tense diplomatic relations and affect market sentiment since both candidates are committed to maintaining high tariffs on China, with Trump even considering imposing tariffs exceeding 60% if elected. Such policies could lead to increased costs for consumers and businesses worldwide and influence global trade patterns. Additionally, elections in other populous countries, such as Russia, Mexico, and India, are also under the international spotlight, each expected to contribute in various ways to the global economic landscape.

Manufacturing Diversification

In recent years, escalating geopolitical tensions between China and the United States, coupled with the outbreak of the COVID-19 pandemic, have caused substantial uncertainty in the global economy and highlighted the risks of relying too heavily on a single region for global supply chains. Consequently, global electronics manufacturers have increasingly sought to reduce their reliance on China by diversifying their supply chains to include other specific regions. According to the results of AmCham Shanghai's 2023 China Business Survey released in September 2023, 22% of respondents are decreasing investment in China in 2023, with the top reason being uncertainty about the U.S.-China trade relationship followed by expectations of slower growth in China; 40% of respondents are redirecting or planning to redirect investment originally planned for China, a 6-percentage point increase from last year, with most looking towards Southeast Asia. Within this region, Vietnam and India remain consistent attractions for global electronic manufacturers to relocate, fueled by several favourable factors such as trade liberalisation, favourable government incentives, competitive labor costs, and government reforms. More and more leading smartphone and PC OEMs have built their own local factories or partnered with those that have local production capabilities. However, while individual companies are reassessing their approach to China, in the near term, China is still expected to remain a vital hub for global manufacturing value chains given its sheer size and significant manufacturing influence.

Product Perspectives

With the popularity of innovations and technologies, the smartphone industry has become commoditised and highly homogenised with standardised specifications leading to increased market competition as the industry became more fragmented. As a result, self-developed chips turned to be one of the important strategies for major smartphone vendors to differentiate themselves and establish their competitive advantage. In the past years, mainstream smartphone brands have launched several products with self-developed chips including Image Signal Processing (ISP), Neural Processing Unit (NPU), and System on Chip (SOC). However, a major Chinese mobile phone brand has announced its withdrawal from the IC design business, and thousands of Chinese IC design companies have closed due to the high cost of self-developing chips and no luck with recovery in the mobile phone market in the first half of 2023. The smartphone market remained quiet until the second half of 2023, when a wave of new smartphones featuring generative AI functionality was introduced. This surge followed the announcements from the top two smartphone chipset manufacturers, Qualcomm and MTK, who revealed their premium chips embedded with AI capabilities. Also, there has been a significant development for foldable smartphones in 2023. Apart from Apple, almost all major manufacturers have introduced their own foldable phones. Counterpoint Research pointed out that with technological advancements, the expensive cost of structure for foldable products will decrease and therefore more market opportunities for foldable phones in the coming year. Last but not least, we have seen new mobile devices with untraditional designs in terms of appearance and size in 2024 CES. Examples include the Rabbit r1 AI Pocket Companion showcased by AI startup Rabbit Inc. and Humane's AI Pin. These AI-driven companion devices might potentially change the way of human-device interaction and invites users to rethink the conventional smartphone experience.

R&D Competence Building

To meet its customers' increasingly sophisticated needs, the Group has continuously maintained its business strategy of keep investing in R&D which is core competence of the Group, and cultivates global research talents to secure the competency and is continuously engaged in product research and design activities to architect and 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 continuing to spend 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 tastes 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 Artificial Intelligence of Things (AIoT), Internet of Vehicle (IoV) and medical devices industries. Seminars and technology roadmap sharing meetings are hosted with clients and key component suppliers and targeted vendors who are defining or leading in particular technological categories to keep employees connected with innovation trend. Internally, design centers are striving to promote an atmosphere for keeping abreast of new technologies by granting rewards to encourage R&D staff for submitting patents applications and hosting inter department technology sharing sessions, and attending trade shows.

The Group's design centers are in close proximity to leading global clients and new technology zones. They are also located in those highly competitive markets in the mobile devices industry. They are able to provide services from product innovation concepts to final product productions, in whole or in part. Their full R&D function resources, global manufacturing support, experienced teams in serving worldwide clients' requirements for large demand, and complex product projects become fundamental for tightening business relationships with customers. Their proven record of serving worldwide clients demonstrates the ability and adaptability to serve not only brand customers but also leading telecommunications operators. The one stop R&D services model along with experienced program/engineering service and in-house manufacturing capability can significantly decrease customers' program management efforts; hence, the customers can then focus on their core in promoting their brand products. These value-added services uphold the customer-centric service mindset. As a whole, the R&D team helps to deliver corporate strategies; so that it highlights promising ways to reposition the business through new platforms.

The R&D team serves as the Group's innovation engine. Offensively, the R&D team's role is the leading vanguard for the Group's transformation in outreach in different fields; defensively, its full service function differentiates the Group's R&D team from pure manufacturing service factories and/or R&D service companies. The R&D team stands in solid position to promote the Group's manufacturing resource advantage to customers in product designs. The R&D team also contributes to the manufacturing upgrades and assist factories for the digitalised manufacturing process. All these have allowed the Group to develop a full range of smartphones 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 alleviate the margins erosion pressure. To enhance the competitiveness of us, the R&D team will continue to innovate on technologies so that we can further enhance our technology strengths and innovation on software development, cloud computing, industrial design, image and audio quality, user experience, Artificial Intelligence, automation and robots, advanced networking system, medical IoT, advanced mechanical and manufacturing Technologies, 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, ESG friendly things (ePaper devices) and automotive products. The R&D team leverages on the entire product portfolio of mobile and wearable devices to address the opportunity for consumer IoT market and differentiate the IoT products with advanced voice user interfaces and better audio and video features. With over 15 years' experience in consumer products development and over 10 years' experience in Android software development, the Group will contribute its great capabilities in software and hardware integration and optimisation to roll out disruptive products for automobiles (telematics box, in-vehicle infotainment system, smart cockpit, etc.), taking advantage of the Group's extensive knowledge of user experience and software development in mobile ecosystems to seamlessly integrate the automobile into the driver's mobile-centric lifestyle. The Group has made further investment in R&D of new technologies to ensure future business momentum and identify and address the changing demands of customers, industry trends and competitiveness. Including next generation communication, low-earth-orbit (LEO) ground user terminal, flat phased array antenna development and 6G NTN technology. In India, the Group has been building up its R&D capability and capacity.

FIH has amassed over 20 years of design experience in mobile devices and telecommunications products, and is now actively applying this expertise to the development of Telematics Boxes. We aim to provide automotive manufacturers with solutions that are developed more rapidly and with higher quality than those of traditional vendors. Benefiting from the stringent demands of mobile phone antenna design, we demonstrate a high level of proficiency in the field of Telematics Boxes, successfully integrating traditionally dispersed antennas into compact Shark Fin antennas or Conformal antennas. Our expertise in thermal design ensures that our automotive electronic products can withstand harsh environments. Additionally, our extensive experience in software integration guarantees communication reliability and network security with the complex systems on vehicles. FIH has already supplied products to one world-class automobile manufacturer and plans to continue expanding our customer base and product line.

Looking ahead, the Group understands the tremendous challenges that have occurred previously and will continue to anticipate new factors that might emerge in 2024. In 2020, the Group has carried out large scale rightsizing and restructuring to eliminate redundant assets and become leaner and has continued to carry out the rationalisation works which improved utilisation and realised cost savings. The Group has implemented and maintained sound and effective systems of internal control and ERM 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 section headed "Accountability and Audit" of the Company's 2023 corporate governance report, which forms part of the Company's 2023 annual report incorporating this report of the directors.

Key Risks Faced in 2023

Regarding key risks faced in the first half of 2023, please refer to the major risk items below.

Industry Risks

Risks Pertaining to the Handset Business and Poor Demand

As mentioned above, there was a year-over-year decline in global handset shipments in 2023. Amid the lingering effects of post-pandemic inflation and macroeconomic challenges on the global economy, mobile phone manufacturers faced another challenging period in 2023 following a difficult year in 2022. The global economy has remained in a fragile state in 2023, with the mounting cost of living stretching consumers' budgets, the impact of inflation lingering, and the slow pace of economic growth continuing to subdue demand for mobile phones worldwide. Although interest rate hikes could curb rampant inflation, they also affected people's purchasing power, dampening consumer appetites and pushing them to curb or postpone discretionary spending, such as on mobile phones. Additionally, the extended smartphone replacement cycle and the burgeoning refurbished smartphone market in recent years have also had a significant impact on the market. Moreover, as reported by IDC, China, being the largest global smartphone market, experienced a 5% year-over-year decline in smartphone shipments in 2023 due to the soft economic recovery and weak consumer sentiment. The volatility in the Chinese market continued to impact global market volumes.

Externally, the EMS business model is facing big challenges, excessive capacity, and fierce competition and the existence of a high number of market participants in OEM market due to low entrance barrier in all areas and the highly cost-competitiveness of peers in China and India results in competitive pricing and aggressive pricing is a common business dynamic and our customers are extremely price sensitive, which reduces market revenue potential and pricing pressure continued to be high and it is hard to win new business and we may have to offer prices as low as some of our competitors and it is difficult to maintain historical or target margins. The EMS industry is a low margin industry and competitors always provide EMS services at prices we are unable or unwilling to offer and the Group must lean out all processes control costs and offer industry-leading manufacturing services at a competitive cost so as to meet customers' cost expectations. The Group also has to control BOM (Bill of Materials) costs and manufacturing costs and improve efficiency, productivity and yields, and counter gross margin erosion pressure while continuing to monitor the impact of factors affecting the business of customers and their financial health. Internally, we may also need to make changes on organisation, resource allocation, technology focus and culture. As component prices are on an average, the key focus lies on the labour costs and yields. A low operating margin is viewed as an impediment to growth, considering the impact it can create on expansion plans. The Group has ceased to manufacture loss making Nokia-branded smartphones in 2019 and HMD has adopted a multi-ODM strategy and the Group now only manufactures feature phones for HMD. To control the credit risk, the Group ceased to accept new feature phone programs from the mid of 2022 and will basically cease to manufacture feature phones for HMD from 2024. With all those negative factors such as unfavourable product mix, increasing pricing pressure, low utilisation, 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. Through years of developing mobile and smart phones, the Group has accumulated deep technology and R&D capabilities and also established reputation in the industry. These are the Group's biggest assets to create values for new target business and market. But in the past, the Group has focused on a narrow product category, mobile phones. To enter into new territories, we have to establish new position in the chosen market and product segments and this requires necessary adjustment on our resources allocation and building a strong business development team. The mix of products ordered by and shipped to major customers will affect the Group's gross margin as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services and higher concentrations of lower margin programs affected overall gross margin. Some customers may consider insourcing previously outsourced business or some of the future productions so as to optimise their capacity and asset utilisation and save costs. One major customer has found new manufacturing partners in China and India and the sales to this customer dropped dramatically during current period and it is expected that the shipment to this major customer will continue to face huge pressure in 2024. Because of the uncertainty drop in demand, instead of placing orders of large quantity, customers place more frequent orders of smaller quantity and production schedules from our customers in terms of volume and mix of products or services may fluctuate and this makes it very difficult to forecast order book. With shorter demand forward visibility, the Company has to control and optimise inventory level and working capital and material open purchase order risk in this tough period of time. Because of keen competition and surplus capacity in the market and the Group as a result of some of the Group's customers facing strong headwinds, gross margin erosion pressure of both casing and system assembly business are unprecedentedly high and such pressure will continue into 2024 with an arduous recovery path ahead. As a whole, the challenging conditions that the Group has faced since late 2017 have continued into 2023 and will continue into 2024 and there is continued pressure on the Group's gross margins generally. Based on our core competencies and considering of the cutting throat competition from China suppliers, we may have advantages to focus on new markets in North America and Western Europe, where China competitors may have constraint to make entry.

In addition, an increase in the frequency of some customers diverting business to the Group's competitors or carrying out in sourcing, changes in the volumes they outsource or price erosion pressures may also result in our taking future further restructuring or downsizing actions. During the period, we carried out a large scale redundancy action in China and it is expected that we will carry out rightsizing activities in some overseas sites so as to optimise the matching of headcount with capacity requirement. The Group will have to incur higher operating expenses during periods of transitioning programs to competitors. Any such restructuring or downsizing activities, if undertaken at all, could adversely impact the Group's operating and financial performance in the short to medium terms, and may require the Group to further adjust its strategy and operations. As a whole, despite these challenges, the Group underscores its resilience through adaptive strategies and the Group will continue to control costs and remain agile and asset light and monitor market landscape and customer performances and utilisation of assets and assess the need to do rightsizing at the appropriate time in a determined manner. To compete effectively, we must continue to provide technologically advanced manufacturing services, maintain strict quality standards, respond flexibly and rapidly to customers' design and schedule changes, deliver products globally on a reliable basis at competitive prices and seek to create enhanced relationships with our customers with our advanced technology and engineering solutions. This entails meeting stringent delivery timelines and adhering to regulatory and contractual obligations. With our robust R&D capabilities and strong manufacturing prowess and agile response mechanisms, we are fully prepared to navigate the competitive landscape. Our engineers are actively acquiring quality standard certifications, participating in comprehensive training programs, and deepening their understanding of emerging fields. In the long term, as overall demand may increase when geo-political tensions vanish, market participants will be able to expand through making capital investments in technical operations, as well as investments in new product implementation processes to combat rapidly changing market and customer preference. But such investments can carry significant financial risk as the new market segments may need time to nurture and to dominant, so that the Group may enjoy good profit when the market taking off. But the reality is that there is no guarantee of future business.

Operational Risks

Reliance on Key Customers and Credit Risks and Increase in Allowance for Expected Credit Loss

(i) We are dependent on the success of our customers and the general economy and its pace of recovery and markets in which they operate. When our customers or the markets in which they operate experience declines or grow at a significantly slower pace than anticipated, we will be adversely affected. The Group's five largest customers account for 88.98% of the Group's total revenue. Due to customer concentration, we are highly dependent on the continued growth, appeal of products, viability and financial stability of our customers. The Group has strong established relationships with these major customers and it is a big challenge to maintain good bargaining power with these customers in such a dynamic and highly competitive marketplace with surplus manufacturing capacity and weak and shrinking demand and accumulated inventory. Because of the intense competition among our customers and their competitors, our customers have to reduce prices for their products and directly increase the pricing pressure placed on us. The Group relies on a relatively small number of customers for a substantial portion of our sales, and our ability to replace declining sales from end-of-life programs and customer disengagements with new business wins and declines in sales to these customers could reduce our net sales. Please refer to the sections headed "Key Relationships with Customers, Suppliers and Employees" and "Geographical Segments" above of this report of the directors for the details of our assessment of the risk presented to the Group and our actions to manage such risk. The majority of the Group's trade receivables are from key established customers with whom the Group has strong established working and business relationships.

The credit terms granted to them are in the range of 30 to 90 days and are in line with those granted to other customers of the Group. As market is volatile and competitive and slowdown of general economy, FED balance sheet tightening, soaring inflation and interest rate hikes and credit tightness and market conditions and increasing cost of borrowing could have impact on the businesses and operating performance and access to debt and equity financing and liquidity and cash conversion cycle and cash position and working capital and financial condition of some of our customers, including any impact on their ability to meet their contractual obligations and trade account payables. Such financial difficulties, if experienced by one or more of our customers, will significantly affect the ability of these customers to make timely payment or to purchase inventory required to support their businesses. Likewise, we remain in close contact with our customers to understand the impact of all those unfavourable factors on their businesses and the resulting potential impact on our business in a pro-active manner. The Group kept monitoring credit position and late payments of customers and collections from customers and assessed default risks and going concern risk of customers in tight cash position and financial distress and reviewed adequacy of allowance for expected credit loss. In particular, the Group's finance team continued to monitor closely business performance, cash position and liquidity, late payments and financial stability, of HMD and its credit status and going-concern risk and take necessary actions to mitigate the risks. The Group had some small customers and the exposure to these financially troubled customers might adversely affect our financial results too. Especially due to the economic slowdown, some of the small customers might experience financial difficulty and the Group could have difficulty recovering amounts owed to us, or demand for our products and services from these customers could decline. If one or more of our customers were to become insolvent or otherwise were unable to pay to us in a timely manner, or at all, our financial results and condition could be affected and there was a need to increase expected credit loss allowance, days of our trade receivables and working capital requirements due to higher inventory levels and amount of write-off of inventory.

Given the increased risk to the timely collection of trade receivables when payments from certain customers of the Group had been deferred, management expected the default rate would increase accordingly due to the tough economic environment and sluggish demand. After making the assessment, management confirmed that the risk had increased dramatically and ultimately HMD might not be able to meet obligations as they came due based on what's known and knowable. Even if HMD is going to generate some profits, this is not leading yet to stronger cash position due to quarterly seasonality in the first quarter of 2024 and business critical royalty payments. In addition, HMD cannot drain their cash reserves while they are preparing for the critical brand transition in the first half of 2024. For customer with increasing credit risk, the management had appointed an independent valuer to assist the estimation of the expected credit loss allowance provision of the trade receivables due from such customer by determining an appropriate probability of default rate, forward looking adjustments and estimated loss given default rate. The Group uses provision matrix to calculate expected credit loss allowances for trade receivables which are not credit-impaired or with increasing credit risk. The provision matrix is based on debtor's aging of groups of various debtors that have similar loss patterns. The provision rate is based on the Group's historical observed default rates taking into consideration of forward-looking information that is reasonable and supportable and available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In light of high uncertainties of global economy and handset market and heightened geo-political tension, the Group reassessed the expected credit loss allowances by increasing the expected credit loss percentage for overdue trade receivables during the current period.

(ii) The gross margin of system assembly and casing business eroded seriously. The Group has been keen to develop new customers overseas and manufacture products other than mobile phones. Finally, the core business of the U.S. Internet customer is not in the mobile phone sector and any change to the business strategy of this customer may affect our sales to this customer. But it is encouraging that this customer is keen to devote resources to the mobile phone business. Finally, our customers may experience dramatic market share shifts in demand which may cause them to lose market share or pricing power or exit/downsize their businesses.

(iii) End market demand slowed down and product life cycle is shortened and preferences by end customers may change, in order to reduce risk, most of our customers do not commit to firm production schedules for more than one quarter and we continue to experience reduced lead-times in customer orders and they may cancel their orders, change order quantities, delay production and shipment or continually evaluating the merits of manufacturing products internally against the advantages of outsourcing and change their sourcing strategies. The short-term nature of our customers' commitments and the possibility of rapid and frequent changes in demand for their products and order fluctuations impede our ability to forecast the level of customer orders with certainty and makes it difficult to schedule production and maximise utilisation of manufacturing capacity and plan material requirements and control inventory and headcounts, and may lead to the write downs of excess or obsolete inventory or cancel materials ordered that we may not be able to sell to customers or third parties. In that regard, we must make significant decisions, including determining the levels and volume of business and net income and affordable credit, inventory and business risks that the Group will seek and accept, setting production schedules, making materials/component procurement commitments, optimising asset utilisation and allocating personnel and other resources based on our estimates of our customers' requirements and demand visibility and the volatility and strategic decisions to maintain long term customer relationships and develop in some countries. Should any of our larger customers in this market fail to effectively compete with their competitors in the end markets, they could reduce their orders to us or experience liquidity difficulties or delay payments to us. Finally, there may be changes to existing business models of buy-and-sell to consignment and top line and gross margin and net margin will change accordingly as for the consignment model, we can only recognise the "Processing Income" and not sales income in the statement of profit or loss as we do not bear any inventory risk and financial risk. Buy-and-sell business model means a company buys the materials and adds value and then sells to customers whilst consignment business models means the customer owns the materials and consigns the materials to the contractor/OEM to do the processing works and then OEM ships finished products to the customer and records processing fee income in its financial statements. For ODM programs, we have been requested by customers to incur upfront expenses like consumables and tooling in order to meet the anticipated demand and we can only bill the customers when mass production starts. Any delays in the receipt of these money will affect the booking of other income. Also, we may not be able to pass those unanticipated costs in the ramping-up process through to our customers or otherwise offset them. As many of our costs and overheads and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant portion of the Group's total revenue, will reduce the contribution margin and can harm our gross profit margins.

(iv) To reduce customer concentration risk and to increase capacity utilisation, the Group has put a lot of resources and effort into developing new customers. We have already identified multiple new segments which the Group may be able establish significant dominant position, given sufficient time to expand product lines and to develop these emerging markets — such as digital healthcare, medical IoT, recycling robots, advanced networking equipment, EV as first tier supplier, video conference system…etc. The building up of business relationships with new or recent customers may present more risks than with existing customers as it needs time to nurture new market segments and to dominant and products of new customers are new to the market and there is no track record of order volume and timing and it is not certain whether their untested new products can gain commercial acceptance by the market with looming demand and this make it harder for us to anticipate requirements and plan purchase commitments and inventory levels in line with anticipated demand than with established customers. It also tests our ability to manage successfully and execute a complex business model characterised by high product mix and demanding quality, regulatory, and other requirements. Ramping new programs may require months before production starts, and often requires significant up-front investments and start-up costs relating to new tooling and processes and personnel and increased working capital and our design activities often require the purchase of inventory for initial production runs before we have a firm purchase commitment from a customer and we may not be able to recover from the new customers. These are particularly evident in the early stages of the life cycle of new products. Our customers may significantly change/delay these programs, or even cancel them altogether, due to decreases in their end-market demand or in the actual or anticipated success of their products in the market place. As the financial condition of these new customers may not be very strong, the tightening of financing for start-up customers, together with many start-up customers' lack of prior operations and unproven product markets increase our credit risk and their cash position can be affected if their products cannot sell well. Sometimes we have to offer longer payment terms and the credit risk can be higher. But we will perform rigid credit worthiness assessment and business model evaluation before engaging with a new customer and control credit amount in the very beginning. We will also consider buying credit insurance to give adequate cover to potential financial exposure. Our goal is to ensure that our terms of engagement appropriately reflect anticipated costs, risks and rewards. But there is the risk that new program wins and/or customer demand may not result in the expected revenue or profitability and customer orders may not lead to long-term relationships.

Financial Risks

Foreign Exchange Risks

Please refer to the section headed "Financial Performance" above of this report of the directors for the details on how to mitigate such risks. Money market is volatile and the figures for 2023 and future periods can differ significantly from historical figures. The volatility in 2023 significantly affected the Group's performance in both functional currency and local currency. Initially, as the year began, the anticipation of economic recovery in China caused the RMB, the group's primary local currency, surging until May 2023. However, unforeseen challenges arose in China, including a drop in exports, the bankruptcy of real estate conglomerates, and a noteworthy outflow of foreign investments, leading to a sharp downturn in the value of the RMB. At the same time, the FED chose to continue raising interest rates to fight inflation which caused the bullish of USD and increased borrowing cost.

In 2023, the FED continued to hike interest rates and approved its first rate hike of the year in February, raising the target federal funds rate to between 4.50% and 4.75%. By the end of 2023, interest rates had reached between 5.25% and 5.50%. Overall, 2023 was a period of high interest rates.

Technology Risks

Cyber Risk Controls

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

Risk and Opportunities of 2024

As 2023 came to an end, we observed global markets and economies navigating a turbulent year of interest rate rises and surging inflation. 2024 poses another challenging year for the global economy, with core inflation remaining elevated and the response of central banks to interest rate movements continuing to strain economic activities. Inflation, the recovery of China's economy, and geopolitical concerns will persist as dominant factors in 2024, negatively impacting both consumer demand and brands' operating costs. The global economic gloom will continue to influence consumers' shopping habits, and the handset industry remains highly unpredictable, requiring agility to adapt to the new reality. Faced with global risks, ongoing uncertainties, and an evolving situation impacting the timing and path of recovery in each market, we must pay extra careful attention to macroeconomic and political issues in the regions/geographical segments where we produce and sell our products. Additionally, we need to be proactive and develop risk mitigation strategies that can be implemented quickly. The Group's future business plan would focus on remaining lean and agile and asset light and continually monitor the external macro environment and market competition conditions and internal operational excellence to respond accordingly and continue to devote resources to enhance R&D and business development capabilities.

The risks described below are not the only ones relevant to us or the industry or geographies in which we operate. There may be other risks beyond those listed below that are not currently known to the Group or may not be material now but could become significant in the future and affect and impair our business, results of operations, financial condition and cash flows and also the business of our customers and suppliers and other stakeholders. 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 global economic slowdown and Ukraine warfare and inflation and strong USD and interest rate hikes 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, 2024 risk factors and opportunities include:

Major risks include:

(I) *Demand Side*

Weak Demand and Risk of Sales Reduction to Some Customers and Possible Need of Continuous Restructuring/Rightsizing Activities

(i) As mentioned in the preceding sections, by 2023, supply chain disruptions had ceased and the handset industry transformed into a demand-constrained market with end customers becoming even more price-sensitive. Looking ahead to 2024, there is a consensus on the gradual recovery of the global smartphone market. According to an IDC report published in January 2024, global smartphone shipments declined by 3.2% year over year to 1.17 billion units in 2023. While this represents the lowest full-year volume in a decade, growth in the second half of the year has solidified the expected recovery for 2024. Earlier, a report from IDC in February 2024 predicted that the market recovery would continue in 2024, with an expected growth of 2.8%. Nevertheless, it's worth noting that uncertainties persist in the market in the new year, influenced by the rather pessimistic global economic outlook for 2024, as explained in the preceding segments. Additionally, many of our customers have expressed the need to deplete their existing inventory during the first half of 2024, implying that we will only receive new Request for Proposals (RFPs) until that period. Some believe that mobile phones now exhibit strong performance with all kinds of basic functions and that there is no breakthrough in product form. The marginal effect of changing mobile phones is considered very small. The decline in consumer demand for mobile phones is directly reflected in shipments. Most of our customers do not commit to long-term production schedules and may cancel orders, change production quantities, delay production, or alter their sourcing strategy. Customer relationships with emerging companies may pose more risks than those with established companies. With declining sales, we may struggle to maintain our leadership in the mobile phone EMS industry. In the saturated handset market, brands will need to carefully consider factors influencing consumer behaviours and respond accordingly. Vendors are cautiously approaching the market with profitability targets, lean operations, and inventory clearing as top priorities. However, for vendors with long-term ambitions and capital to invest, challenging market conditions provide an excellent environment to capture market share, showcase commitment and intentions to new markets, and establish close partnerships with the channel.

(ii) The success of the Group is closely tied to the success of our customers. A substantial percentage of our sales are made to a small number of customers, all of which usually operate in markets with severe competition, posing a high concentration risk to both the top line and bottom line of the Group. Market developments experienced by our customers and/or market acceptance of their new products/models or new customer development may, from time to time, affect the Group's business. It is difficult to project the future order book of the Group and quarterly performances. A major customer of the Group found new local manufacturing partners in China and India, resulting in a dramatic drop in sales to this customer in 2023, and the 2024 outlook is pessimistic. In particular, peers in China are very cost-competitive. In India, this customer sought local manufacturing partners to benefit from the new manufacturing partner's eligibility for government incentives under the PLI (Production Linked Incentive) scheme. This customer also experienced a steady decline in sales and market share in India, along with regulatory challenges. In India, the risk of income tax audits is a common concern for all Chinese players, who have over 65% of volume share in smartphones in India. Another general risk in India, common to the entire market, is the upcoming state and federal elections in May 2024, and the first quarter and especially second quarter of 2024 will be a sensitive time in the capital markets. Sales to some other major customers may also be subject to significant pressure as market demand continues to be very weak, and the customers face headwinds of all kinds. For another major customer, it is anticipated there will be a demand drop in 2024 as the corporate end customers (leading Indian Telecom Operator) of this customer curtail deployment of 5G towers after meeting the minimum roll-out obligation of 5G in the Licensed Service Areas (LSA) in accordance with the norms set by the Department of Telecommunications (DoT). We foresee that the demand would remain subdued for most of 2024 till the start of next CAPEX cycle.

(iii) Gross margin can vary from period to period, making it challenging to maintain gross margin in the highly competitive marketplace with significant margin erosion pressure. Different programs (both old and new) may contribute different gross margins, depending on the type of services involved, the complexity of the product, business model, volume of the programs, and bill of material costs. Usually, in the early stages, manufacturing volumes are still low, and the gross margin is low as new programs need time to ramp up and achieve economies of scale, and there are unabsorbed manufacturing overhead costs to bear. Our customers are constantly seeking to reduce costs in their supply chains and increasingly imposing cost-reduction requirements. While we focus on reducing our costs to address pricing pressure, we face significant pressure to achieve proportionate reductions in costs or sustain our current rate of cost reduction. Certainly, these pressures on pricing and costs in the mobile phone industry will persist. Any broad-based change in our prices and pricing policies will reduce our revenues and erode our margins. In particular, peers in China are very cost-competitive, which is why the Group has to move the gravity out of China. Based on the core competencies of the Group and considering the cutthroat competition from Chinese peers, we may have advantages in focusing on new markets in North America and Western Europe, where Chinese competitors may face constraints in making entry. We face risks arising from the restructuring of our operations. The move out of China and the decline of the Group's sales in China resulted in deteriorating utilisation of assets in China, and there is a continuous need to carry out large-scale and decisive downsizing and restructuring in Northern China to rationalise the headcounts and align our capacity with current and anticipated customer demand. There is a need to make severance payments according to local labor law requirements, and the amount can be very large, potentially affecting the Group's performance in that year. We have been extremely careful when handling restructuring as it may impact employee morale. As the market is dynamic, additional restructuring actions may be required in the coming period, possibly in some overseas sites, which are subject to different legal and regulatory requirements governing the extent and speed of our ability to reduce our capacity and workforce. The process of restructuring entails, among other activities, moving production between sites and facilities, transferring programs from higher-cost locations to lower-cost locations, trimming facilities, reducing the level of staff, realigning our business processes, and reorganising our management, and all these may incur costs in the short term with the expectation of cost savings and efficiency enhancement in the long term.

(iv) With major economies experiencing weak growth, the global economic growth has been sluggish so far this year. For China, exports plummeted, real estate is in an unprecedented crisis and domestic consumption has been struggling to recover. The job prospects for young people remains gloomy and there are several structural reasons for the elevated youth unemployment. On the demand side, the property, internet, and education sectors, which absorb a large portion of university graduates every year, are still coping with the residual impact of the regulatory clampdowns of the last few years. Second, many smaller businesses that closed during the pandemic haven't reopened. The swelling ranks of jobless youth also represent a looming demographic challenge for Chinese policy makers. The country's population is entering decline for the first time in six decades and is set to be overtaken by India's, just as concerns mount about a structural slowdown in economic growth. China is encouraging companies to boost hiring as the economic recovery gathers pace, underscoring persistent worries over the labour market and soaring unemployment among young people.

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

In this inflationary environment, it is crucial for the Group to prioritise effective cost management and continuously seek avenues for optimising operational efficiency. By identifying opportunities for process improvements and embracing innovative strategies, the Group can mitigate the impact of rising costs and adapt to the evolving market dynamics. These proactive measures will enhance the Group's competitive position amidst the challenges posed by inflation.

The Group's core competence is currently limited to phone-related areas, and there is a need to diversify the skill set.

(II) Supply Side

The Group keeps increasing the investment in India. Indian government has implemented several policies aimed at promoting domestic electronics industry while addressing the challenges associated with importation. The 'Make in India' initiative, launched in 2014, seeks to boost manufacturing across various sectors, including electronics. Under this initiative, the government has introduced policies and incentives to encourage local production and reduce dependency on imports. The Phased Manufacturing Program (PMP) is a key component of the government's strategy. It identifies specific electronic components and devices for phased manufacturing, gradually increasing the domestic production of these items. This approach helps create a conducive environment for the growth of the electronics industry while ensuring a smooth transition from import-dependent to self-sufficient manufacturing.

Despite these proactive measures, India faces challenges in implementing a robust electronics component importation policy. One significant challenge is the country's historic reliance on foreign imports for critical components. Shifting this dependency requires policy changes but also significant investments in R&D, infrastructure, and skill development. Another challenge is the global nature of the electronics supply chain. Many technologies and components have been built and established in certain countries and regions and sourced from these international markets for decades, and disruptions or fluctuations in global trade can impact Indian domestic production. The government must strike a delicate balance between promoting local manufacturing and ensuring a steady supply of essential components to sustain the industries.

By incentivising domestic production, India aims to create a self-sustaining ecosystem that not only meets domestic demand but also positions the country as a competitive player in the global electronics market. To reduce reliance on imports, the industry must invest in research and development, fostering a culture of innovation that can lead to the creation of indigenous technologies and products. As India navigates the complexities of the global supply chain, a well-calibrated approach that balances local production with global collaboration will be essential for the sustained growth of the electronics sector.

(III) Asset impairment risk

As the market is uncertain, in accordance with IFRS requirements, it is necessary to review the carrying amounts of assets (such as property, plant and equipment, right-of-use assets, goodwill, financial assets, etc.) at the end of the reporting period. This is done to determine whether there are any indications that they have suffered an impairment loss. If such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Given the challenging business environment, there may be a requirement to recognise impairment losses, and the amounts involved could be significant.

(IV) Macro-economics

(i) Global

The global economy, recovering from the unexpected shocks of the COVID-19 pandemic, Russia's invasion of Ukraine, and a crisis in the cost of living, has demonstrated resilience in 2023. The rate of inflation has decreased more rapidly than anticipated since its peak in 2022, with the adverse effects on employment and economic activities proving to be less severe than expected. At the same time, high interest rates aimed at fighting inflation and a withdrawal of fiscal support amid high debt are expected to weigh on growth in 2024. According to the January 2024 IMF report, the projected economic growth for 2024 is expected to stay at 3.1%, aligning with the estimate for 2023. Conversely, while the U.S.

economy demonstrated robust resilience in 2023, the IMF estimated a decline in economic growth from 2.5% in 2023 to 2.1% in 2024. Furthermore, the United Nations provides an even lower forecast, predicting that the U.S. economy growth will decline to 1.4% in 2024. These are attributed to the lagging impact of tightened monetary and fiscal policies, as well as a softened labour market affecting overall demand.

Regarding inflation, in 2023, amid weakened demand, oil and natural gas prices experienced a general decline. However, concerns over supply were triggered by the Israel-Hamas Conflict, and OPEC+ also attempted to stimulate oil prices by extending production cuts, leading to a slight rebound in energy prices in December 2023. This resulted in the year-on-year Consumer Price Index (CPI) for the United States being 3.4%, with the core CPI at 3.9%, both surpassing market expectations. However, the core CPI fell below the 4% for the first time since May 2021, indicating that inflation appears to be gradually returning to a more normal trajectory. The IMF predicts that global inflation will continue to moderate and return to normal levels by 2025, and indicates that a scenario of economic soft landing is highly likely, where inflation decreases without a significant decline in economic activity, particularly pronounced in the United States, the forecast indicates a very moderate increase in the unemployment rate, rising from 3.7% to 3.9% by 2025. Recent economic data has been mixed, prompting the FED to reassess the lagging effects of aggressive interest rate hikes. The duration of maintaining high interest rates will depend on the future developments in inflation and employment figures.

Besides, according to Global Trade Alert data, countries imposed around 3,000 new trade restrictions in 2023, a substantial increase from approximately 1,100 in 2019. Affected by this, projected world trade growth is 3.3% in 2024 and 3.6% in 2025, falling below the historical average growth rate of 4.9%. These actions pose potential risks for the future, leaving 2024 in a state of uncertainty. Overall, despite the gradual control of inflation, there remains significant uncertainty in 2024, not only due to the lagging impact of tightened monetary and fiscal policies but also due to various geopolitical risks.

(ii) *China*

Burdened by the protracted property crisis, weak consumer and business confidence, and mounting local government debts, the world's second-largest economy has struggled to achieve a strong and sustainable post-COVID pandemic recovery in 2023. The domestic real estate crisis is a major impediment to economic growth. China's real estate construction has now endured three successive years of decline, leading to the ongoing economy recession. Goldman Sachs forecasts a 5–7% contraction in China's investment in real estate in 2024. The persistent sluggishness in the property market could result in a 1% reduction in GDP growth. In addition, the risk of defaults in local government debts also increase the market uncertain of economy. In order to provide financing for large-scale stimulus programs reliant on infrastructure investment, local government financing vehicles have accumulated a large amount of debt. More than US$646 billion government bonds will mature in 2024, posing a challenge to local governments' ability to refinance debt and avoid defaults. Although China's GDP grew by 5.2% in 2023, meeting the government's annual growth target, this figure still fell below the pre-pandemic average annual growth rate of over 6%. Furthermore, the average forecast among international banks, including Goldman Sachs and Morgan Stanley, indicates a further reduction of 4.6% increase in GDP in 2024, which underscores the weak consumer confidence. In addition, the sluggishness in the property market and the defaults risk of local government debts have incurred the deflationary pressure. In December 2023, the CPI in China fell by 0.3% year-on-year, making the third consecutive negative monthly growth, showing the country's economy is still shrouded deflation. Moreover, the continued downward trend in oil prices and insufficient demand for industrial goods led to the PPI also dropping by 2.7% in December 2023, making the fifteen consecutive negative monthly growth. This has deepened concerns in the market about China entering a prolonged period of deflation. Not only internal factors contribute to China's economic weakness, but the ongoing U.S.-China trade war continues to impact China's economic. In recent years, due to the pandemic and political uncertainties, the global have highlighted the high risks and vulnerabilities of relying on China's supply chain. Meanwhile, the United States and certain Western countries have implemented subsidy policies to encourage international companies to reduce their dependence on China production. According to trade data from the U.S. Department of Commerce, in the first half of 2023, China slipped from being the top importing country to the third, replaced by Mexico and Canada. Moreover, China's FDI in 2023 continued to decline to US$156 billion (YoY -8%) in 2023 due to worsening business results and a less optimistic outlook for China. With both exports and investments decreasing, the market is uncertain whether China's future monetary and fiscal policies can stimulate domestic demand. In summary, the market expects that the U.S.-China trade war will continue to intensify, and China's economy still faces significant uncertainties in 2024.

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

The investments in associates and a joint venture are accounted for using the equity method in the Group's consolidated financial statements. The unprecedented and uncertain global environment may result in a wide range of potentially negative long-term consequences, giving rise to potential losses in operations and discrete losses or expenses, such as those related to goodwill and intangible assets in these associates and the joint venture. Under the equity method, investments in associates or a joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and OCI (Other Comprehensive Income) of the associates or joint venture. The Group needs to share the results of associates and the joint venture. The Group also needs to assess whether there is objective evidence that the interest in associates and a joint venture may be impaired. When objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. During the current period, the share of the loss of a joint venture was US$20.2 million (YTD December 2022: US$4.4 million), and the share of the loss of associates was US$0.3 million (YTD December 2022: US$3.1 million). The share of the loss of the joint venture includes the share of the full impairment of goodwill of US$16.2 million as the joint venture suffered a loss due to hardware sales facing headwinds, and the EV market in mainland China is becoming hyper-competitive, impacting both the volume and causing pricing pressure on all suppliers. As the global economy has not yet recovered, demand is still weak, and competition is fierce, the impairment risk on investment is always present.

(VI) In 2023, through the extra effort made, the Group successfully sold land and buildings in Hangzhou, Hungary, and Beijing, recognising a significant after-tax gain. However, for those remaining assets, particularly the land and buildings in China, it is quite difficult to dispose of them as the demand for industrial property has shrunk dramatically. This implies that the substantial capital gain on the disposal of idle assets recorded in the past two years will not happen again.

(VII) In India, income tax risk is now common risk for all Chinese players, who have over 65% of volume share in smart phones in India. The income tax department of India is aggressive all the time to collect tax revenues.

Major opportunities include:

(I) As the technological landscape continues to change, the Group must pursue new and exciting frontiers with our products, continually evolving our business model to provide competitive services attractive to a wide range of industries. The Group has established a corporate-level Global Business Development (GBD) division to spearhead business development efforts, aiming to expand into new markets and capitalise on opportunities beyond EMS. This includes early involvement in the design and development of customers' products, facilitating entry into new territories. This strategy aims to fully leverage our R&D resources, providing value and differentiation to customers beyond manufacturing services. Implementing this strategy involves organisational changes, resource reallocation, adjustments in technology focus, and fostering a new corporate culture. However, it is important to note that this effort may take time to generate revenue and we recognise these industries currently require extensive investment ahead of profitability. As a result, adopting a mid-term and long-term perspective is crucial in terms of funding and team building for these key areas. Therefore, a corporate-level budget plan is necessary to ensure sufficient initial investment, securing future competitiveness and financial gains. But for new customers, we remain cognizant of inherent risks around potential payment delays, fluctuating component costs, and reliance on a handful of clients. We mitigate these through diligent financial vetting, diversified suppliers, stringent quality control, and maintaining leadership communication. It is anticipated that there will be a gradual increase in the weight of non-phone business in the coming period, leading to reduced reliance on conventional handset business. This shift in the business portfolio will contribute to increased diversification.

(II) FIH has accumulated over 20 years of design experience in mobile devices and telecommunications products, and we are capitalising on our proven expertise in mobile communications in the development of Telematics Boxes, despite recent collaborations contractions and economic instability. Our goal is to offer automotive manufacturers solutions developed with greater speed and higher quality compared to traditional vendors. Drawing on the exacting demands of mobile phone antenna design, we demonstrate a high level of proficiency in Telematics Boxes, successfully integrating traditionally dispersed antennas into compact Shark Fin antennas or Conformal antennas. Our expertise in thermal design ensures that our automotive electronic products can withstand harsh environments. Furthermore, our extensive experience in software integration guarantees communication reliability and network security within the complex systems of vehicles. FIH has already supplied products to a world-class automobile manufacturer and plans to further expand our customer base and product line. This strategic effort will contribute to increasing the share of non-phone business in overall sales revenue. In summary, these efforts underscore the Group's steadfast commitment to sustained innovation, expansion into emerging sectors, and the creation of long-term value for investors. The leveraging our mobile expertise alongside emerging digital capabilities propels our journey towards becoming a leading provider of cross-sector technology solutions.

(III) Leveraging AI technology and our past experience in hardware/software integration, the Group has strategically expanded into the domain of AI robotics. Recently, we successfully co-developed an AI Recycling Robot with our customer, which can automatically identify and sort a variety of recyclable materials. Moreover, this robot is capable of sorting recyclables by colour and brand, and it provides real-time data analysis to immediately monitor recycling performance. With the help of AI technology and big data analysis, the Group assist in transforming labour-intensive recycling industries, support the circular economy, and accelerate progress towards a sustainable future.

Despite the widespread coverage of wireless communication networks nowadays, a noteworthy revelation comes from a report released by the International Telecommunication Union (ITU) in September 2023 — nearly one-third of the global population still remains without internet access. This deficiency in coverage not only restricts access but also results in poor communication quality in remote areas. Meanwhile, recent advancements such as satellite miniaturisation and cost reductions in rocket transportation, and the impact of the Russia-Ukraine war further emphasise the growing importance of resilient networks. Governments worldwide are now prioritising the combination of satellite communication technology with terrestrial networks to create hybrid solutions that improve both bandwidth and coverage. By leveraging the experience and professional capabilities in wireless communications, the Group has expanded its capabilities into the development of user terminals, phased-array antennas, and antenna subsystems, incorporating manufacturing for integration into the final product to support the realisation of the Group's strategy and positions it to capture the opportunities presented by the evolving landscape of global communication networks.

(IV) As mentioned above, India team is pitching business aggressively in new industry segments which have strong growth potential and also because India team has developed great expertise in these product categories over the last few years. The rapidly expanding Indian market remains a primary focus for the Group's operations. In 2020, the Group initiated the establishment of a casing factory in India, situated in Chennai, Tamil Nadu. This facility encompasses full enclosure manufacturing processes and is co-located with the Group's SMT/final assembly factory. Leveraging local EMS capacity alongside the Group's robust global multi-site R&D resources, the Group offers a diverse range of local services, spanning from IDM, ODM, JDM, to EMS, catering to the evolving needs of current and potential customers across various product lines. The comprehensive resource mapping readiness positions the Group to align closely with the Indian Government's "Made In India" (MII) policy. In addition to the differentiated service strategy for the Chinese market, the Group is pursuing a volume-driven approach for the Indian market, aiming to optimize supply chain management. These strategic initiatives yield benefits such as enhanced on-time delivery, reduced inventory costs, strengthened bargaining power, particularly in key components, and increased operational flexibility. Looking ahead to 2024, the Group is poised to enhance the capabilities of its casing factory by incorporating a dedicated tool shop, along with R&D, tooling, component manufacturing, LVI, and full assembly capabilities within an EMS facility. This strategic vertical integration initiative is geared towards meeting the diverse demands of both existing and prospective clients across emerging product lines.

Additionally, recent findings from a survey conducted by Moody's Investor Service in January 2024 underscore India's potential as a beneficiary of the ongoing diversification of global supply chains away from China. The driving forces behind this trend include escalating tariffs imposed by the Chinese and U.S. governments, leading to heightened operational costs in China, coupled with escalating geopolitical tensions, straining global trade relations with China. India presents a compelling value proposition, boasting a competitive cost structure, a vast labor pool, and a burgeoning domestic market. Moreover, the Indian government has introduced various incentives and reforms to attract foreign investment and bolster the country's manufacturing capabilities. However, India grapples with challenges related to infrastructure, logistics, and policy hurdles, hindering its ability to fully unleash its potential as a global manufacturing hub.

Additionally, a report by Gartner in January 2024 predicts sluggish growth for the U.S. economy, projected at only 1% in 2024, while China's growth trajectory remains subdued. Consequently, this economic landscape is anticipated to impact the demand for goods and services from both nations, creating opportunities for other economies in the Asia Pacific region, including India, Malaysia, Thailand, and Vietnam.

(V) The Group has a global culture of continuous improvement, sharing best practices and implementing lean principles. For instance, we have introduced automated production lines that streamline our operations and enhance efficiency in several of our facilities. We will continue to drive lean and operational excellence initiatives with common global processes that allow us to optimise our cost structure and capacity. Meanwhile, our customers benefit from these initiatives by sharing in the cost savings and knowing that their manufacturing partner can scale to meet their growth needs.

1H 2024 Outlook

The Company refers to its profit warning announcement of 2 November 2023 and its announcement relating to additional inside information about expected 2023 annual performance dated 27 February 2024 respectively, which provided (among other things) certain updates on its expected 2023 annual performance and included information about the various factors that contributed to the Group's consolidated net loss for the current period and that have persisted and were expected to continue into at least the six months ending 30 June 2024 (1H 2024).

Given the various challenging factors (including without limitation those relating to slow economic recovery, geo-political tensions, generally weak handset demand, keen competition, margin erosion pressure, inflationary pressure, under-utilised assets, continuing downsizing and restructuring efforts and associated costs, the performance of associates and a joint venture, asset impairment risk, and increase in Expected Credit Loss allowance amount, exchange rate volatility, and high interest rates) described above in this "Discussion and Analysis" section as well as the numerous variables and factors that might have adversely affected or continue to adversely affect the Group's performance for the current period and presumably 1H 2024, the Company considers it is currently too early and difficult to predict meaningfully and with any precision what further adverse impact such variables and factors might have on the Group's performance for 1H 2024.

That being said, as it needs more time to recover, the Company currently anticipates that conditions in 1H 2024 will remain very difficult, challenging and volatile. Considering the currently available information, the Company believes there is a realistic likelihood of a year-on-year decline in 1H 2024 sales, resulting in a deterioration of 1H 2024 gross profit, and this is likely to pose significant pressure on the Group's operating performance in 1H 2024, probably leading to sustained operating losses for 1H 2024.

Over the last several years, the Company has been proactively taking appropriate and reasonable steps to seek to improve the Group's performance notwithstanding the various challenges over that period. The Company will keep matters under close review as 1H 2024 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 2024) certain unaudited consolidated financial information of the Group for the first quarter of 2024, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

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

(i) Changes in: (1) the handset ecosystem and macro-economic environment, including changes in the global economy, increased international political volatility, complex geo-politics, escalating geopolitical tensions, de-risking relations with China, decoupling from China, de-globalisation, de-sinicisation, vigorous competition, consumer behaviours, inflation, and the recovery and resilience of the economy of China and other major economies; (2) the landscape of the handset industry; (3) major markets in different geographical segments generally; (4) end-market demand and consumer willingness to spend; and (5) ESG compliance requirements;

(ii) customers and their strategies (in particular outsourcing strategy) and risk appetite and business and financial conditions; China plus One strategy; China for China strategy; nearshoring;

(iii) keen competition of local peers;

(iv) Success of our customers' products in the marketplace and sales performance; adjustments to business strategy; changes in outsourcing strategy; inventory accumulation in channels; customer, sales, and product mix changes; the ramping of programs for new or existing customers; customer disengagements, terminations, or non-renewal of customer programs; product launch or recalibration strategies and timing; possible cancellation or delay of customer orders or changes in production quantities; market competitiveness; shifts in customers' demand, preferences, and propensity to spend (e.g. in-house manufacturing instead of outsourcing); changes in business models (e.g. shifting from buy and sell to consignment or vice versa); timing of the ramp-down of old phone models and the ramp-up of new phone models, along with the length of the transition period from old to new phone models; potential decline in sales to a major customer due to the customer's engagement with new manufacturing partners and ongoing customer diversification; end consumer behaviours; and any broad-based change in the Group's prices and pricing policies that may reduce its revenues and profitability;

(v) local factors and events that may affect our production volume, such as local holidays (e.g. the Lunar New Year holidays in Mainland China and Vietnam), which can often affect shipments and sales in the first quarter of each year, weather and climate changes or natural disasters; power supply in summer seasons in China and Vietnam, surplus production capacity;

(vi) the seasonality of sales in quarterly revenue patterns; the cyclical nature of customer demand; shortened demand visibility; varying revenues and gross margins among geographies/segments and programs for the products or services we provide;

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

(viii) customers' credit and collection and going concern risks and assessment of adequacy of expected credit loss allowances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional expected credit loss allowances of huge amount and inventory provision may be required and restructuring charges may be incurred;

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

(x) the timing of our expenditures in anticipation of future orders; upfront investments and challenges associated with the ramping of programs for new or existing customers;

(xi) technology advancement and diversification; pace of overseas expansion;

(xii) Continuous rightsizing/restructuring of under performing parts of the Group's manufacturing operations to achieve its business strategy of becoming more asset-light and lean, and to cease financial losses. This may lead to ongoing rightsizing/restructuring/consolidation activities and associated severance payments, as well as other costs, expenses, and/or losses. Additionally, there may be associated impairment, disposal, and/or write-off of the Group's under-utilised/idle/obsolete/depreciated assets;

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

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

(xv) factors relating to the supply chain (e.g. component cost increases, availability of commodities, extended delivery lead times and shortages) which can affect material sourcing and production planning, order fulfilment, shipment and costs, and inventory (e.g. accumulated/excess inventory may take time to clear and may have to be written-off, thus increasing inventory carrying cost); changes in cost and materials, components, services and labour;

(xvi) time needed to configure, ramp up and ramp down production to respond to new mobile phone and non-phone product innovations, models and consumer trends;

(xvii) Changes in money markets, including fluctuations in interest rates and foreign exchange rates, as well as gains and losses in foreign exchange. This encompasses capital markets, market volatility (e.g., RMB and INR, and volatility of other major currencies, stock market volatility), and the effectiveness of hedging activities. Net interest income/expenses will also fluctuate. The 2024 money market may continue to be volatile, and the figures for 2024 can differ significantly from historical figures;

(xviii) market/legal/regulatory/tax/fiscal and monetary/government policy/tariff changes (e.g. changes of custom duty rates, custom duty exemptions, tax audit, transfer pricing audit and tax adjustment and payment, India's PLI (Production Linked Incentives) scheme, government's blacklisting);

(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) performance of the Group's associates and joint venture and its share of those associates' and joint venture's profits/losses; and the associates and joint venture which have experienced losses in such turbulent marketplace and there may be a need to make impairment on such investments; timing of dispositions of equity investments and resulting profits/losses and tax payments; timing of booking of revaluation gains/losses on equity investments;

(xxi) booking of income tax payments; reversal of deferred tax assets/liabilities; and

(xxii) renewing or meeting the conditions of any tax incentives and credits; granting and timing of receipts of incentives, relief packages, compensations and other grants and assistance which may be subject to the applicant having met certain conditions and criteria (like year-on-year change in sales amount, export amount/unit selling price, etc.) and such applicant's eligibility and ability to meet all such conditions and criteria.

Looking forward, upon the basis of the information currently available, it is reasonably foreseeable that: (a) the global economic recovery during 1H 2024 might still be slow, even triggering a drop in many countries' GDP (Gross Domestic Product) growth, particularly when the commercial benefits brought by the COVID-19 (coronavirus) pandemic have gradually disappeared. Taking the U.S., the world's largest economy, as an example, the U.S. economy is expected to see a continuous drop in GDP growth of 1.4% in 2024 (compared with 2.5% in 2023 and 2.1% in 2022) due to a weak consumer spending, high interest rates and a softening labour market according to the United Nations' latest prospects; (b) the Group still faces difficulties and challenges, and the macro-environment in 1H 2024 is expected to remain intricate, volatile and uncertain; and (c) in the context of smartphone market, although IDC (International Data Corporation, the premier global provider of market intelligence, advisory services and events for the information technology, telecommunications and consumer technology markets) has reported that the smartphone market seems to reach its bottom as the market saw a better than expected shipment growth in the fourth quarter of 2023 and the growth momentum will continue to be seen in 2024, the largest smartphone market in the world, China is still facing the lowest shipment volume in a decade caused by a soft economic recovery and weak consumer sentiment, thus continuously and adversely affecting the Group's recovery.

New and 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 impact on the Group's business. Additional risks and uncertainties not presently known to the Company or not currently viewed as material might also affect the Group's business, cash flows, results of operations and financial condition.

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

Environmental Policies and Performance

ESG Committee

The ESG Committee, also known as the Sustainability Committee, operates under the authority of the Company's Chief Executive Officer. The principal duties of the ESG Committee are to monitor ESG-related performance, strategies, policies, targets, regulations and quarterly progress of the Group; to establish and implement the Group's ESG-related development plan which is integrated with its operational strategy; to monitor communications with stakeholders, and coordinate resources integration among the ESG Committee, internal business units and functional units; and to report ESG-related matters to the Board quarterly. Starting from 2024, the ESG Committee has implemented more frequent review of the Group's ESG-related matters, transitioning from an annual basis to a quarterly basis. Additionally, the ESG Committee has increased the frequency of reporting on the Group's ESG-related matters to the Board, also moving from annual reporting to quarterly reporting. Increasing the frequency of review and reporting of ESG-related matters can foster better interactions between the ESG Committee and the Board as well as ensure that the Board could have a better understanding of the Group's ESG-related matters in a timely manner and (as appropriate) provide guidance, instructions and/or comments to the ESG Committee for the latter's further action.

Sustainable Operational Goals and Strategies

The Group's business strategy is firmly grounded on values of sustainable development as awareness of ESG issues has been raised on the global agenda, including customers' decarbonisation pledges and requests in the supply chain. A robust corporate governance framework is essential to drive sustainable initiatives whilst taking the interests of all significant internal and external stakeholders, namely employees, customers, suppliers, shareholders/investors, government, non-governmental organisations/charities partners and media into account. The Group is committed to the United Nations Sustainable Development Goals (UNSDGs) and has taken active steps to achieve sustainable management. To this end, the Group has been developing ESG development strategies and plans, as well as enhancing specific targets in the three key areas of "Environment", "Social" and "Governance".

Global Code of Conduct and Responsibility Standards

The Group acknowledges and is committed to fulfilling its social and environmental responsibilities as a responsible corporate citizen and a global industry leader. This commitment involves integrating good governance practices across all facets of its operations and the Group. The overarching objective of the Company's Global Code of Conduct (the "Global CoC"), applying to the Group and concerning ESG and Corporate Social Responsibility ("CSR"), is to serve as a guiding reference for all levels of the Group's management and employees. The Global CoC stands as the cornerstone of the Group, embodying its commitment to ethical business practices, responsible corporate governance, and sustainable operations. Also, the Global CoC is established with the incorporation of international initiatives, including the policies related to business ethics, labour and human rights, health and safety, environment, management systems, responsible sourcing of minerals, anti-corruption, anti-slavery and community engagement.

To explicitly interpret the requirements of the Global CoC and supplement its definitions, the Group has also set the Responsibility Standards (the "Standards") to ensure that its business is in accordance with ethical, professional, and legal standards in all aspects. This fosters positive relationships with key stakeholders and implements the principles into the Group's daily operations. In alignment with international trends and the Group's commitment to promoting social responsibility, all employees and suppliers are required to conduct business operations and work behaviour in accordance with the Global CoC and the Standards.

As stipulated in the Global CoC, the Group upholds the human rights of its employees, and treats them with dignity and respect, as understood by the international community. In this respect, the Group has adopted the Chapter on Employee Human Rights which covers (among other things) beliefs and key requirements in support of the Company's core commitment to uphold and promote respect for human rights (the "Chapter").

During the current period, in pursuit of continuous organisational improvement and innovative governance practices, the latest versions of the Global CoC, the Standards and the Chapter respectively were approved by the Board, and have been accessible on the Company's website.

Environmental Management

Maintaining environmental sustainability is the Group's primary priority. In order to minimise the negative effects of the Group's operations on the environment and natural resources, the Group has adopted a systematic approach to incorporating green and sustainable practices into its operations. These measures include environmentally friendly product design, greenhouse gas ("GHG") emission reduction, process management, energy and resource management, and supply chain management. The Group aims to meet international standards set forth by the ISO 14001 environmental management systems and the European Eco-Management and Audit Scheme.

To make sure that the Group's operations comply with the Global CoC, the Group proactively monitors the following critical areas: air pollution control; energy management; GHG emission reduction; waste management; and water treatment and utilisation. According to the Global CoC, the Group has put in place particular policies and guidelines which are strictly adhered to across its supply chain, which includes the procurement, production and delivery processes.

As a member of the Hon Hai Technology Group, the Group has been included into the Hon Hai Technology Group's climate change-related commitment and targets, including the Science Based Targets initiative ("SBTi") and Climate Action 100+. By joining the SBTi and Climate Action 100+, the Group is committed to acting upon strengthening climate change governance, implementing GHG emissions reduction within the value chain, disclosing in accordance with the framework of the Task Force on Climate-Related Financial Disclosures ("TCFD"), and aligning with the Hon Hai Technology Group's SBTi target of achieving net-zero GHG emissions by 2050. The Group strives to meet its energy-efficiency targets, which have been delivered to the Group's business units and relative departments. Through policies, systems, and measures (such as the implementation and maintenance of the ISO 50001 energy management systems), the Group actively promotes energy efficiency management, the use of renewable energy, and the corresponding reduction of GHG emissions. The Group also monitors, reviews and evaluates the energy use of each business unit/group, rewarding top performers, and utilising a variety of energy-saving and GHG emission reduction technologies.

The Group strictly controls and monitors any air pollutants which may be produced during the manufacturing and transportation processes. The functioning of air pollutant emission systems is also under regular examination. The Group actively supports the reduction and reuse of wastewater, and uses reclaimed water across its production lines to reduce the environmental impact during operation. Wastewater is characterised, monitored, controlled, and treated as required before discharge or disposal, and the Group would conduct routine monitoring of the performance of its wastewater treatment and containment systems to ensure optimal performance and regulatory compliance. In accordance with the Group's solid waste management principles, solid wastes, chemicals and hazardous materials should be differentiated, controlled, reduced, disposed of, transported, stored and recycled. All relevant waste is treated and disposed of in compliance with related environmental laws and regulations. The Group strives to optimise waste recycling, and convert waste into useful resource inputs by leveraging design and technology.

Sustainable Product Management

To fulfil the environmental requirements set by the regulators, customers, industry, and other stakeholders, the Group has established specialised divisions to ensure compliance with various regulations, including the "Product Quality Law of the People's Republic of China", the European Union's "Restriction on Hazardous Substances Directive" (RoHS) and the European Union's Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation, restrictions on the use of conflict minerals as well as Halogen-Free (HF) certifications and GHG emission reduction expectations. The outcomes of these endeavours are transformed into practical internal measures that can be effectively incorporated and implemented within the Group's operations.

Climate Change

The Board is responsible for overseeing the management of climate-related risks and opportunities, as part of its oversight of the Group's material ESG issues and key risks. The Board considers these risks when reviewing the Group's corporate strategy and ensures that an adequate and effective system of internal controls and enterprise risk management ("ERM") is in place within the Group. The Group's ERM Team and ESG Team are responsible for monitoring and managing climate-related risks. They oversee the Group's sustainable transition and develop a Net Zero pathway to mitigate the effects of climate-related risks and explore opportunities. Additionally, they identify, evaluate, and mitigate the significant climate risks that could impede the Group's climate-related business and strategic objectives. Furthermore, they support the Board in managing climate-related risks by identifying climate-related issues and assessing their impact on the Group.

The ERM Team conducted preliminary analyses to identify both the Group's physical and transition risks. Moreover, the Group has initiated proactive analyses of potential impacts and is preparing for risk management measures.

The Group has taken several measures to manage the identified potential climate risks, such as conducting property damage assessments and upgrading energy management systems. In order to strengthen operational resilience and pursue potential business growth, the Group is actively searching for climate-related opportunities.

The Group emphasises the importance of climate risk assessment and management in improving business resilience. The Group adopts integrated risk management and follows the ERM risk management procedures that incorporate environmental considerations into risk management procedures to help identify, assess, and manage climate-related risks. To enhance the Group's readiness for emerging climate-related risks, the Company regularly monitors and reviews its risk management approach. The Board oversees the Group's risk management framework including risk management policies and procedures, and ensures high effectiveness and performance at both the management and business unit levels.

The Group plans to implement the TCFD framework and adhere to it in the future. The Group intends to conduct climate risk analysis and update its operational strategy and management policies based on further quantitative chronic and physical climate risk analysis.

Major Annual Achievements

As a result of the Group's efforts, the Group has made great achievements, including the following, during the current period and up to the date of this report of the directors:

(a) the Group received the EcoVadis 2024 Bronze Medal. The overall score has shown a significant improvement compared to the previous year, jumping from the 48th percentile among global companies in the industry to the 74th percentile. Additionally, there have been significant advancements in labour rights, ethics, and sustainable procurement practices. Moreover, the Group's Mexico factory demonstrated outstanding ESG practices and was awarded the EcoVadis 2023 Silver Medal;

(b) the Group was rated as "low risk" (11.6) in the 2023 Sustainalytics ESG Risk rating. The risk score is lower than 12.3 in 2022. In particular, the Group was ranked as the top 4% in the global universe, and the top 12% in the technology hardware industry;

(c) the Group was graded "B" under the MSCI ESG Ratings, and keeps enhancing its ESG performance and actively addressing the material topics mentioned in MSCI ESG Ratings;

(d) four factories, two in the PRC and the other two in Vietnam, have obtained the UL 2799 "Zero Waste to Landfill" certifications at Gold and Platinum levels, respectively. As of the end of the current period, these four factories are still within the valid certification period;

(e) the Group actively participated in Carbon Disclosure Project's questionnaires on Climate Change and Water Security for the first time and achieved a satisfactory score on its first attempt;

(f) all factories and headquarters of the Group have obtained ISO 14001 (environmental management systems) certifications and ISO 9001 (quality management systems) certifications, respectively;

(g) the Group's major factories in the PRC and Vietnam have obtained ISO 50001 (energy management systems) certifications, and the Group's major factories in the PRC, Vietnam, India, the U.S. and Mexico have obtained ISO 45001 (occupational health and safety management systems) certifications, respectively;

(h) the Group's major factories in India and headquarters in Taiwan have obtained ISO 27001 (information security management systems) certifications; and

(i) the Group's major factories in India and Vietnam have obtained SA 8000 (an auditable certification standard that encourages organisations to develop, maintain, and apply socially acceptable practices in the workplace) certifications.

2023 ESG Report

For details, please refer to the Company's separate 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report of the directors.

RESERVES

Movements in reserves of the Group during the current period are set out on page 131.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's reserves available for distribution to shareholders amounted to approximately US$1,398,675,000.

SHARE CAPITAL

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

During the current period and up to the date of this report of the directors, pursuant to the Buy-back Mandates (as defined in the Company's circulars dated 14 April 2022 and 14 April 2023 respectively) duly approved by the Company's shareholders at the Company's annual general meetings held on 20 May 2022 and 19 May 2023 respectively, the Company bought back in multiple batches a total of 36,939,000 shares on the Stock Exchange in cash. Among these shares so bought back, 6,739,000 shares, 4,000,000 shares, 3,031,000 shares, 5,969,000 shares and 3,000,000 shares were cancelled on 13 January 2023, 13 April 2023, 11 September 2023, 10 October 2023 and 7 December 2023 respectively, whereas the remaining 14,200,000 shares were cancelled on 15 January 2024, in all cases in accordance with the articles of association of the Company in force for the time being (the "Articles"). For details, please refer to the section headed "Purchase, Redemption or Sale of Listed Securities of the Company" below of this report of the directors.

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

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 196.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

BANK LOANS

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

DIRECTORS

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

Executive Directors

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

Non-executive Director

CHANG Chuan-Wang (appointed with effect from 29 June 2023)

Independent Non-executive Directors

LAU Siu Ki
CHEN Shu Chuan (also known as Nadia CHEN) (appointed with effect from 19 May 2023)
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (appointed with effect from 29 June 2023)
Daniel Joseph MEHAN (resigned with effect from 29 June 2023)
TAO Yun Chih (retired with effect from 19 May 2023)

Having received written annual confirmations from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Listing Rules, the Company considers each independent non-executive director to be independent. For details, please refer to the "Independent Non-executive Directors" section of the Company's 2023 corporate governance report, which forms part of the Company's 2023 annual report incorporating this report of the directors.

To start with, please refer to the "Other Information — Directors" section of the Company's 2023 interim report as issued and published on 14 September 2023 and also the Company's announcements dated 10 March 2023, 19 May 2023 and 29 June 2023 respectively.

Mr. MENG Hsiao-Yi tendered his resignation as an executive director and the chief operating officer of the Company with effect from 10 March 2023, in order to pursue his career development. In this respect, Mr. Meng has confirmed that he has no disagreement with the Board and there is no other matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

Pursuant to the approvals of the Board on 10 March 2023 and the Company's shareholders on 19 May 2023, Mr. LIN Chia-Yi (also known as Charles LIN) ("Mr. Lin") was appointed and re-elected as an executive director of the Company for a term of not more than 3 years commencing from 19 May 2023 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. Mr. Lin is entitled to annual emoluments package (consisting of basic salary of US$137,118 and a discretionary bonus) determined by the Board from time to time in accordance with the directors' remuneration policy of the Company adopted by the Board (as amended from time to time) (the "Directors' Remuneration Policy").

Mr. TAO Yun Chih retired from office by rotation at the Company's annual general meeting held on 19 May 2023 ("2023 AGM") and he, although being eligible, did not offer himself for re-election and retired as an independent non-executive director of the Company with effect from 19 May 2023 upon the conclusion of the 2023 AGM, in order to devote more time and attention to his existing and potential roles and positions with other business commitments and further developments. He also ceased to be a member of each of the audit committee, remuneration committee and nomination committee of the Company with effect from 19 May 2023, simultaneously upon his retirement. Mr. Tao has confirmed that he has no disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the shareholders of the Company.

Dr. Daniel Joseph MEHAN, due to retirement, tendered his resignation as an independent non-executive director of the Company and ceased to act as an independent non-executive director with effect from 29 June 2023 and hence a member of each of the audit committee, remuneration committee and nomination committee of the Company, simultaneously upon his resignation. In this respect, Dr. Mehan has confirmed that he has no disagreement with the Board and there is no other matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

Pursuant to the approvals of the Board on 10 March 2023 and the Company's shareholders on 19 May 2023, Ms. CHEN Shu Chuan (also known as Nadia CHEN) ("Ms. Chen") was appointed as an independent non-executive director of the Company with effect from 19 May 2023 upon the conclusion of the 2023 AGM for a term of not more than 3 years commencing from 19 May 2023 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) her next re-election is considered in accordance with the Articles. Ms. Chen is entitled to a fee for her services as an independent non-executive director of the Company of Hong Kong dollars ("HK$")26,000 per month (less any necessary statutory deductions). Simultaneously upon her appointment, she was appointed as a member of each of the audit committee, remuneration committee and nomination committee of the Company.

Pursuant to the approval of the Board on 29 June 2023, Mr. CHANG Chuan-Wang ("Mr. Chang") was appointed as a non-executive director of the Company with effect from 29 June 2023 for a term of not more than 3 years commencing from 29 June 2023 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. In light of the Directors' Remuneration Policy and Mr. Chang's current remuneration package with the Hon Hai Technology Group, notwithstanding that a fixed remuneration in the form of an annual fee is normally payable to each non-executive director of the Company under the Directors' Remuneration Policy, it was mutually agreed upon his appointment that Mr. Chang would not receive any fee nor other remuneration from the Company for holding his office and acting in his capacity as a non-executive director of the Company. Please refer to the Company's announcement on changes of directors dated 29 June 2023 for details. In light of additional workload demanded from Mr. Chang as the Company's non-executive director with reference to the changing circumstances of the Company since Mr. Chang's appointment, on the basis of the recommendations from the remuneration committee and pursuant to the written resolutions of the Company's directors dated 13 September 2023, Mr. Chang has entered into a supplemental letter in relation to the revised terms of appointment as a non-executive director with the Company on 13 September 2023, pursuant to which he is entitled to a fee for his services as a non-executive director of the Company of HK$26,000 per month (less any necessary statutory deductions) with effect from 13 September 2023.

Pursuant to the approval of the Board on 29 June 2023, Mr. CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) ("Mr. Chiu") was appointed as an independent non-executive director of the Company with effect from 29 June 2023 for a term of not more than 3 years commencing from 29 June 2023 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles. Mr. Chiu is entitled to a fee for his services as an independent non-executive director of the Company of HK$26,000 per month (less any necessary statutory deductions). Simultaneously upon his appointment, he was appointed as a member of each of the audit committee, remuneration committee and nomination committee of the Company.

Pursuant to article 95 of the Articles, the Board is empowered to appoint any person as a director either to fill a casual vacancy on or as an addition to the Board, and the director so appointed shall hold office only until the first annual general meeting of the Company after his/her appointment and shall then be eligible for re-election at such annual general meeting. Mr. Chang and Mr. Chiu were appointed as a non-executive director and an independent non-executive director respectively of the Company with effect from 29 June 2023 to fill casual vacancies on the Board and, both of them being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting which is currently scheduled to be held on 22 May 2024 (the "2024 AGM").

Pursuant to article 112 of the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third; according to article 95 of the Articles, Mr. Chang and Mr. Chiu being appointed to fill casual vacancies on the Board shall not be taken into account in determining the directors who are to retire by rotation) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Mr. LAU Siu Ki ("Mr. Lau") will retire from office by rotation at the 2024 AGM, and he, being eligible, will offer himself for re-election at the 2024 AGM.

Pursuant to the approval of the Board and the subsequent finalisation by the Board's delegate, on 13 March 2023, the Company granted 1,697,181 shares and 1,171,972 shares to Mr. CHIH Yu Yang ("Mr. Chih") and Mr. Lin, executive directors of the Company, respectively under the Former Share Scheme (as defined below). Such share awards were vested on 1 April 2023. For details, please refer to the Company's announcement dated 13 March 2023 and the section headed "Share Option Schemes and Share Schemes of the Company and BFIH Share Option Scheme" below of this report of the directors.

Pursuant to the approval of the Board on 13 September 2023 and the subsequent finalisations by the Board's delegate, the Company granted 1,366,993 shares to Mr. Lin on 13 September 2023 and the said share awards will be vested on 13 September 2024 and granted 1,979,598 shares to Mr. Chih on 6 November 2023 and the said share awards will be vested on 6 November 2024, in both cases subject to the satisfaction of the conditions attached to such grants under the share scheme of the Company adopted by the Board on 10 March 2023 and approved by the shareholders of the Company on 19 May 2023 (the "Existing Share Scheme"). For details, please refer to the Company's announcements dated 13 September 2023 and 6 November 2023 respectively and the section headed "Share Option Schemes and Share Schemes of the Company and BFIH Share Option Scheme" below of this report of the directors.

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

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

DISCLOSURE OF INTERESTS

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

As at 31 December 2023, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
CHIH Yu Yang (also acting as the chief executive officer)	The Company	Beneficial owner	38,010,797 (Note 1)	0.4808%
	BFIH	Other	1 (Note 2)	0.00000004%
	CMCS (Note 3)	Beneficial owner	500 (Note 4)	0.0007%
KUO Wen-Yi	The Company	Interest of spouse	700,000	0.0089%
	Hon Hai	Beneficial owner	1,848	0.00001%
	Hon Hai	Interest of spouse	13	0.0000001%
LIN Chia-Yi (also known as Charles LIN) (appointed with effect from 10 March 2023)	The Company	Beneficial owner	2,540,005 (Note 5)	0.0321%
CHANG Chuan-Wang (appointed with effect from 26 June 2023)	Hon Hai	Beneficial owner	17,000	0.0001%

Notes:

1. On 13 March 2023, Mr. Chih was granted a share award of 1,697,181 shares in the Company under the Former Share Scheme (as defined below) resulting in him being interested in the 1,697,181 shares as a beneficiary of a trust interested in the Company's shares. This share award was vested on 1 April 2023. On 6 November 2023, Mr. Chih was granted a share award of 1,979,598 shares in the Company under the Existing Share Scheme (as defined above) resulting in him being interested in the 1,979,598 shares as a beneficiary of a trust interested in the Company's shares. This share award will be vested on 6 November 2024.

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

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

4. As a result of the share capital reduction ("Exercise") conducted by CMCS effective from 1 June 2023, the number of shares in issue of CMCS has been reduced from 150,000,000 to 75,000,000. The Exercise has thus resulted in the proportionate reduction in the number of shares held by Mr. Chih in CMCS while the share interest percentage level has remained unchanged.

5. On 13 March 2023, Mr. Lin was granted a share award of 1,171,972 shares in the Company under the Former Share Scheme (as defined below) resulting in him being interested in the 1,171,972 shares as a beneficiary of a trust interested in the Company's shares. This share award was vested on 1 April 2023. On 13 September 2023, Mr. Lin was granted a share award of 1,366,993 shares in the Company under the Existing Share Scheme (as defined above) resulting in him being interested in the 1,366,993 shares as a beneficiary of a trust interested in the Company's shares. This share award will be vested on 13 September 2024.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2023, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to any director of the Company, as at 31 December 2023, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited *(Note 1)*	Beneficial owner	5,081,034,525	64.28%
Hon Hai *(Notes 1 and 2)*	Interest of a controlled corporation	5,081,034,525	64.28%

Notes:

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

2. Mr. Chih, the acting chairman and an executive director of the Company, is a director of a subsidiary and an associate of Hon Hai. Also, Mr. Chang is an employee of the Hon Hai Technology Group, and in particular, he is the chairman of the board of directors, a non-executive director and a member of the remuneration committee of CircuTech International Holdings Limited (a subsidiary of Hon Hai whose shares are listed on GEM of the Stock Exchange).

Save as disclosed above, as at 31 December 2023, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid/payable to the three members of senior management of the Company (whose biographical details are disclosed in the section headed "Profile of Directors and Senior Management" of the Company's 2023 annual report incorporating this report of the directors) during the current period was within the following bands:

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

CONNECTED TRANSACTIONS

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

Removal and Compensation Agreement

On 10 March 2023, 富聯統合電子(杭州)有限公司 (Fulian System Integration Electronics (Hangzhou) Co., Ltd. for identification purposes only, a PRC subsidiary of Hon Hai which is the ultimate controlling shareholder of the Company) ("Fulian") and Honxun Electrical Industry (Hangzhou) Co., Ltd. (宏訊電子工業(杭州)有限公司, a PRC subsidiary of the Company) ("Honxun") entered into a removal and compensation agreement, pursuant to which (among other things) Fulian should vacate its occupied premises of Honxun's relevant properties in Hangzhou, the PRC (the "Properties") before the deadline designated by Honxun or 1 November 2025, and a compensation of RMB64,030,000 (equivalent to approximately US$9.2 million at that time) should be payable by Honxun to Fulian, upon and subject to the terms and conditions set out therein.

With reference to the Company's announcement dated 2 November 2022 in pursuance of the agreement dated 2 November 2022 between Honxun and the relevant PRC authority in relation to the resumption of ownership of the Properties, subject to agreements between Honxun and the lessees (including Fulian), Honxun is required to settle any obligations towards the lessees (including Fulian) in relation to the Properties and to vacate the Properties before 1 November 2025. The aforesaid removal and compensation agreement contemplates Honxun's payment of the aforesaid compensation to Fulian to move out of the relevant premises of the Properties, so that Honxun could deliver vacant possession of the Properties to the relevant PRC authority before 1 November 2025.

For details, please refer to the Company's announcement dated 10 March 2023.

Disposal of Subsidiary's Property

On 7 July 2023, FIH Europe Limited Liability Company (a Hungarian subsidiary of the Company) ("FIH Europe") and Cloud Network Technology KFT (a Hungarian associate (as defined in the Listing Rules) of Hon Hai which is the ultimate controlling shareholder of the Company) ("CNT") entered into a real property sale and purchase agreement, pursuant to which (among other things) FIH Europe has disposed of its relevant land in Hungary together with the relevant buildings and structures thereon (collectively, the "Property") to CNT at the consideration of US$9,927,000 upon and subject to the terms and conditions set out therein.

The aforesaid transaction has presented an opportunity for the Group to realise the appreciation in value of the Property while such transaction would not adversely affect the manufacturing operations nor plans of the Group.

For details, please refer to the Company's announcement dated 7 July 2023.

CONTINUING CONNECTED TRANSACTIONS

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

For more details, please refer to the Company's announcement relating to continuing connected transactions dated 10 November 2022, circular relating to continuing connected transactions dated 1 December 2022, and announcement dated 23 December 2022 relating to poll results of the extraordinary general meeting.

Purchase Transaction

Pursuant to the framework product supply agreement (formerly known as the framework materials and components supply agreement) entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) and 鴻準精密工業股份有限公司 (Foxconn Technology Co. Ltd., for identification purposes only, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) (both being associates of Hon Hai at the relevant times) on 19

January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016, 31 July 2017, 9 October 2019 and 10 November 2022) (the "Purchase Agreement"), the Group has purchased from the Hon Hai Technology Group from time to time for a term up to 31 December 2025 products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Hon Hai Technology Group that may be used in connection with or for the purposes of the businesses of the Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Technology Group from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Purchase Agreement (the "Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Purchase Transaction for the three years ending 31 December 2025 at US$1,611 million for 2023, US$1,964 million for 2024 and US$2,395 million for 2025.

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

Product Sales Transaction

Pursuant to the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai at the relevant times formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hoi) on 18 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) (the "Framework Product Sales Agreement"), the Group has sold to the Hon Hai Technology Group from time to time for a term up to 31 December 2025 products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Technology Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Technology Group from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Product Sales Agreement (the "Product Sales Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Product Sales Transaction for the three years ending 31 December 2025 at US$3,813 million for 2023, US$4,381 million for 2024 and US$5,034 million for 2025.

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

Non-real Property Lease Expense Transaction

Pursuant to the framework lease agreement relating to movable non-real properties dated 13 June 2013 (as amended by the respective supplemental agreements dated 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) between the Company and Hon Hai (the "Framework Non-real Property Lease Expense Agreement"), the Group has leased movable non-real properties such as equipment and machines (the "Non-real Properties") from the Hon Hai Technology Group from time to time for a term up to 31 December 2025 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Non-real Property Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Non-real Property Lease Expense Transaction for the three years ending 31 December 2025 at US$12 million for 2023, US$12 million for 2024 and US$12 million for 2025.

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

Consolidated Services and Sub-contracting Expense Transaction

Pursuant to the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a former subsidiary of Hon Hai which had been dissolved) and Sutech Industry Inc. (a former subsidiary of the Company which had been dissolved) on 24 October 2007, pursuant to which (among other things) all respective rights, obligations and liabilities of PCE Industry Inc. and Sutech Industry Inc. thereunder were assumed and taken up by Hon Hai and the Company respectively (as amended by the respective supplemental agreements between the Company and Hon Hai dated 19 November 2010, 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) (the "Consolidated Services and Sub-contracting Expense Agreement"), the Hon Hai Technology Group has provided services (including research and development services, design services, repair services and sub-contracting services) to the Group from time to time for a term up to 31 December 2025 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement (the "Consolidated Services and Sub-contracting Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2025 at US$204 million for 2023, US$204 million for 2024 and US$204 million for 2025.

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

Equipment Purchase Transaction

Pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) between the Company and Hon Hai (the "Framework Equipment Purchase Agreement"), the Group has purchased from the Hon Hai Technology Group from time to time for a term up to 31 December 2025 baking and coating lines and other equipment manufactured, owned or held (coupled with interest) by the Hon Hai Technology Group which may be used in connection with or for the purposes of the Group's businesses from time to time (including but not limited to new equipment that is manufactured or purchased or procured from third parties by the Hon Hai Technology Group, and used equipment that has previously been used by the Hon Hai Technology Group) as well as such other equipment as may be agreed between the Hon Hai Technology Group and the Group from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Equipment Purchase Agreement (the "Equipment Purchase Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2025 at US$24 million for 2023, US$24 million for 2024 and US$24 million for 2025.

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

Sub-contracting Income Transaction

Pursuant to the framework sub-contracting agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 26 July 2012, 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) between the Company and Hon Hai (the "Sub-contracting Income Agreement"), the Group has provided certain services (such as handset and in-mould labelling research and development and other research and development services; handset and other design services; handset and mould and other repair services; molding, electroplating, metal stamping for handsets and desktop computers and other services that may form part of or be provided as part of the businesses of the Hon Hai Technology Group from time to time; the use of technical equipment and facilities owned or leased by the Group to support the foregoing; the provision of personnel and other resources as may be required to support the foregoing; and such other services and/or sub-contracting as may be agreed between the Hon Hai Technology Group and the Group from time to time) to the Hon Hai Technology Group from time to time for a term up to 31 December 2025 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Sub-contracting Income Agreement (the "Sub-contracting Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Sub-contracting Income Transaction for the three years ending 31 December 2025 at US$110 million for 2023, US$137 million for 2024 and US$170 million for 2025.

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

General Services Expense Transaction

Pursuant to the general services agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) between the Company and Hon Hai (the "General Services Expense Agreement"), the Hon Hai Technology Group has provided general administrative, support, utility and other related services to the Group from time to time for a term up to 31 December 2025 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Expense Agreement (the "General Services Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Expense Transaction for the three years ending 31 December 2025 at US$31 million for 2023, US$34 million for 2024 and US$38 million for 2025.

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

Equipment Sale Transaction

Pursuant to the framework equipment sale agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010, 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) between the Company and Hon Hai (the "Framework Equipment Sale Agreement"), the Group has sold to the Hon Hai Technology Group from time to time for a term up to 31 December 2025 molding equipment, baking and coating lines and other used equipment that may be manufactured, owned or held (coupled with interest) by the Group and which may be used in connection with or for the purposes of the Hon Hai Technology Group's businesses from time to time upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Framework Equipment Sale Agreement (the "Equipment Sale Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the Equipment Sale Transaction for the three years ending 31 December 2025 at US$34 million for 2023, US$48 million for 2024 and US$67 million for 2025.

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

Lease Expense Transaction

Pursuant to the framework lease agreement dated 18 January 2005 between 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd., for identification purposes only) (a wholly-owned subsidiary of the Company) ("FTH", which was subsequently replaced by the Company as the party thereto) and Hon Hai (as amended by the supplemental agreement between FTH and Hon Hai dated 12 January 2006 and the respective supplemental agreements among the Company, FTH and Hon Hai dated 20 September 2006, 24 October 2007 and 19 November 2010 and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) (the "Framework Lease Expense Agreement"), the Hon Hai Technology Group has leased premises owned by it and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2025 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Expense Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Expense Transaction for the three years ending 31 December 2025 at US$10 million for 2023, US$10 million for 2024 and US$10 million for 2025.

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

Lease Income Transaction

Pursuant to the framework lease agreement dated 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) between the Company and Hon Hai (the "Framework Lease Income Agreement"), the Group has leased to the Hon Hai Technology Group premises owned by it or any part thereof located worldwide as agreed between the parties from time to time for a term up to 31 December 2025 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the Lease Income Transaction constitutes a continuing connected transaction for the Company, and the Company had set annual caps for the Lease Income Transaction for the three years ending 31 December 2025 at US$11 million for 2023, US$14 million for 2024 and US$18 million for 2025.

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

General Services Income Transaction

Pursuant to the framework general services agreement entered into between the Company and Hon Hai on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013, 11 August 2016, 9 October 2019 and 10 November 2022) (the "General Services Income Agreement"), the Group has agreed to provide, or procure third parties to provide, to the Hon Hai Technology Group general administrative, support, utility and other services as the Group and the Hon Hai Technology Group may agree from time to time for a term up to 31 December 2025 upon and subject to the terms and conditions set out therein at a price determined as follows:

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

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

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

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

Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the General Services Income Agreement (the "General Services Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set annual caps for the General Services Income Transaction for the three years ending 31 December 2025 at US$3 million for 2023, US$5 million for 2024 and US$7 million for 2025.

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

Annual Consideration

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

Continuing connected transaction	Paying group	Total consideration for the year ended 31 December 2023 (US$'000)
Purchase Transaction	Group	490,947
Product Sales Transaction	Hon Hai Technology Group	1,522,952
Non-real Property Lease Expense Transaction	Group	62
Consolidated Services and Sub-contracting Expense Transaction	Group	43,917
Equipment Purchase Transaction	Group	596
Sub-contracting Income Transaction	Hon Hai Technology Group	72,221
General Services Expense Transaction	Group	8,652
Equipment Sale Transaction	Hon Hai Technology Group	23,601
Lease Expense Transaction	Group	6,589

Continuing connected transaction	Paying group	Total consideration for the year ended 31 December 2023 (US$'000)
Lease Income Transaction	Hon Hai Technology Group	5,259
General Services Income Transaction	Hon Hai Technology Group	732

Annual Review

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

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

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

2. on normal commercial terms or better; and

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

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

For more details, please refer to the section headed "Accountability and Audit" of the Company's 2023 corporate governance report, which forms part of the Company's 2023 annual report incorporating this report of the directors.

The related party transactions referred to in note 34 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules, amongst which the Non-real Property Lease Income Transaction (as defined in the Company's announcement dated 10 November 2022) has constituted a *de minimis* continuing connected transaction of the Company exempt from the independent shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules. Please refer to the Company's announcement dated 10 November 2022 for details.

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

SHARE OPTION SCHEMES AND SHARE SCHEMES OF THE COMPANY AND BFIH SHARE OPTION SCHEME

Adoption of Existing Share Option Scheme and Existing Share Scheme and Consequential Termination of Former Share Option Scheme and Former Share Scheme

A former share option scheme of the Company (the "Former Share Option Scheme") and a former share scheme of the Company (the "Former Share Scheme") were adopted by the shareholders of the Company at the extraordinary general meeting of the Company held on 26 November 2013.

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

In July 2022, the Stock Exchange announced amendments to the pre-existing Chapter 17 of the Listing Rules which took effect from 1 January 2023 (the "Existing Chapter 17"). The Existing Chapter 17 applies to both the Former Share Option Scheme and the Former Share Scheme, subject to certain transitional arrangements. In order to ensure the continuity of a share option scheme and a share scheme for the Group to attract, reward, motivate and retain the eligible participants which would comply with the new requirements of the Existing Chapter 17, pursuant to the approval of the Board on 10 March 2023 and the approval of the Company's shareholders on 19 May 2023, the Company adopted the existing share option scheme (the "Existing Share Option Scheme") and the existing share scheme (the "Existing Share Scheme") of the Company and consequentially terminated the Former Share Option Scheme and the Former Share Scheme, in all cases with effect from the close of the 2023 AGM.

For details, please refer to the Company's circular as issued and published on 13 April 2023, announcement in relation to the poll results of the 2023 AGM as issued and published on 19 May 2023 and 2023 interim report as issued and published on 14 September 2023.

The Existing Share Option Scheme and the Existing Share Scheme shall be valid and effective for a period of 10 years from 19 May 2023 until 18 May 2033, unless otherwise terminated in accordance with their respective terms.

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

Furthermore, the number of shares that may be issued in respect of options (if any) and awards granted under all schemes of the Company (i.e. the Former Share Option Scheme, the Former Share Scheme, the Existing Share Option Scheme and the Existing Share Scheme) during the current year is zero, even when divided by the weighted average number of shares in issue for the current year (i.e. 7,914,531,751 shares).

Further details of the Former Share Scheme, the Former Share Option Scheme, the Existing Share Scheme and the Existing Share Option Scheme are set out in note 36 to the consolidated financial statements.

Former Share Option Scheme

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

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

The total number of shares in respect of which options may be granted under the Former Share Option Scheme shall be 757,380,227 shares, representing approximately 9.6% of the total number of issued shares of the Company as at the date of this report of the directors.

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

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

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

Since the adoption of the Former Share Option Scheme on 26 November 2013 until the termination of the Former Share Option Scheme on 19 May 2023, no option had been granted under the Former Share Option Scheme. It follows that the total number of shares in respect of which options might be granted under the Former Share Option Scheme had remained 757,380,227 shares.

757,380,227 shares (representing 9.6% of the total number of shares in issue as at the date of this report of the directors) when divided by 7,914,531,751 shares (representing the weighted average number of shares in issue for the current year) was 0.09569.

Former Share Scheme

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

The Former Share Scheme provides (among other things) that: (a) for grants to the beneficiaries who are not connected persons (as defined in the Listing Rules) of the Company, the trustee for the Former Share Scheme (being a professional institution) shall subscribe, on behalf of the beneficiaries, for new shares at nominal value from the Company; and (b) for grants to the beneficiaries who are connected persons of the Company, the trustee shall purchase, on behalf of the beneficiaries, shares from the market.

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

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

The shares granted will be subject to lock-up periods of up to three years commencing from the date of grant, which will vary from beneficiary to beneficiary as to be determined by the Board (or its duly authorised officer(s) or delegate(s)). An offer of grant of shares (in respect of which no consideration nor purchase price is payable) must be accepted by the date being a date not more than 30 days after the date of the offer.

Pursuant to the approval of the Board on 23 December 2021, the Company offered 7,328,361 ordinary shares to a total of 2 beneficiaries pursuant to the Former Share Scheme, of which 7,328,361 ordinary shares were granted with lock-up periods up to 10 January 2022 from the grant date. No consideration nor purchase price was payable on acceptance of offer of the shares. 7,328,361 ordinary shares were purchased by the trustee of the Former Share Scheme from the market in January 2022.

Pursuant to the approval of the Board on 2 November 2022 and the subsequent finalisation by the Board's delegate, the Company offered 10,024,204 ordinary shares to a total of 2 beneficiaries pursuant to the Former Share Scheme, of which 10,024,204 ordinary shares were granted with lock-up periods up to 30 November 2022 from the grant date (i.e. 3 November 2022). No consideration nor purchase price was payable on acceptance of offer of the shares. 10,024,204 ordinary shares were purchased by the trustee of the Former Share Scheme from the market in November 2022.

Pursuant to the approval of the Board on 10 March 2023 and the subsequent finalisation by the Board's delegate, the Company offered 2,869,153 ordinary shares to a total of 2 beneficiaries pursuant to the Former Share Scheme, of which 2,869,153 ordinary shares were granted with lock-up periods up to 31 March 2023 from the grant date (i.e. 13 March 2023). No consideration nor purchase price was payable on acceptance of offer of the shares. 2,869,153 ordinary shares were purchased by the trustee of the Former Share Scheme from the market in March 2023. Please refer to the Company's announcement dated 13 March 2023 for details. Save as disclosed as aforesaid, no further share was granted under the Former Share Scheme during the period from 1 January 2023 to 19 May 2023 (being the date of termination of the Former Share Scheme).

For details about the shares granted before 2021 pursuant to the Former Share Scheme, please refer to page 137 of the Company's 2022 annual report as issued and published on 13 April 2023.

Movements of share grants under the Former Share Scheme during the current period (i.e. 1 January 2023 to 31 December 2023) were as follows:

					Number of shares granted under the Former Share Scheme								
Name of participant	Date of grant (dd.mm.yyyy)	Vesting period (dd.mm.yyyy)	Date of vesting (dd.mm.yyyy)	Purchase price	Unvested Award Shares as of 1 January 2023	Granted during the year *(Note 1)*	Vested during the year	Cancelled/ forfeited during the year	Lapsed during the year	Unvested Award Shares as of 31 December 2023	Closing price of the Shares immediately before the date of grant (HK$)	Fair value of Award Shares at the date of grant (HK$) *(Note 2)*	Weighted average closing price of the Shares immediately before the date of vesting (HK$)
CHIH Yu Yang (executive director, also acting as chief executive officer)	13.03.2023	13.03.2023 to 31.03.2023	01.04.2023	Nil	0	1,697,181	1,697,181	–	–	0	0.82	0.83	0.85
LIN Chia-Yi (also known as Charles LIN) (executive director)	13.03.2023	13.03.2023 to 31.03.2023	01.04.2023	Nil	0	1,171,972	1,171,972	–	–	0	0.82	0.83	0.85
Total					0	2,869,153	2,869,153	–	–	0	–	–	–

Notes:

1. As disclosed in the Company's announcement dated 13 March 2023 in respect of the above grants, the Company considered the following facts before making such grants:

   (a) the shorter lock-up period (less than one month) applicable to the above grants was in line with the Company's remuneration policies in force for time being as advised by the Company's human resources department which had been in force since 2013 when the Former Share Scheme was adopted (which was long before the Existing Chapter 17 has become effective on 1 January 2023). In this respect, both the Company's remuneration committee (comprising all the independent non-executive directors of the Company) and the Board (but excluding, for the avoidance of doubt, the above grantees) were of the view that such shorter lock-up period was appropriate in the circumstances as a timely recognition of the achievements and contributions made by such grantees, having also taken into consideration, among others, (1) the base and other form of remuneration available to such grantees; and (2) factors affecting the Group's business performance which might be beyond their control or otherwise irrelevant to their individual contributions; and

   (b) both the Company's remuneration committee and the Board (but excluding, for the avoidance of doubt, the above grantees) were of the view that following past practice since 2013 when the Former Share Scheme was adopted, the above grants had been made unconditionally without any performance targets nor clawback mechanism; that said, such grants were aligned with the purposes of the Former Share Scheme by recognising the achievements and contributions made by such grantees and by giving incentives to reward, motivate and retain them for the purposes of the Group's future development, expansion and long-term success.

2. The fair value of the shares at the date of grant is measured by the quoted market price of the shares at the date of grant. In relation to equity-settled share-based payment transactions:

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

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

   - At the end of the reporting period (i.e. 31 December 2023), the Group revises its estimates of the number of options or ordinary shares that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share compensation reserve.

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

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

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

In relation to the Former Share Scheme which was terminated on 19 May 2023, pursuant to the Former Share Scheme and the annual general mandate (the "2022 General Mandate") granted by the Company's then shareholders at the annual general meeting held on 20 May 2022 (the "2022 AGM"), the maximum aggregate number of shares of the Company that were available for the trustee's subscription on behalf of those beneficiaries who were not the Company's connected persons (as defined in the Listing Rules) as well as the Company's related allotment and issue under the Former Share Scheme and the 2022 General Mandate was limited to 159,460,000 shares, representing 2% of the total number of shares in issue as at the date of the 2022 AGM. Since the grant of the 2022 General Mandate at the 2022 AGM until the termination of the Former Share Scheme on 19 May 2023, no shares had been subscribed for by the trustee nor allotted and issued by the Company under the 2022 General Mandate. Immediately before and immediately after the purchase of 2,869,153 shares during the period from 1 January 2023 to 19 May 2023 as disclosed above, the total number of shares that were available for the trustee's subscription on behalf of those beneficiaries who were not the Company's connected persons as well as the Company's related allotment and issue under the Former Share Scheme and the 2022 General Mandate had remained the same, i.e. 159,460,000 shares. It follows that the total number of shares available for grant under the 2022 General Mandate as at 1 January 2023 and as at 19 May 2023 (being the date on which the Former Share Scheme was terminated) was 159,460,000 shares, representing approximately 2.02% of the total number of shares in issue as at the date of this report of the directors. 159,460,000 shares (representing approximately 2.02% of the total number of shares in issue as at the date of this report of the directors) when divided by 7,914,531,751 shares (representing the weighted average number of shares in issue for the current year) was 0.02015.

Existing Share Option Scheme

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

Subject to the terms of the Existing Share Option Scheme, the Board (or its duly authorised officer(s) or delegate(s)) may, at its/their absolute discretion, offer options to subscribe for shares to any of the directors and other members of senior management and other employees of the Group (including without limitation any person who is a proposed grantee as an inducement to enter into an employment contract (or the equivalent) with the Company or any of its subsidiaries) who may be eligible to participate in the Existing Share Option Scheme in accordance with the terms set out in the Existing Share Option Scheme (collectively, the "Eligible Participants").

The total number of shares issuable upon exercise of all options which may be granted pursuant to the Existing Share Option Scheme and upon being granted pursuant to the Existing Share Scheme (as disclosed below) as at the adoption date (i.e. 19 May 2023) shall be 791,700,000 shares, representing 10% of the total number of shares in issue as at 19 May 2023 and approximately 10.03% of the total number of shares in issue as at the date of this report of the directors. 791,700,000 shares (representing approximately 10.03% of the total number of shares in issue as at the date of this report of the directors) when divided by 7,914,531,751 shares (representing the weighted average number of shares in issue for the current year) was 0.10003.

If any options to be granted to a substantial shareholder or an independent non-executive director, or any of his/its associates (as defined in the Listing Rules), will result in the total number of the shares granted and to be granted to such connected person or his/its associate(s) (whether pursuant to the Existing Share Option Scheme or the Existing Share Scheme) during the 12-month period up to and including the date of such proposed grant representing in aggregate over 0.1% of the total issued shares of the Company as at the date of such proposed grant, then such proposed grant will be required to be approved by the independent shareholders of the Company in general meeting, at which all core connected persons (as defined in the Listing Rules) of the Company, such connected person and their respective associates shall abstain from voting on the relevant resolution(s) at the general meeting.

If any proposed grant of an option to any proposed grantee would result in the total number of shares granted and to be granted to such proposed grantee (whether pursuant to the Existing Share Option Scheme or the Existing Share Scheme) during the 12-month period up to and including the date of such proposed grant exceeding 1% of the total number of issued shares of the Company as at the date of such proposed grant, then such proposed grant must be separately approved by the independent shareholders of the Company in general meeting, at which such proposed grantee and his/her close associates (as defined in the Listing Rules) shall abstain from voting.

The period within which the options must be exercised will be specified by the Board (or its duly authorised officer(s) or delegate(s)) at the time of grant, which must not be more than 10 years from the date of grant of such options. All options granted under the Existing Share Option Scheme will be subject to a vesting period of a minimum of one year (subject to a shorter period under any one or more of certain specific circumstances) and up to six years (or such other period which must not be more than 10 years from the date of grant of the relevant options) as determined by the Board (or its duly authorised officer(s) or delegate(s)) at the time of granting the relevant option, which will vary from option holder to option holder. When making an offer to grant an option to a proposed grantee, the Board (or its duly authorised officer(s) or delegate(s)) may in its absolute discretion specify any one or more of the relevant conditions, including (if applicable) satisfactory performance target(s) achievement rating which shall be achieved by the proposed grantee before his exercise of such option as well as the clawback mechanism adopted by the Board as more particularly described at page 21 of the Company's circular as issued and published on 13 April 2023. An offer of grant of an option must be accepted by the date being a date not more than 30 days after the date of the offer. The amount payable upon acceptance of an option is HK$1.00.

The amount payable for each share to be subscribed for upon exercise of an option shall be determined by the Board and shall be the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

Since its adoption, no option has been granted under the Existing Share Option Scheme. As discussed below, since no new shares have been subscribed for by the trustee nor allotted and issued by the Company under the Existing Share Scheme during the current year, it follows that the total number of shares that might be issued in respect of options and awards that might be granted under the Existing Share Option Scheme and the Existing Share Scheme respectively during the current year had remained 791,700,000 shares (representing 10% of the total number of shares in issue as at 19 May 2023). 791,700,000 shares (representing the aforesaid total number of shares) when divided by 7,914,531,751 shares (representing the weighted average number of shares in issue for the current year) was 0.10003.

Please also refer to note 36 to the consolidated financial statements.

Existing Share Scheme

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

The Board (or its duly authorised officer(s) or delegate(s)) may propose or determine (a) which Eligible Participants shall be entitled to receive grants of shares under the Existing Share Scheme; (b) the number of shares to which each such Eligible Participant shall be entitled; (c) making the relevant grants of shares to the beneficiaries under the Existing Share Scheme subject to such conditions as the Board (or its duly authorised officer(s) or delegate(s)) may deem appropriate at its discretion; and (d) the lock-up period applicable to each grant of shares to a beneficiary, in each case upon and subject to the terms and conditions set out in the Existing Share Scheme.

An offer for grant of shares (in respect of which no consideration nor purchase price is payable) must be accepted by the date being a date not more than 30 days after the date of the offer.

If any proposed grant of shares to any connected person in relation to the Company or any of its subsidiaries or any of his/its associates will result in the total number of the shares granted and to be granted to such connected person or his/its associate(s) (whether pursuant to the Existing Share Option Scheme or the Existing Share Scheme) during the 12-month period up to and including the date of such proposed grant representing in aggregate over 0.1% of the total issued shares of the Company as at the date of such proposed grant, then such proposed grant will be required to be approved by the independent shareholders of the Company in general meeting, at which all core connected persons of the Company, such connected person and their respective associates shall abstain from voting on the relevant resolution(s) at the general meeting.

If any proposed grant of shares to any proposed grantee would result in the total number of shares granted and to be granted to such proposed grantee (whether pursuant to the Existing Share Option Scheme or the Existing Share Scheme) during the 12-month period up to and including the date of such proposed grant exceeding 1% of the total number of issued shares of the Company as at the date of such proposed grant, then such proposed grant must be separately approved by the independent shareholders of the Company in general meeting, at which such proposed grantee and his/her close associates shall abstain from voting.

For grants to beneficiaries who are not connected persons of the Company, the trustee for the Existing Share Scheme (being a professional institution) shall subscribe, on behalf of such beneficiaries, for new shares at nominal value from the Company, whereas for grants to beneficiaries who are connected persons of the Company, the trustee shall purchase, on behalf of such beneficiaries, shares in the open market at the prevailing market price reasonably obtainable by it, so that such grants will not constitute connected transactions (as defined in the Listing Rules) of the Company. For details about the trustee for the Existing Share Scheme (previously acting as the trustee for the Former Share Scheme), please refer to pages 10 and 11 of the Company's circular as issued and published on 13 April 2023.

On the date of subscription or purchase of shares (as the case may be) by the trustee on behalf of the relevant beneficiaries, the beneficial ownership of the shares and the related income arising therefrom as held by the trustee which are referable to the beneficiary is vested in that beneficiary, whereas the legal title of such shares and related income is vested in and will be held by the trustee at all times during the corresponding lock-up period, in both cases upon and subject to the terms and conditions set out in the Existing Share Scheme.

Beneficiaries will not be permitted to sell or otherwise dispose of or deal with some or all their shares and the related income arising therefrom during a lock-up period of a minimum of one year (subject to a shorter period under any one or more of certain specified circumstances) and up to three years, which will vary from beneficiary to beneficiary as to be determined by the Board (or its duly authorised officer(s) or delegate(s)) and communicated to the trustee, commencing from the date of grant.

When making an offer to grant shares to a proposed beneficiary under the Existing Share Scheme, the Board (or its duly authorised officer(s) or delegate(s)) may in its absolute discretion specify any one or more of the relevant conditions, including (if applicable) satisfactory performance target(s) achievement rating which shall be achieved by the proposed grantee as well as the clawback mechanism adopted by the Board as more particularly described at page 21 of the Company's circular as issued and published on 13 April 2023, before vesting of the legal title of the relevant shares in him.

The shares to be granted to the proposed beneficiaries under the Existing Share Scheme will be granted for free and will, including those to be granted to the directors and other senior management of the Company or any of its subsidiaries, form part of their remuneration (being a discretionary bonus in the form of a share grant or a discretionary cash bonus satisfied in the form of shares).

The total number of shares issuable upon being granted pursuant to the Existing Share Scheme and upon exercise of all options which may be granted pursuant to the Existing Share Option Scheme (as disclosed above) as at the adoption date (i.e. 19 May 2023) was 791,700,000 shares, representing 10% of the total number of shares in issue as at the adoption date and approximately 10.03% of the total number of shares in issue as at the date of this report of the directors.

Pursuant to the approval of the Board on 13 September 2023 and the subsequent finalisation by the Board's delegate, the Company offered 3,346,591 ordinary shares to a total of 2 beneficiaries pursuant to the Existing Share Scheme, of which 3,346,591 ordinary shares were granted with lock-up periods up to 12 September 2024 and 5 November 2024 respectively from the grant dates (i.e. 13 September 2023 and 6 November 2023 respectively). No consideration nor purchase price was payable on acceptance of offer of the shares. A total of 3,346,591 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in September 2023 and November 2023 respectively. Please refer to the Company's announcements dated 13 September 2023 and 6 November 2023 respectively for details. Save as disclosed as aforesaid, no further share was granted under the Existing Share Scheme during the current period.

Movements of share grants under the Existing Share Scheme during the current period (i.e. 1 January 2023 to 31 December 2023) were as follows:

					Number of shares granted under the Existing Share Scheme								
Name of participant	Date of grant (dd.mm.yyyy)	Vesting period (dd.mm.yyyy)	Date of vesting (dd.mm.yyyy)	Purchase price	Unvested Award Shares as of 1 January 2023	Granted during the year *(Note 1)*	Vested during the year	Cancelled/ forfeited during the year	Lapsed during the year	Unvested Award Shares as of 31 December 2023	Closing price of the Shares immediately before the date of grant (HK$)	Fair value of Award Shares at the date of grant (HK$) *(Note 2)*	Weighted average closing price of the Shares immediately before the date of vesting (HK$)
CHIH Yu Yang (executive director, also acting as chief executive officer)	06.11.2023	06.11.2023 to 05.11.2024	06.11.2024	Nil	0	1,979,598	0	–	–	1,979,598	0.59	0.62	–
LIN Chia-Yi (also known as Charles LIN) (executive director)	13.09.2023	13.09.2023 to 12.09.2024	13.09.2024	Nil	0	1,366,993	0	–	–	1,366,993	0.68	0.71	–
Total					0	3,346,591	0	–	–	3,346,591	–	–	–

Notes:

1. The shares had been granted subject to certain conditions, including the achievement of satisfactory performance targets achievement rating and the clawback mechanism adopted by the Board as more particularly described at page 21 of the Company's circular as issued and published on 13 April 2023. In relation to the above grants, the performance targets set for Mr. Chih and Mr. Lin (both being the Company's executive directors) respectively are generally summarised as follows (in this respect, it should be pointed out that the specific performance targets set for each of the Company's executive directors represent commercially sensitive information of the Company, particularly in the eyes of the Group's industry peers):

   Mr. Chih
   In respect of the relevant 12-month period applicable to the above grant: (a) Mr. Chih's individual performance in terms of his pre-determined key performance indicators ("KPIs"); (b) the specific functional targets assigned to Mr. Chih in his dual capacities as the Company's executive director and chief executive officer; (c) the financial and other objectives set for Mr. Chih; (d) the KPIs set for the office of the Company's chief executive officer to which the global members of the Group's Global Leadership Team directly report; and (e) the additional performance targets as set forth in the Directors' Remuneration Policy of the Company as amended from time to time.

   Mr. Lin
   In respect of the relevant 12-month period applicable to the above grant: (a) Mr. Lin's individual performance in terms of his pre-determined KPIs; (b) the specific functional targets assigned to Mr. Lin in his capacity as the Company's executive director; (c) the financial and other objectives set for Mr. Lin; (d) the KPIs set for the Group's DMS (Design Manufacturing Solutions) business unit headed by Mr. Lin; and (e) the additional performance targets as set forth in the Directors' Remuneration Policy of the Company as amended from time to time.

2. The fair value of the shares at the date of grant is measured by the quoted market price of the shares at the date of grant. For details, please see Note 2 at page 113 of this report of the directors.

As no new shares have been or will be subscribed for by the trustee nor allotted and issued by the Company under the Existing Share Scheme in respect of the above grants and as discussed above, no options have been granted under the Existing Share Option Scheme since its adoption, the total number of shares that might be issued in respect of options and awards that might be granted under the Existing Share Option Scheme and the Existing Share Scheme respectively during the current year had remained 791,700,000 shares (representing 10% of the total number of shares in issue as at 19 May 2023). 791,700,000 shares (representing the aforesaid total number of shares) when divided by 7,914,531,751 shares (representing the weighted average number of shares in issue for the current year) was 0.10003.

BFIH Share Option Scheme

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

For the purposes of the Existing Chapter 17, BFIH is not a "principal subsidiary" of the Company on the basis that during the current period and up to the date of this report of the directors, the revenue, profits or total assets of BFIH did not, and does not, account for 75% or more of that of the Company under the applicable percentage ratios (as defined in the Listing Rules) in any of the latest three financial years (including the current period). Accordingly, the relevant provisions of the Existing Chapter 17 do not apply to the BFIH Share Option Scheme.

As to the amendments to the BFIH Share Option Scheme and the cancellation of the share options granted under the BFIH Share Option Scheme together with the movements of such cancelled share options (in each case taking place in 2022), please refer to pages 133 to 135 of the Company's 2022 annual report as issued and published on 13 April 2023.

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

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

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

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

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

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

No option was granted under the BFIH Share Option Scheme during the current period. As at 1 January 2023 and 31 December 2023, no option was outstanding under the BFIH Share Option Scheme. Accordingly, no option was exercisable as at 1 January 2023 and 31 December 2023.

Please also refer to note 36 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the current period, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 88.98% of the Group's total revenue from sales of goods and rendering of services for the current period and revenue from sales of goods and rendering of services to the Group's largest customer amounted to approximately 45.61%. Purchases from the Group's five largest suppliers accounted for approximately 45.91% of the Group's total purchases for the current period and purchases from the Group's largest supplier amounted to approximately 15.80%.

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

For related matters, please refer to the section headed "Business Review — Discussion and Analysis — Key Relationships with Customers, Suppliers and Employees" above of this report of the directors.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of the Company's 2023 annual report incorporating this report of the directors, to the best knowledge of the directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the current period and up to the date of this report of the directors, pursuant to the Buy-back Mandates (as defined in the Company's circulars dated 14 April 2022 and 14 April 2023 respectively) duly approved by the Company's shareholders at the Company's annual general meetings held on 20 May 2022 and 19 May 2023 respectively, the Company bought back in multiple batches a total of 36,939,000 shares on the Stock Exchange in cash for an aggregate consideration (before expenses) of HK$25,353,580.00. Among these shares so bought back, 6,739,000 shares, 4,000,000 shares, 3,031,000 shares, 5,969,000 shares and 3,000,000 shares were cancelled on 13 January 2023, 13 April 2023, 11 September 2023, 10 October 2023 and 7 December 2023 respectively, whereas the remaining 14,200,000 shares were cancelled on 15 January 2024, in all cases in accordance with the Articles.

The above share buy-backs are summarised as follows:

Date of buy-back	No. of shares bought back	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid (before expenses) HK$
3 January 2023	2,161,000	0.86	0.85	1,851,200.00
4 January 2023	1,078,000	0.87	0.86	932,080.00
5 January 2023	1,000,000	0.86	0.86	860,000.00
6 January 2023	2,500,000	0.85	0.84	2,121,070.00
30 March 2023	232,000	0.84	0.84	194,880.00
31 March 2023	3,768,000	0.85	0.83	3,179,290.00
15 August 2023	354,000	0.77	0.77	272,580.00
23 August 2023	1,000,000	0.72	0.72	720,000.00
24 August 2023	677,000	0.72	0.72	487,440.00
31 August 2023	1,000,000	0.68	0.68	680,000.00
5 September 2023	400,000	0.72	0.72	288,000.00
6 September 2023	400,000	0.71	0.71	284,000.00
7 September 2023	400,000	0.71	0.71	284,000.00
11 September 2023	1,400,000	0.69	0.68	962,000.00
15 September 2023	800,000	0.70	0.70	560,000.00
18 September 2023	300,000	0.70	0.70	210,000.00
20 September 2023	200,000	0.70	0.70	140,000.00
21 September 2023	100,000	0.68	0.68	68,000.00
25 September 2023	288,000	0.68	0.68	195,840.00
26 September 2023	981,000	0.68	0.67	661,390.00
28 September 2023	400,000	0.66	0.66	264,000.00
29 September 2023	300,000	0.66	0.66	198,000.00
15 November 2023	800,000	0.60	0.60	480,000.00
30 November 2023	2,200,000	0.58	0.58	1,276,000.00
1 December 2023	1,800,000	0.59	0.58	1,050,000.00
4 December 2023	1,504,000	0.56	0.55	835,200.00
5 December 2023	1,000,000	0.54	0.54	540,000.00
14 December 2023	664,000	0.55	0.55	365,200.00

Date of buy-back	No. of shares bought back	Price per share Highest HK$	Lowest HK$	Aggregate consideration paid (before expenses) HK$
19 December 2023	415,000	0.56	0.56	232,400.00
20 December 2023	1,621,000	0.57	0.57	923,970.00
21 December 2023	300,000	0.58	0.57	173,820.00
22 December 2023	296,000	0.59	0.59	174,640.00
27 December 2023	1,900,000	0.59	0.58	1,113,640.00
28 December 2023	206,000	0.60	0.60	123,600.00
29 December 2023	94,000	0.61	0.61	57,340.00
2 January 2024	1,400,000	0.60	0.59	834,000.00
3 January 2024	300,000	0.59	0.59	177,000.00
4 January 2024	1,600,000	0.59	0.58	931,000.00
5 January 2024	1,100,000	0.60	0.59	652,000.00
	36,939,000			25,353,580.00

For details about each of the above share buy-backs and share cancellations, please refer to the Explanatory Statements of the Buy-back Mandates as Appendix I to the Company's circulars dated 14 April 2022 and 14 April 2023 respectively as well as the next day disclosure returns and monthly returns as issued and published from 3 January 2023 to 1 February 2024 (both dates inclusive).

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

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

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

Details of the Group's pension schemes and the basis of calculation are set out in note 35 to the consolidated financial statements.

TAX RELIEF

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

AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the Corporate Governance Code as set out in Appendix C1 to the Listing Rules (the "CG Code"). Its primary duties are to review the Group's financial reporting process and internal control and enterprise risk management systems, nominate and monitor external auditor and provide advice and comments to the Board. The audit committee comprises three independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

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

CORPORATE GOVERNANCE

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

For more details, please refer to the Company's 2023 corporate governance report, which forms part of the Company's 2023 annual report incorporating this report of the directors.

AUDITOR

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

On behalf of the Board

CHIH Yu Yang
Acting Chairman

7 March 2024

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 128 to 195, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTER

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

KEY AUDIT MATTER *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of unlisted equity investment in relation to HMD Global Oy ("HMD") and expected credit loss ("ECL") on trade receivables due from HMD	

We identified fair value measurement of unlisted equity investment in relation to HMD and ECL on trade receivables from HMD as a key audit matter due to the involvement of significant estimation uncertainty over the assumptions.
 	
As disclosed in notes 4, 16 and 32 to the consolidated financial statements, in determining the fair value of unlisted equity investment in relation to HMD and ECL on trade receivables due from HMD, the Group engaged independent professional valuers to (i) perform the valuation of the investment using option-pricing method to allocate the equity value of HMD derived from cash flow projection based on financial budgets and business plan approved by HMD's management for the estimated future cash flow discounted to its present value, which required the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin and taking into account relevant industry growth and market development forecasts and (ii) assess the ECL on trade receivables due from HMD individually, including expected probability of default rate, forward looking adjustments and the estimated loss given default rate, based on market available information.
	Our procedures in relation to evaluating the appropriateness of the management's fair value measurement of unlisted equity investment in relation to HMD and ECL on trade receivables due from HMD included:
	
	• Understanding how the Group's management determines the fair value of unlisted equity investment in relation to HMD and ECL on trade receivables due from HMD, including the valuation model adopted, key assumptions used and the involvement of independent professional valuers appointed by the Group;
	
	• Evaluating the competence, capability and objectivity of the valuers;
	
	• In respect of the fair value measurement of unlisted equity investment in relation to HMD:
	
	    • Evaluating the historical reasonableness of the financial budgets prepared by the HMD's management by comparing the historical budgets with the actual performance;
	
	    • Evaluating the reasonableness of the budgeted sales and gross margin by considering the financial budgets and business plan approved by the management of HMD, relevant industry growth and market development forecast with reference to the available industry and market data;

KEY AUDIT MATTER *(Continued)*

Key audit matter	How our audit addressed the key audit matter
The fair value of unlisted equity investment in relation to HMD was determined as US$25,700,000 as at 31 December 2023 and fair value loss of US$78,200,000 was recognised in other comprehensive income for the year ended 31 December 2023. The gross carrying amount of the trade receivables due from HMD was US$215,296,000 as at 31 December 2023 and related ECL of US$137,758,000 was recognised in profit or loss for the year ended 31 December 2023.	• In respect of the ECL on trade receivables from the HMD, assessing the reasonableness of key assumptions adopted by the valuer, including expected probability of default rate, forward looking adjustments and the estimated loss given default rate, based on market available information; and • Engaging our valuation expert to evaluate the appropriateness of the valuation models adopted and the selected key assumptions used in respect of the fair value of unlisted equity investment in relation to HMD and ECL on trade receivables due from HMD.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
7 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 US$'000	2022 US$'000
Revenue	5	**6,445,798**	9,394,319
Cost of sales		**(6,335,982)**	(9,202,363)
Gross profit		**109,816**	191,956
Other income, gains and losses	6	**229,512**	132,630
Impairment loss under expected credit loss model, net of reversal		**(133,823)**	(80,534)
Impairment loss recognised for property, plant and equipment		**(4,882)**	(3,703)
Selling expenses		**(5,386)**	(8,913)
General and administrative expenses		**(156,914)**	(179,644)
Research and development expenses		**(57,108)**	(74,452)
Interest expenses		**(60,600)**	(29,578)
Share of loss of associates		**(344)**	(3,085)
Share of loss of a joint venture		**(20,175)**	(4,361)
Loss before tax	7	**(99,904)**	(59,684)
Income tax expense	10	**(20,869)**	(12,451)
Loss for the year		**(120,773)**	(72,135)
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(84,735)**	(79,405)
Remeasurement of defined benefit pension plans		**243**	384
		(84,492)	(79,021)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(15,324)**	(221,898)
Share of translation reserve of associates		**(337)**	(2,712)
Share of translation reserve of a joint venture		**1,093**	(2,454)
		(14,568)	(227,064)
Other comprehensive expense for the year, net of income tax		**(99,060)**	(306,085)
Total comprehensive expense for the year		**(219,833)**	(378,220)
Loss for the year attributable to:			
Owners of the Company		**(120,680)**	(72,107)
Non-controlling interests		**(93)**	(28)
		(120,773)	(72,135)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(220,037)**	(377,523)
Non-controlling interests		**204**	(697)
		(219,833)	(378,220)
Loss per share	12		
Basic		**(US1.52 cents)**	(US0.91 cent)
Diluted		**(US1.52 cents)**	(US0.91 cent)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 US$'000	2022 US$'000
Non-current assets			
Property, plant and equipment	*13*	**639,374**	728,302
Right-of-use assets	*14*	**39,019**	40,198
Investment properties	*15*	**406**	10,189
Equity instruments at fair value through other comprehensive income	*16*	**62,002**	143,610
Interests in associates	*17*	**25,270**	25,951
Interest in a joint venture	*18*	**14,103**	33,185
Deferred tax assets	*19*	**18,790**	14,557
Deposit for acquisition of right-of-use assets		**26,908**	27,366
Other receivables	*15*	**34,625**	–
		860,497	1,023,358
Current assets			
Inventories	*20*	**591,557**	731,898
Trade and other receivables	*21*	**971,716**	1,905,645
Bank deposits	*28*	**50,343**	24,280
Cash and cash equivalents	*28*	**1,845,323**	1,825,109
		3,458,939	4,486,932
Current liabilities			
Trade and other payables	*22*	**1,643,013**	2,704,356
Contract liabilities		**331,543**	273,157
Lease liabilities	*23*	**1,235**	1,498
Bank borrowings	*24*	**703,676**	676,054
Provision	*29*	**2,014**	2,779
Tax payable		**55,484**	50,588
		2,736,965	3,708,432
Net current assets		**721,974**	778,500
Total assets less current liabilities		**1,582,471**	1,801,858

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	**2023 US$'000**	2022 US$'000
Capital and reserves			
Share capital	*25*	**316,200**	317,550
Reserves		**1,242,287**	1,464,103
Equity attributable to owners of the Company		**1,558,487**	1,781,653
Non-controlling interests		**2,885**	6,123
Total equity		**1,561,372**	1,787,776
Non-current liabilities			
Deferred tax liabilities	*19*	**11,236**	3,752
Deferred income	*30*	**7,119**	8,067
Lease liabilities	*23*	**2,744**	2,263
		21,099	14,082
		1,582,471	1,801,858

The consolidated financial statements on pages 128 to 195 were approved and authorised for issue by the board of directors on 7 March 2024 and are signed on its behalf by:

CHIH YU YANG
DIRECTOR

KUO WEN-YI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company												
	Share capital US$'000	Share premium US$'000	Shares bought-back pending cancellation US$'000	Special reserve US$'000 *(note 26)*	Revaluation reserve US$'000 *(note a)*	Other reserve US$'000 *(note b)*	Legal reserve US$'000 *(note 26)*	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2022	320,400	1,182,629	(1,170)	15,514	12,601	(405)	176,419	139,976	513	313,483	2,159,960	7,309	2,167,269
Loss for the year	–	–	–	–	–	–	–	–	–	(72,107)	(72,107)	(28)	(72,135)
Other comprehensive (expense) income for the year	–	–	–	–	(79,405)	384	–	(226,395)	–	–	(305,416)	(669)	(306,085)
Total comprehensive (expense) income for the year	–	–	–	–	(79,405)	384	–	(226,395)	–	(72,107)	(377,523)	(697)	(378,220)
Repurchase of ordinary shares *(note 25)*	–	–	(10,276)	–	–	–	–	–	–	–	(10,276)	–	(10,276)
Cancellation of ordinary shares	(2,850)	(7,426)	10,276	–	–	–	–	–	–	–	–	–	–
Disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	(1,459)	–	–	–	–	1,459	–	–	–
Payment made for equity-settled share-based payment	–	–	–	–	–	–	–	–	(1,197)	–	(1,197)	–	(1,197)
Recognition of equity-settled share-based payment *(note 36)*	–	–	–	–	–	–	–	–	684	–	684	9,516	10,200
Cancellation of equity-settled share-based payment *(note 36)*	–	–	–	–	–	–	–	–	–	10,005	10,005	(10,005)	–
Balance at 31 December 2022	**317,550**	**1,175,203**	**(1,170)**	**15,514**	**(68,263)**	**(21)**	**176,419**	**(86,419)**	**–**	**252,840**	**1,781,653**	**6,123**	**1,787,776**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(120,680)**	**(120,680)**	**(93)**	**(120,773)**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(84,735)**	**243**	**–**	**(14,865)**	**–**	**–**	**(99,357)**	**297**	**(99,060)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(84,735)**	**243**	**–**	**(14,865)**	**–**	**(120,680)**	**(220,037)**	**204**	**(219,833)**
Repurchase of ordinary shares *(note 25)*	**–**	**–**	**(2,908)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,908)**	**–**	**(2,908)**
Cancellation of ordinary shares	**(1,350)**	**(2,014)**	**3,364**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**6,277**	**–**	**–**	**–**	**–**	**(6,277)**	**–**	**–**	**–**
Payment made for equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,512)**	**–**	**(1,512)**	**–**	**(1,512)**
Recognition of equity-settled share-based payment *(note 36)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,291**	**–**	**1,291**	**–**	**1,291**
Capital reduction of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,442)**	**(3,442)**
Balance at 31 December 2023	**316,200**	**1,173,189**	**(714)**	**15,514**	**(146,721)**	**222**	**176,419**	**(101,284)**	**(221)**	**125,883**	**1,558,487**	**2,885**	**1,561,372**

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 US$'000	2022 US$'000
OPERATING ACTIVITIES			
Loss before tax			
Adjustments for:		**(99,904)**	(59,684)
Depreciation and amortisation		**147,043**	165,431
Write-down of inventories		**22,868**	27,071
Net gain on disposal and write-off of property, plant and equipment		**(4,968)**	(1,422)
Interest expenses		**60,600**	29,578
Share of loss of associates		**344**	3,085
Share of loss of a joint venture		**20,175**	4,361
Impairment loss under expected credit loss model, net of reversal		**133,823**	80,534
Impairment loss recognised for property, plant and equipment		**4,882**	3,703
Deferred income released to income		**(816)**	(1,128)
Interest income		**(52,499)**	(44,111)
Gain on disposal of investment properties		**(78,452)**	(6,235)
Gain on disposal of assets classified as held for sale		**(23,085)**	–
Equity-settled share-based payments		**1,291**	10,200
Write-off of trade and other payables		**(7,675)**	–
Gain on early termination of leases	*14*	**–**	(267)
Net fair value loss arising on equity instruments at fair value through profit or loss		**–**	1,900
Operating cash flows before movements in working capital		**123,627**	213,016
Decrease in inventories		**140,917**	29,135
Decrease (increase) in trade and other receivables		**960,726**	(4,573)
Decrease in trade and other payables		**(1,214,020)**	(8,577)
Increase in contract liabilities		**58,560**	168,284
Decrease in provision		**(750)**	(3,140)
Cash generated from operations		**69,060**	394,145
Income taxes paid, net		**(12,259)**	(27,027)
Interest received		**47,368**	43,493
Payments made for share-based payments expenses		**(1,512)**	(1,197)
NET CASH FROM OPERATING ACTIVITIES		**102,657**	409,414

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	**2023** **US$'000**	2022 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(93,174)**	(143,295)
Placement of bank deposits for investing purpose		**(26,264)**	(11,219)
Purchase of equity instruments at fair value through other comprehensive income		**(3,228)**	(4,701)
Proceeds from disposal of property, plant and equipment		**32,088**	4,284
Proceeds from disposal of investment properties	*15*	**25,440**	2,891
Proceeds from disposal of assets classified as held for sale	*6*	**25,027**	–
Proceeds from disposal of equity instruments at fair value through other comprehensive income		**24**	6,334
Advance payment received from disposal of investment properties	*15*	**–**	18,745
NET CASH USED IN INVESTING ACTIVITIES		**(40,087)**	(126,961)
FINANCING ACTIVITIES			
Bank borrowings raised		**1,936,557**	3,048,913
Bank borrowings repaid		**(1,907,903)**	(3,220,650)
Interest on bank borrowings paid		**(56,781)**	(27,085)
Payments on repurchase of ordinary shares		**(2,908)**	(10,276)
Payment on capital reduction of a subsidiary		**(3,442)**	–
Repayments of lease liabilities		**(2,335)**	(3,958)
Interest on lease liabilities paid		**(319)**	(967)
NET CASH USED IN FINANCING ACTIVITIES		**(37,131)**	(214,023)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**25,439**	68,430
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,825,109**	1,884,719
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(5,225)**	(128,040)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**1,845,323**	1,825,109

1. GENERAL

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a wide range of manufacturing services to its customers in connection with production of handsets. The principal activities of its principal subsidiaries are set out in note 37.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts on application of Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

The application of the amendments has had no material impact on the Group's financial position and performance.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.2 Impacts on application of Amendments to IAS 12 International Tax Reform — Pillar Two Model Rules

The Group has applied the amendments for the first time in the current year. IAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current year because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements when the Pillar Two legislation is enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

2.3 Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. IAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 "Making Materiality Judgements" (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

Amendments to IFRSs in issue but not yet effective

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

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

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

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

3 Effective for annual periods beginning on or after 1 January 2025

The directors of the Company anticipate that the application of all amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

3.2 Material accounting policy information

Investments in associates and joint ventures

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any assets, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Revenue from contracts with customers

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

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

Principal versus agent

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

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

Financial instruments

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

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

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

A financial asset is held-for-trading if:

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

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

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

Impairment of financial assets subject to impairment assessment under IFRS 9

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

(iv) Write-off policy

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

(v) Measurement and recognition of ECL

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest method.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Timing of revenue recognition

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

Significant influence over interest in an associate

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

Key sources of estimation uncertainty

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

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

In determining the fair values of unlisted equity investment in relation to HMD, the Group engaged independent professional valuers to perform valuation of the investment using option-pricing method to allocate equity value of HMD derived from the cash flow projection based on financial budgets and business plan approved by HMD management for the estimated future cash flow discounted to its present value, which requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin and taking into account relevant industry growth and market development forecasts where applicable. Any changes in the key assumptions may affect the amount of fair value. As at 31 December 2023, the fair value of unlisted equity investment in relation to HMD was US$25,700,000 (2022: US$103,900,000) and fair value loss of US$78,200,000 (2022: US$80,748,000) was recognised in other comprehensive income for the year ended 31 December 2023, details of which are disclosed in note 16.

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

Key sources of estimation uncertainty *(Continued)*

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

As at 31 December 2023, the management has considered that due to the continued deterioration of HMD's financial performance, there was a significant increase in credit risk in the trade receivables due from HMD. The Group engaged an independent profession valuer to assist in the estimation of the ECL provision on the trade receivables due from HMD by determining an appropriate expected probability of default rate, the estimated loss given default rate and forward looking adjustments.

As at 31 December 2023, the gross carrying amounts of the Group's trade receivables due from HMD was US$215,296,000 (2022: US$226,428,000). Based on management's assessment, the Group has recognised impairment loss under expected credit loss model of US$137,758,000 (2022: US$77,465,000) for the year ended 31 December 2023, details of which are disclosed in note 32.

Estimated allowance for inventories

The Group's management reviews the future sales plan and the inventory aging list to identify slow-moving and obsolete inventories that are no longer suitable for use in operation and then estimates the net realisable value based on the estimated selling prices and market condition to the extent that such condition exists at the end of reporting period, less the estimated cost of completion and costs necessary to make the sale. Where the net realisable value is less than the carrying amount, write-down on inventories will be made. As at 31 December 2023, the carrying amount of inventories is approximately US$591,557,000 (2022: US$731,898,000) and write-down on inventories of US$22,868,000 (2022: US$27,071,000) has recognised for the year ended 31 December 2023.

Income taxes

As at 31 December 2023, a deferred tax asset of US$4,892,000 (2022: Nil) in relation to unused tax losses of US$19,437,000 (2022: Nil) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$2,027,679,000 (2022: US$2,079,531,000) either due to the unpredictability of future profit streams or because it is not probable that unused tax losses will be available for utilisation before their expiry. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

During the year ended 31 December 2023, no deferred tax has been provided for the undistributed profits of US$917,198,000 (2022: US$849,315,000) in subsidiaries in the People's Republic of China (the "PRC") as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets were recognised for other deductible temporary differences of approximately US$60,322,000 (2022: US$37,738,000) on allowances for inventories and trade and other receivables, warranty provision, accelerated accounting depreciation and other accrued expenses. At 31 December 2023, 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$325,885,000 (2022: US$187,610,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

Key sources of estimation uncertainty *(Continued)*

Income taxes *(Continued)*

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

Estimated impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the management has to exercise judgement and make estimation, particularly in assessing: (i) whether an event has occurred or any indicators that may affect the asset recoverable amount; (ii) whether the carrying value of an asset can be supported by the recoverable amount. The recoverable amounts, being the fair value less costs of disposal, of the relevant assets have been estimated individually by the Group's management. In estimating the fair value of these assets, the management uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management engages third party qualified valuers to perform the valuation. The management will first consider and adopt Level 2 inputs where inputs can be observable, other than quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. As at 31 December 2023, the carrying amounts of property, plant and equipment were US$639,374,000 (2022: US$728,302,000). Impairment losses of US$4,882,000 (2022: US$3,703,000) was recognised in profit or loss during the year. Details of the impairment of property, plant and equipment are disclosed in note 13.

5. REVENUE AND SEGMENT INFORMATION

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

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

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$6,445,798,000 (2022: US$9,394,319,000) 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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

As at 1 January 2022, contract liabilities amounted to US$105,207,000. 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:

	2023 US$'000	2022 US$'000
Segment revenue (external sales)		
Asia	**3,798,328**	5,797,599
Europe	**1,050,945**	1,152,224
America	**1,596,525**	2,444,496
Total	**6,445,798**	9,394,319
Segment profit (loss)		
Asia	**70,072**	108,217
Europe	**(127,511)**	(51,242)
America	**47,890**	70,817
	(9,549)	127,792
Other income, gains and losses	**209,668**	107,347
Impairment loss recognised for property, plant and equipment	**(4,882)**	(3,703)
General and administrative expenses	**(156,914)**	(179,644)
Research and development expenses	**(57,108)**	(74,452)
Interest expenses	**(60,600)**	(29,578)
Share of loss of associates	**(344)**	(3,085)
Share of loss of a joint venture	**(20,175)**	(4,361)
Loss before tax	**(99,904)**	(59,684)

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	2023 US$'000	2022 US$'000
Segment assets		
Allocated		
Asia	**585,995**	1,396,586
Europe	**72,710**	97,812
America	**300,558**	392,846
Total	**959,263**	1,887,244
Unallocated		
Property, plant and equipment	**620,132**	710,449
Inventories	**577,136**	711,938
Cash and bank deposits	**1,706,572**	1,660,599
Others	**326,229**	315,357
Corporate assets	**130,104**	224,703
Consolidated total assets	**4,319,436**	5,510,290
Segment liabilities		
Allocated		
Asia	**22,885**	26,789
Europe	**17,530**	17,737
America	**311,082**	263,099
Total	**351,497**	307,625
Unallocated		
Trade and other payables	**1,619,520**	2,670,446
Others	**11,098**	11,827
Corporate liabilities	**775,949**	732,616
Consolidated total liabilities	**2,758,064**	3,722,514

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information

	Year ended 31 December 2023				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measurement of segment profit or loss or segment assets and liabilities:					
Capital additions	–	–	2,874	90,300	93,174
Depreciation and amortisation*	109,779	373	2,860	34,031	147,043
Net (loss) gain on disposal and write-off of property, plant and equipment	–	–	(1)	4,969	4,968
Gain on disposal of investment properties	–	–	–	78,452	78,452
Gain on disposal of assets classified as held for sale	–	8,746	–	14,339	23,085
Impairment loss recognised for property, plant and equipment	–	–	–	4,882	4,882
Impairment loss under expected credit loss model, net of reversal	(4,105)	137,305	623	–	133,823
Provision for warranty	1,661	–	–	–	1,661
Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss:					
Write-down of inventories to net realisable value	21,221	–	1,647	–	22,868

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information *(Continued)*

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

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

	Revenue from external customers		Non-current assets	
	2023	2022	**2023**	2022
	US$'000	US$'000	**US$'000**	US$'000
PRC	**5,132,104**	7,493,354	**465,533**	600,953
India	**1,263,777**	1,854,244	**100,845**	96,367
Mexico	**48,200**	46,721	**18,882**	15,949
Vietnam	**1,717**	–	**115,925**	86,780
USA	**–**	–	**360**	955
Other countries	**–**	–	**43,535**	64,187
	6,445,798	9,394,319	**745,080**	865,191

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

Information about major customers

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

	2023	2022
	US$'000	US$'000
Customer A[1]	**2,940,210**	3,427,153
Customer B[1 & 2]	**1,034,685**	1,972,894
Customer C[1]	**848,008**	1,844,388

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

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

6. OTHER INCOME, GAINS AND LOSSES

	2023 US$'000	2022 US$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank deposits and bank balances	**52,499**	44,111
Service income	**11,099**	25,283
Sales of materials and scraps	**12,161**	2,170
Repairs and modifications of mouldings	**13,850**	8,751
Net foreign exchange gain	**5,497**	13,205
Government subsidies *(note a)*	**24,018**	28,362
Rental income	**9,493**	5,885
Net gain on disposal and write-off of property, plant and equipment	**4,968**	1,422
Gain on disposal of investment properties *(note 15)*	**78,452**	6,235
Gain on disposal of assets classified as held for sale *(note b)*	**23,085**	–
Compensation loss to lessees *(note 15)*	**(12,787)**	–
Write-off of trade and other payables	**7,675**	–
Net fair value loss on financial assets at FVTPL		
— equity instruments	**–**	(1,900)
Others	**(498)**	(894)
	229,512	132,630

Notes:

(a) This mainly represented subsidies granted for the Group's operations in the PRC. During the year ended 31 December 2022, the Group recognised government grants of US$157,000 (2023: Nil) in respect of COVID-19-related subsidies, of which are mainly employment support scheme provided by local government.

(b) According to an arbitral award issued by the China International Economic and Trade Arbitration Commission on 6 June 2023, the Group has disposed of certain property, plant and equipment in Beijing, the PRC, at a consideration of RMB106,918,900 (equivalent to approximately US$15,100,000) to 北京亦莊城市更新有限公司 (Beijing E-Town Urban Renewal Co., Ltd. for identification purposes only) which is a party independent of the Group. As at 30 June 2023, the directors of the Company considered that the held-for-sale criteria as set out in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5") were met, by taking into account the fact that the subject assets were immediately available for sale, and the sale was to be highly probable as appropriate level of management had committed to a plan to sell the assets. Accordingly, the respective assets were classified as assets held for sale as at 30 June 2023. The disposal was completed on 26 September 2023 in which the carrying amount of the property, plant and equipment at date of disposal was US$761,000 and the Group has recognised a gain on disposal of assets classified as held for sale of US$14,339,000 in the current year. The details of the transaction are set out in the Company's announcement dated 7 June 2023.

On 7 July 2023, the Group entered into a sale and purchase agreement with a subsidiary of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only) ("Hon Hai"), the ultimate holding company of the Company, to dispose of certain property, plant and equipment and investment properties in Hungary at a consideration of US$9,927,000. As at 30 June 2023, the directors of the Company considered that the held-for-sale criteria as set out in IFRS 5 were met, by taking into account the fact that the subject assets were immediately available for sale, and the sale was to be highly probable as appropriate level of management had committed to a plan to sell the assets. Accordingly, the respective assets were classified as assets held for sale as at 30 June 2023. The disposal was completed on 7 July 2023 in which the carrying amounts of the property, plant and equipment as well as investment properties at date of disposal were US$1,060,000 and US$121,000 respectively and the Group has recognised a gain on disposal of assets classified as held for sale of US$8,746,000 in the current year. The details of the transaction are set out in the Company's announcement dated 7 July 2023.

7. LOSS BEFORE TAX

	2023 US$'000	2022 US$'000
Loss before tax for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**142,787**	159,567
Depreciation of right-of-use assets	**3,331**	3,534
Depreciation of investment properties	**925**	2,330
Total depreciation and amortisation	**147,043**	165,431
Less: Amount capitalised in inventories	**(117,195)**	(135,046)
Amount included in research and development expenses	**(3,959)**	(5,474)
	25,889	24,911
Interest on:		
Bank borrowings	**60,281**	28,611
Lease liabilities	**319**	967
	60,600	29,578
Staff costs		
Directors' emoluments *(note 8)*	**2,523**	2,406
Retirement benefit scheme contributions (excluding directors)	**11,856**	16,918
Other staff costs	**255,901**	351,932
Total staff costs	**270,280**	371,256
Less: Amount capitalised in inventories	**(169,211)**	(247,170)
Amount included in research and development expenses	**(18,189)**	(28,521)
	82,880	95,565
Auditor's remuneration	**663**	1,073
Cost of inventories recognised as expense	**6,311,453**	9,167,531
Provision for warranty	**1,661**	7,761
Write-down of inventories to net realisable value	**22,868**	27,071

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

2023	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total US$'000
Chih Yu Yang (also acting as the chief executive)	–	227	739	–	966
Kuo Wen-Yi	–	393	191	20	604
Lin Chia-Yi (also know as Charles Lin) (appointed on 10 March 2023)	–	113	514	3	630
Meng Hsiao-Yi (resigned on 10 March 2023)	–	24	155	–	179
Chang Chuan-Wang (appointed on 29 June 2023)	12	–	–	–	12
Lau Siu Ki	40	12	–	–	52
Chen Shu Chuan (also known as Nadia Chen) (appointed on 19 May 2023)	25	–	–	–	25
Chiu Yen-Tsen (also known as Chiu Yen-Chen, Dennis) (appointed on 29 June 2023)	20	–	–	–	20
Daniel Joseph Mehan (resigned on 29 June 2023)	20	–	–	–	20
Tao Yun Chih (retired on 19 May 2023)	15	–	–	–	15
	132	769	1,599	23	2,523

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

2022	Fees US$'000	Other emoluments Basic salaries and allowances US$'000	Performance-based or discretionary bonus US$'000 *(note)*	Retirement benefit scheme contributions US$'000	Total US$'000
Chih Yu Yang (also acting as the chief executive)	–	236	914	–	1,150
Kuo Wen-Yi	–	393	240	–	633
Meng Hsiao-Yi (resigned on 10 March 2023)	–	161	330	–	491
Lau Siu Ki	40	12	–	–	52
Daniel Joseph Mehan (resigned on 29 June 2023)	40	–	–	–	40
Tao Yun Chih (retired on 19 May 2023)	40	–	–	–	40
	120	802	1,484	–	2,406

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

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

Neither the chief executive nor any of the directors waived any emoluments. Neither any of the directors nor the five highest paid individuals (note 9) were paid as compensation for loss of office and as incentive to join or upon joining the Group during the years ended 31 December 2023 and 2022.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2022: three) executive directors of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining three individuals (2022: two individuals) were as follows, in which one of the individuals was appointed as director during the year. Both of the director's emolument and employee's emolument of that individual were included below.

	2023 US$'000	2022 US$'000
Salaries, housing allowances and other benefits	492	250
Retirement benefits	13	7
Performance-related incentive payments	753	557
	1,258	814

Their emoluments were within the following bands:

	Number of employees	
	2023	2022
HK$2,000,000 to HK$2,500,000	2	–
HK$2,500,001 to HK$3,000,000	–	1
HK$3,500,001 to HK$4,000,000	–	1
HK$5,000,001 to HK$5,500,000	1	–
	3	2

10. INCOME TAX EXPENSE

	2023 US$'000	2022 US$'000
Current tax		
— Hong Kong	–	–
— Other jurisdictions	**17,484**	10,140
	17,484	10,140
Overprovision in prior years		
— Hong Kong	–	–
— Other jurisdictions	–	(1,640)
	–	(1,640)
	17,484	8,500
Deferred tax *(note 19)*		
— Current year	**3,385**	3,951
	20,869	12,451

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% (2022: 25%). One of the Company's PRC subsidiaries was awarded with the Advanced — Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for a period of three years, i.e. effective from 2022. Besides, another one 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% (2022: 25%).

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

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

10. INCOME TAX EXPENSE *(Continued)*

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

	2023 US$'000	2022 US$'000
Loss before tax	**(99,904)**	(59,684)
Income tax credit at the PRC income tax rate of 25% (2022: 25%) for the year *(note)*	**(24,976)**	(14,921)
Effect of different tax rates of subsidiaries	**(618)**	1,055
Effect of income taxed at concessionary tax rates	**210**	213
Tax effect of expenses not deductible for tax purpose	**1,423**	11,452
Tax effect of income not taxable for tax purpose	**(5,034)**	(17,176)
Tax effect of tax losses/deductible temporary differences not recognised	**44,734**	31,607
Tax effect of share of loss of associates	**86**	771
Tax effect of share of loss of a joint venture	**5,044**	1,090
Overprovision in prior years	**–**	(1,640)
Income tax expense for the year	**20,869**	12,451

Note: The domestic income tax rate of 25% (2022: 25%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

11. DIVIDENDS

No dividend was paid, declared or proposed for the years ended 31 December 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

12. LOSS PER SHARE

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

	2023 US$'000	2022 US$'000
Loss attributable to the owners of the Company		
Loss for the purposes of basic and diluted loss per share	**(120,680)**	(72,107)

	2023	2022
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss (2022: basic and diluted loss) per share	**7,914,531,751**	7,961,423,605

The calculation of diluted loss per share for both current and prior years does not assume the anti-dilutive impact from the share options issued by its subsidiary as detailed in note 36(b) and the potential ordinary shares as detailed in note 36(c).

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2022	814,272	1,027,090	122,274	7,575	1,971,211
Exchange adjustments	(56,544)	(101,553)	(6,899)	(1,208)	(166,204)
Additions	7,328	107,864	4,090	24,013	143,295
Disposals and write-off	(8,029)	(56,224)	(4,823)	–	(69,076)
Transfers from right-of-use assets	–	376	–	–	376
Transfers	2,095	8,402	560	(11,057)	–
At 31 December 2022	759,122	985,955	115,202	19,323	1,879,602
Exchange adjustments	(6,786)	(12,700)	(200)	(210)	(19,896)
Additions	8,437	37,033	3,849	43,855	93,174
Disposals and write-off	(8,422)	(156,494)	(8,744)	–	(173,660)
Transfer to assets held for sale *(note 6)*	(22,186)	(976)	(196)	–	(23,358)
Transfers	4,243	25,815	1,358	(31,416)	–
At 31 December 2023	734,408	878,633	111,269	31,552	1,755,862
DEPRECIATION AND IMPAIRMENT					
At 1 January 2022	457,220	613,393	86,940	–	1,157,553
Exchange adjustments	(33,703)	(61,774)	(8,124)	–	(103,601)
Charge for the year	39,660	112,950	6,957	–	159,567
Eliminated on disposals and write-off	(15,418)	(46,312)	(4,484)	–	(66,214)
Transfers from right-of-use assets	–	292	–	–	292
Impairment loss recognised in profit or loss	1,071	2,632	–	–	3,703
At 31 December 2022	448,830	621,181	81,289	–	1,151,300
Exchange adjustments	(5,443)	(7,676)	(225)	–	(13,344)
Charge for the year	36,789	100,200	5,798	–	142,787
Eliminated on disposals and write-off	(8,292)	(130,889)	(8,419)	–	(147,600)
Transfer to assets held for sale *(note 6)*	(20,369)	(976)	(192)	–	(21,537)
Impairment loss recognised in profit or loss	–	4,882	–	–	4,882
At 31 December 2023	451,515	586,722	78,251	–	1,116,488
CARRYING VALUES					
At 31 December 2023	282,893	291,911	33,018	31,552	639,374
At 31 December 2022	310,292	364,774	33,913	19,323	728,302

Included in the land and buildings are freehold land, located in Mexico and India (2022: Hungary, Mexico and India), having an aggregate cost of approximately US$8,170,000 (2022: US$9,126,000). All buildings of the Group are situated outside Hong Kong.

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

The Group's property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. The above items of property, plant and equipment (other than freehold land and construction in progress) are depreciated using the straight-line method, after taking into account their estimated residual values, over the following periods:

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

At 31 December 2023, the directors of the Company appointed independent professional appraisers to perform appraisals on the Group's property, plant and equipment with impairment indicators, such as changing market environment which result in revenue decrease and assets being idle during the year and determined that a number of those assets were impaired. As a result, impairment losses of US$4,882,000 (2022: US$3,703,000) has been recognised in profit or loss in respect of plant and machinery (2022: land and buildings and plant and machinery) for the year.

14. RIGHT-OF-USE ASSETS

	Leasehold land US$'000	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Total US$'000
As at 31 December 2023					
Carrying amount	35,267	3,752	–	–	39,019
As at 31 December 2022					
Carrying amount	36,604	3,461	133	–	40,198
For the year ended 31 December 2023					
Depreciation charge	935	2,265	131	–	3,331
For the year ended 31 December 2022					
Depreciation charge	1,001	2,039	443	51	3,534

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

	Year ended 31 December 2023 US$'000	Year ended 31 December 2022 US$'000
Expense relating to short-term leases	**23,199**	33,505
Total cash outflow for leases	**25,853**	38,430
Additions to right-of-use assets	**2,628**	1,365

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses.

During the year ended 31 December 2022, the Group obtained ownership of certain leased assets with an aggregate carrying amount of US$84,000 (2023: Nil) at the end of the lease terms, which were subsequently classified as property, plant and equipment.

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

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

During the year, the Group entered into several (2022: one) new lease agreements for the use of leased properties, machinery and office equipment for two to four years (2022: three years). On the lease commencement, the Company recognised US$2,628,000 (2022: US$1,365,000) of right-of-use assets and US$2,628,000 (2022: US$1,365,000) of lease liabilities.

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

The Group regularly entered into short-term leases for certain premises, motor vehicles and office equipment. As at 31 December 2023 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense incurred during the year.

15. INVESTMENT PROPERTIES

Investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment.

The Group leases out buildings under operating leases with fixed rentals payable monthly. The leases typically run for an initial period of one to two years (2022: one to two years), with unilateral rights to extend the lease beyond initial period held by lessees only.

As at 31 December 2023 and 2022, certain investment properties are leased to the related parties of the Group but the Group had not contracted with the related parties for any future minimum lease payments.

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

	US$'000
COST	
At 1 January 2022	80,858
Exchange adjustment	(9,289)
Disposal *(note)*	(1,598)
At 31 December 2022	69,971
Exchange adjustment	2,955
Disposal *(note)*	(39,311)
Transfer to assets held for sale *(note 6)*	(32,502)
At 31 December 2023	1,113
DEPRECIATION	
At 1 January 2022	66,203
Exchange adjustment	(8,144)
Provided for the year	2,330
Eliminated on disposal *(note)*	(607)
At 31 December 2022	59,782
Exchange adjustment	2,883
Provided for the year	925
Eliminated on disposal *(note)*	(30,502)
Transfer to assets held for sale *(note 6)*	(32,381)
At 31 December 2023	707
CARRYING VALUES	
At 31 December 2023	406
At 31 December 2022	10,189

15. INVESTMENT PROPERTIES *(Continued)*

Note: On 2 November 2022, the Group entered into compensation agreements (the "Agreements") with government authority in Hangzhou, Zhejiang Province, the PRC (the "Purchaser"). Pursuant to the Agreements, the Purchaser shall resume the ownership of two properties, 中國浙江省杭州經濟技術開發區11號大街58號、58-2號及58-3號 (Nos. 58, 58-2 and 58-3, 11th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC) ("Property A") and 中國浙江省杭州經濟技術開發區 M14-11-10 (M14-11-10, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC) ("Property B") at a cash compensation of RMB607,669,300 (equivalent to approximately US$87,261,000) and RMB48,728,111 (equivalent to approximately US$7,227,000) respectively, details of which are set out in the Company's discloseable transaction announcement dated 2 November 2022.

On 15 December 2022, the Group's land use right and the relevant certificates have been cancelled and the Purchaser has resumed the ownership of Property B. Part of the compensation amounting to RMB19,491,244 (equivalent to approximately US$2,891,000) has been received by the Group during the year ended 31 December 2022 and the remaining balance of RMB29,236,867 (equivalent to approximately US$4,336,000) was included in "trade and other receivables" as at 31 December 2022 which was subsequently received by the Group in the current year.

During the year ended 31 December 2022, the Group has received an advance of RMB121,533,860 (equivalent to approximately US$18,745,000) from the Purchaser in respect of Property A, which was included in "trade and other payables" as at 31 December 2022. On 6 April 2023, the Group's land use right, property ownership and the relevant certificates have been cancelled and the Purchaser has resumed the ownership of Property A. The carrying amount of investment property at date of disposal is US$8,809,000. During the current year, the Group has made provision for compensation to the lessees of Property A of RMB90,630,000 (equivalent to approximately US$12,787,000), which is included in "other income, gains and losses", in which the compensation to lessees shall be settled out of the compensation for disposal of Property A. The Group has further received part of the compensation of RMB150,285,790 (equivalent to approximately US$21,104,000) during the current year. The remaining balance is RMB245,219,650 (equivalent to approximately US$34,625,000) which was included in "other receivables" under non-current assets as at 31 December 2023. Accordingly, the Group has recognised a gain on disposal of investment property of US$78,452,000 during the current year, which is included in "other income, gains and losses".

The fair value of the Group's investment properties at 31 December 2023 was US$4,318,000 (2022: US$99,406,000). The fair value has been arrived at based on a valuation carried out by independent valuers not connected with the Group. The fair value was determined by reference to recent market prices for similar properties in the same locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 **US$'000**	2022 US$'000
Equity securities listed in USA *(note a)*	**420**	2,060
Unlisted equity securities *(note b)*	**61,582**	141,550
	62,002	143,610

Notes:

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

(b) The above unlisted equity investments represent the Group's equity interest in several private entities established in the PRC, India, USA, Taiwan and Finland. 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 2023 and 2022, included in unlisted equity securities above, there is the Group's investment in HMD, a company incorporated in the Republic of Finland, which is engaged in the development, manufacture and sale of telecommunication devices, software and related services, of approximately US$25,700,000 (2022: US$103,900,000) and fair value loss of US$78,200,000 (2022: US$80,748,000) was recognised in other comprehensive income for the year ended 31 December 2023.

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

17. INTERESTS IN ASSOCIATES

	2023 **US$'000**	2022 US$'000
Cost of investments in associates, less impairment	**12,357**	12,357
Share of post-acquisition profit and other comprehensive income, net of dividend received	**12,913**	13,594
	25,270	25,951

17. INTERESTS IN ASSOCIATES *(Continued)*

At 31 December 2023 and 2022, the Group had interests in the following associates:

Name of associate	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of share/ interest held	Proportion of nominal value of issued capital/ interest held by the Group		Proportion of voting power held by the Group		Principal activities
					2023	2022	**2023**	2022	
Diabell Co., Ltd. *(note)*	Limited company	Republic of Korea ("Korea")	Korea	Ordinary	**19.998%**	19.998%	**20%**	20%	Designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products
Rooti Labs Limited	Limited company	Cayman Islands	Taiwan	Ordinary	**22.22%**	22.22%	**22.22%**	22.22%	Research and development of wearable products
杭州耕德電子有限公司 (known as Hangzhou Gengde Electronics Co., Ltd.)	Limited company	PRC	PRC	Equity	**35%**	35%	**33.33%**	33.33%	Engaging in the business of design, development and manufacturing of electronic devices and handset accessories

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

Aggregate information of associates that are not individually material

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

	Year ended 31.12.2023 US$'000	Year ended 31.12.2022 US$'000
Total loss for the year	**(2,836)**	(11,067)
Other comprehensive expense	**(868)**	(8,373)
Total comprehensive expense	**(3,704)**	(19,440)
Group's share of loss and other comprehensive expense of associates for the year	**(681)**	(5,797)

18. INTEREST IN A JOINT VENTURE

	2023 US$'000	2022 US$'000
Cost of investment in a joint venture	**40,000**	40,000
Share of post-acquisition loss and other comprehensive expense	**(25,897)**	(6,815)
	14,103	33,185

At 31 December 2023 and 2022, the Group had interest in the following joint venture:

Name of joint venture	Form of entity	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2023	2022	Proportion of voting power held by the Group 2023	2022	Principal activities
Mobile Drive Netherlands B.V. ("Mobile Drive")	Limited company	Netherlands	Netherlands	Ordinary	**50%**	50%	**50%**	50%	Research and development of communication systems, handsets as well as other software, hardware and related systems

Summarised financial information of a material joint venture

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

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

Mobile Drive

	2023 US$'000	2022 US$'000
Current assets	**51,960**	77,867
Non-current assets	**5,913**	38,259
Current liabilities	**(27,945)**	(47,810)
Non-current liabilities	**(1,723)**	(1,947)

18. INTEREST IN A JOINT VENTURE *(Continued)*

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

Mobile Drive *(Continued)*

The above amounts of assets and liabilities include the following:

	2023 **US$'000**	2022 US$'000
Cash and cash equivalents	**28,910**	33,741
Current financial liabilities (excluding trade and other payables and provision)	**(6,230)**	(14,378)
Non-current financial liabilities (excluding trade and other payables and provision)	**(1,343)**	(1,242)

	Year ended **31.12.2023** **US$'000**	Year ended 31.12.2022 US$'000
Revenue	**39,924**	63,588
Loss for the year	**(40,350)**	(8,722)
Other comprehensive income (expense) for the year	**2,186**	(4,909)
Total other comprehensive expense for the year	**(38,164)**	(13,631)
The above loss for the year includes the following:		
Depreciation and amortisation	**2,004**	2,254
Interest income	**945**	84
Interest expense	**237**	188

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

	2023 **US$'000**	2022 US$'000
Net assets of Mobile Drive	**28,205**	66,369
Proportion of the Group's ownership interest in Mobile Drive	**50%**	50%
Carrying amount of the Group's interest in Mobile Drive	**14,103**	33,185

19. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables US$'000	Warranty provision US$'000	Accelerated tax (accounting) depreciation US$'000	Tax losses US$'000	Others US$'000 *(note)*	Total US$'000
At 1 January 2022	(2,922)	(443)	3,901	(3,986)	(11,967)	(15,417)
Charge (credit) to profit or loss for the year	1,125	151	(7,201)	4,118	5,758	3,951
Exchange adjustments	162	27	38	(132)	566	661
At 31 December 2022	(1,635)	(265)	(3,262)	–	(5,643)	(10,805)
(Credit) charge to profit or loss for the year	(254)	62	252	(4,933)	8,258	3,385
Exchange adjustments	28	2	40	41	(245)	(134)
At 31 December 2023	(1,861)	(201)	(2,970)	(4,892)	2,370	(7,554)

Note: Others mainly represent temporary difference arising from accrued expenses and other receivables from disposal of investment properties.

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:

	2023 US$'000	2022 US$'000
Deferred tax assets	**(18,790)**	(14,557)
Deferred tax liabilities	**11,236**	3,752
	(7,554)	(10,805)

Deferred tax assets were recognised for other deductible temporary differences of approximately US$60,322,000 (2022: US$37,738,000) on allowances for inventories and trade and other receivables, warranty provision, accelerated accounting depreciation and other accrued expenses.

19. DEFERRED TAXATION *(Continued)*

At 31 December 2023, 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$325,885,000 (2022: US$187,610,000) 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$2,047,116,000 (2022: US$2,079,531,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$19,437,000 (2022: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$2,027,679,000 (2022: US$2,079,531,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. Included in unrecognised tax losses are losses of approximately US$534,221,000 (2022: US$384,433,000) which will expire by five consecutive years. Other losses may be carried forward indefinitely.

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

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$917,198,000 (2022: US$849,315,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

20. INVENTORIES

	2023 **US$'000**	2022 US$'000
Raw materials	**371,822**	484,217
Work-in-progress	**94,621**	110,589
Finished goods	**125,114**	137,092
	591,557	731,898

21. TRADE AND OTHER RECEIVABLES

	2023 US$'000	2022 US$'000
Trade receivables	**958,516**	1,744,534
Less: Allowance for credit losses	**(225,333)**	(91,668)
	733,183	1,652,866
Other taxes recoverable	**122,291**	142,095
Other receivables, deposits and prepayments	**116,242**	110,684
Total trade and other receivables	**971,716**	1,905,645

As at 1 January 2022, trade receivables from contracts with customers amounted to US$1,695,575,000.

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

During the year ended 31 December 2023, certain trade receivables were derecognised under factoring arrangement with financial institutes at cash proceeds of US$1,780,174,000 (2022: US$2,402,526,000).

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

	2023 US$'000	2022 US$'000
0–90 days	**685,387**	1,476,163
91–180 days	**39,082**	83,477
181–360 days	**7,733**	89,506
Over 360 days	**981**	3,720
	733,183	1,652,866

As at 31 December 2023, included in the Group's trade receivables balances are debtors with aggregate carrying amount of US$258,666,000 (2022: US$228,567,000) which are past due as at the reporting date. Out of the past due balances, US$8,714,000 (2022: US$93,226,000) has been past due over 90 days or more and is not considered as in default based on the credit quality of the debtors. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in note 32.

22. TRADE AND OTHER PAYABLES

	2023 US$'000	2022 US$'000
Trade payables	**1,091,218**	1,981,288
Other tax payables	**78,216**	65,327
Accrued staff costs and employee benefits	**115,541**	137,637
Others	**358,038**	520,104
	1,643,013	2,704,356

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

	2023 US$'000	2022 US$'000
0–90 days	**1,049,531**	1,790,822
91–180 days	**28,469**	167,299
181–360 days	**4,476**	5,087
Over 360 days	**8,742**	18,080
	1,091,218	1,981,288

23. LEASE LIABILITIES

	2023 US$'000	2022 US$'000
Within one year	**1,235**	1,498
Within a period of more than one year but not more than two years	**1,201**	70
Within a period of more than two years but not more than five years	**1,543**	2,193
	3,979	3,761
Less: Amount due for settlement within twelve months shown under current liabilities	**(1,235)**	(1,498)
Amount due for settlement over twelve months shown under non-current liabilities	**2,744**	2,263

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

24. BANK BORROWINGS

	2023 US$'000	2022 US$'000
Bank loans — due within one year	**703,676**	676,054
Analysis of bank borrowings by currency:		
US$	**703,676**	563,800
RMB	**–**	112,254

The bank borrowings as at 31 December 2023 are unsecured, obtained with original maturity of one to seven months (2022: one to seven months) and carry interest at fixed interest rate ranging from 5.96% to 6.25% (2022: 2.20% to 5.41%) per annum. Out of total bank borrowings, bank borrowings of US$234,300,000 (2022: US$195,000,000) contain a repayment on demand clause. The weighted average effective interest rate on the bank borrowings is 6.06% per annum (2022: 4.65% per annum).

25. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2022, 31 December 2022 and 31 December 2023	**20,000,000,000**	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2022	**8,010,000,000**	320,400
Repurchase and cancellation of shares	**(71,261,000)**	(2,850)
Balance at 31 December 2022	**7,938,739,000**	317,550
Repurchase and cancellation of shares	**(33,739,000)**	(1,350)
Balance at 31 December 2023	**7,905,000,000**	316,200

During the year ended 31 December 2023, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	Number ordinary shares of US$0.04 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January	**6,739,000**	**0.87**	**0.84**	**5,764**
March	**4,000,000**	**0.85**	**0.83**	**3,374**
August	**3,031,000**	**0.77**	**0.68**	**2,160**
September	**5,969,000**	**0.72**	**0.66**	**4,115**
November	**3,000,000**	**0.60**	**0.58**	**1,756**
December	**9,800,000**	**0.61**	**0.54**	**5,590**
	32,539,000			**22,759**
				US$'000
Equivalent to				**2,908**

22,739,000 ordinary shares were repurchased and cancelled during the year ended 31 December 2023. Remaining 9,800,000 ordinary shares were cancelled subsequently on 15 January 2024.

25. SHARE CAPITAL *(Continued)*

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

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

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

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

26. RESERVES

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

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

27. DERIVATIVES

Currency derivatives

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

During the current year, a loss from the forward foreign exchange contracts of US$166,000 (2022: loss of US$342,000) was recognised in profit or loss and included in other income, gains and losses.

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

	2023 **US$'000**	2022 US$'000
US$	**73,000**	85,000

As at 31 December 2023, the fair value of the Group's currency derivatives is estimated to be approximately US$62,000 assets (2022: US$228,000 assets), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates, and is included as other receivables (2022: other receivables) at the end of the reporting period. The contracts outstanding as at 31 December 2023 mainly related to buying of Mexican Peso ("MXN") (2022: MXN) with maturities in the first quarter of 2024 (2022: first quarter of 2023).

28. BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

Bank deposits carry interest at prevailing market rate of 7.40% (2022: 6.86%) per annum on average, with original maturity of over three months.

Cash and cash equivalents include bank balances and cash which comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 4.60% (2022: 3.74%) per annum on average.

For the years ended 31 December 2023 and 2022, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank deposits and bank balances are set out in note 32.

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

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

	2023 US$'000	2022 US$'000
US$	**422,013**	571,463
RMB	**1,218,393**	953,639
INR	**194,223**	234,115
Brazilian Real	**9,096**	7,709
New Taiwan Dollar	**36,127**	67,487
Others	**15,814**	14,976
	1,895,666	1,849,389

29. PROVISION

	2023 US$'000	2022 US$'000
At 1 January	**2,779**	6,323
Exchange adjustments	**(14)**	(404)
Provision for the year	**1,661**	7,761
Utilisation of provision/upon expiry of the warranty period	**(2,412)**	(10,901)
At 31 December	**2,014**	2,779

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

30. DEFERRED INCOME

	2023 US$'000	2022 US$'000
Government subsidies	**7,119**	8,067

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

31. CAPITAL COMMITMENTS

	2023 US$'000	2022 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**32,025**	6,283

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 US$'000	2022 US$'000
Financial assets		
Fair value through profit or loss		
Derivatives (included in other receivables)	**62**	228
Financial assets at amortised cost	**2,763,063**	3,538,849
Equity instruments at FVTOCI	**62,002**	143,610
Financial liabilities		
At amortised cost		
Trade and other payables	**1,438,644**	2,524,200
Bank borrowings	**703,676**	676,054
	2,142,320	3,200,254

(b) Financial risk management objectives and policies

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

Market risk

Interest rate risk

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

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

32. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTOCI. For equity securities listed in USA, the management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities in PRC, India, USA, Taiwan and Finland for investees engaged in the development, manufacture and sale of telecommunication devices, software and related services for long term strategic purposes which had been designated as FVTOCI. Sensitivity analysis for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in note 32(c). The Group has organised an investment team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Currency risk

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

The Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management, etc. In addition, the Group sometimes obtains bank borrowings in various foreign currencies and enters into short-term forward foreign currency contracts less than two months (2022: less than four months) for hedging purpose. The Group utilises a variety of forward foreign currency contracts to hedge its exposure to foreign currencies on a regular basis. In response to the rapid volatility in the foreign exchange market, the Group adopted a strategy of squaring RMB positions at earlier stage to reduce the currency exposure.

As at 31 December 2023, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$73,000,000 (2022: US$85,000,000), and their fair values are estimated to be approximately US$62,000 assets (2022: US$228,000 assets), and are included as other receivables (2022: other receivables), at the end of the reporting period. The contracts mainly related to buying of MXN (2022: MXN) with maturities in first quarter (2022: first quarter) of the following year.

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

	2023 **US$'000**	2022 US$'000
Assets	**1,216,304**	2,038,107
Liabilities	**(999,151)**	(1,504,408)

32. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

Currency risk (Continued)

As at 31 December 2023 and 2022, majority of Group's bank borrowings were denominated in US$, bank borrowings denominated in a currency other than their respective functional currency were included in the monetary liabilities disclosed above.

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective group entities, if exchange rates of the foreign currency against US$ had been appreciated/depreciated by 3% (2022: 3%) and all other variables were held constant, the Group's post-tax loss would decrease/increase by approximately US$6,275,000 (2022: US$15,841,000) for the year and the Group's translation reserve would increase/decrease by US$87,657,000 (2022: US$85,657,000) for the year. In the current year, global currency market was tremendously volatile. Exchange rates of US$ versus other currencies fluctuated over the year which affected the translation of the monetary items, such as forward foreign exchange contracts, trade and other receivables, trade and other payables and bank borrowings of the Group, especially RMB and INR (2022: RMB and INR), RMB/US$ exchange rate ranged between 0.1384 and 0.1479 and INR/US$ exchange rate ranged between 0.0120 and 0.0123 (2022: RMB/US$ exchange rate ranged between 0.1393 and 0.1582 and INR/US$ exchange rate ranged between 0.0121 and 0.0134) in the current year. The effect of such fluctuation is closely monitored by the management of the Group to minimise the related effect on the overall result of the Group.

Credit risk and impairment assessment

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

Trade receivables arising from contracts with customers

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

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

32. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

Bank deposits and bank balances

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

Other receivables

For other receivables and deposits, the management makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2023 and 2022, the Group assessed the ECL for other receivables and deposits are insignificant and thus no loss allowance is recognised.

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

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
					2023	2022
					US$'000	US$'000
Financial assets at amortised cost						
Bank deposits	*28*	Ba3–Aa3	N/A	12m ECL	**50,343**	24,280
Bank balances	*28*	Ba3–A1	N/A	12m ECL	**1,845,323**	1,825,109
Other receivables	*21*	N/A	*(note a)*	12m ECL	**134,214**	36,594
Trade receivables	*21*	N/A	*(note b)*	Lifetime ECL (not credit-impaired)	**951,042**	1,736,588
			(note b)	(credit-impaired)	**7,474**	7,946

32. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

Notes:

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

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

As at 31 December 2023, the management had assessed the ECL of trade receivable due from HMD with a gross carrying amount of US$215,296,000 (2022: US$226,428,000) individually. Management had considered that due to deterioration of HMD's financial performance, there was a significant increase in credit risk of the trade receivables due from HMD. Management had appointed an external valuer to assist in the estimation of the ECL provision of the trade receivable by determining an appropriate probability of default rate, estimated loss given default rate and forward looking adjustments. Based on the result of the assessment, a lifetime ECL (not credit-impaired) of US$137,758,000 (2022: US$77,465,000) was recognised for the year ended 31 December 2023.

During the year ended 31 December 2023, the Group reversed ECL of US$3,935,000 (2022: recognised ECL of US$3,069,000), based on the provision matrix on the remaining balance of trade receivables that are not individually assessed. Average loss rates of 0.05% to 38.57% (2022: 0.05% to 37.66%) were applied by the Group to the trade receivable with gross carrying amount of US$735,746,000 (2022: US$1,510,160,000) which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired).

Debtor that is credit-impaired, which was evident to management the debtor was in financial difficulty, with gross carrying amount of US$7,474,000 as at 31 December 2023 (2022: US$7,946,000) was assessed individually. Impairment allowance of US$7,474,000 (2022: US$7,946,000) was made on this credit-impaired debtors which was the differences between the gross carrying amount and the cash flow that the Group expects to receive.

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

32. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

Notes: (Continued)

(b) *(Continued)*

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

	Lifetime ECL (not credit-impaired) US$'000	Credit-impaired US$'000	Total US$'000
As at 1 January 2022	3,966	8,676	12,642
Changes due to financial instruments recognised as at 1 January 2022:			
— Impairment losses reversed	(3,500)	–	(3,500)
Impairment losses recognised for new financial assets originated	84,034	–	84,034
Exchange adjustments	(778)	(730)	(1,508)
As at 31 December 2022	83,722	7,946	91,668
Changes due to financial instruments recognised as at 1 January 2023:			
— Impairment losses reversed	(6,018)	–	(6,018)
— Impairment losses recognised	137,758	–	137,758
Impairment losses recognised for new financial assets originated	2,083	–	2,083
Exchange adjustments	314	(472)	(158)
As at 31 December 2023	217,859	7,474	225,333

Liquidity risk

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

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are one to seven months (2022: one to seven months) and the maturity periods of other financial liabilities and lease liabilities are within three months to five years. Out of the total bank borrowings, bank borrowings of US$234,300,000 (2022: US$195,000,000) contain a repayment on demand clause.

As at 31 December 2023, the Group has available unutilised banking facilities of approximately US$1,755,399,000 (2022: US$1,733,244,000). There was no pledge of assets in relation to the banking facilities as at 31 December 2023 and 2022.

32. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

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

Fair value measurements are categorised into Level 1, 2 or 3, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

Financial assets	Fair value as at 31.12.2023 US$'000	Fair value as at 31.12.2022 US$'000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Forward foreign exchange contracts classified as other receivables	**Assets — 62**	Assets — 228	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Equity instruments at FVTOCI	**Listed equity investments — 420**	Listed equity investments — 2,060	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 25,228**	Unlisted equity instruments — 24,441	Level 2	Fair value derived from market value of the shares of equity instruments in recent investment transactions	N/A	N/A
Equity instruments at FVTOCI	**Unlisted equity instruments — 36,354**	Unlisted equity instruments — 117,109	Level 3	Option-pricing method, with expected volatility, expected life and risk-free rate as the key inputs, to allocate equity value of investees determined using income approach — discounted cash flow method was used to capture the present value of the expected return	Budged sales and gross margin taken into account the relevant industry growth forecasts and financial budgets approved by the investee's management and expectation for the market development Terminal growth rate, taking into the account the management's experience and knowledge of market conditions of the specific industries Weighted average cost of capital ("WACC") was 21.10% (2022: ranged from 13.61% to 40.00%) respectively	The higher the budgeted sales and gross margin, the higher the fair value, and vice versa The higher the terminal growth rate, the higher the fair value, and vice versa The lower the WACC, the higher the fair value, and vice versa

32. FINANCIAL INSTRUMENTS *(Continued)*

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

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL US$'000	Financial assets at FVTOCI US$'000
At 1 January 2022	1,900	207,738
Net fair value loss		
— in profit or loss	(1,900)	–
— in OCI	–	(81,415)
Transfer into Level 3 *(note a)*	–	2,475
Transfer out from Level 3 *(note b)*	–	(11,300)
Exchange adjustments	–	(389)
At 31 December 2022	–	117,109
Net fair value loss		
— in OCI	–	(78,515)
Transfer into Level 3 *(note a)*	–	3,075
Transfer out from Level 3 *(note b)*	–	(4,656)
Exchange adjustments	–	(659)
At 31 December 2023	–	36,354

Notes:

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

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

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

Of the total gains or losses for the year ended 31 December 2022, loss of US$1,900,000 (2023: Nil) related to financial assets at FVTPL held at the end of the current reporting period. Fair value gains on financial assets at FVTPL were included in 'other income, gains and losses'.

Included in other comprehensive income, loss of US$78,515,000 (2022: loss of US$81,415,000) relates to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of revaluation reserve.

32. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial assets and financial liabilities subject to offsetting

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

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

	As at 31 December 2023		
Financial assets/liabilities subject to offsetting	**Gross amounts of recognised financial assets (liabilities) US$'000**	**Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US$'000**	**Net amounts of financial assets presented in the consolidated statement of financial position US$'000**
Bank balances	–	–	–
Bank borrowings	–	–	–
Interest receivables	–	–	–
Interest payables	–	–	–

	As at 31 December 2022		
Financial assets/liabilities subject to offsetting	Gross amounts of recognised financial assets (liabilities) US$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position US$'000	Net amounts of financial assets presented in the consolidated statement of financial position US$'000
Bank balances	220,026	(220,026)	–
Bank borrowings	(220,026)	220,026	–
Interest receivables	3,102	(2,977)	125
Interest payables	(2,977)	2,977	–

During the year, net interest income of US$3,186,000 (2022: US$2,567,000) relating to the above arrangement was included in interest income.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Interest payables *(included in other payables)* US$'000	**Bank borrowings** US$'000 *(note 24)*	**Lease liabilities** US$'000 *(note 23)*	**Total** US$'000
At 1 January 2022	699	857,490	23,176	881,365
Financing cash flows	(27,085)	(171,737)	(4,925)	(203,747)
New lease entered *(note 14)*	–	–	1,365	1,365
Leases terminated *(note 14)*	–	–	(14,253)	(14,253)
Interest expenses	28,611	–	967	29,578
Exchange adjustments	–	(9,699)	(2,569)	(12,268)
At 31 December 2022	**2,225**	**676,054**	**3,761**	**682,040**
Financing cash flows	**(56,781)**	**28,654**	**(2,654)**	**(30,781)**
New lease entered *(note 14)*	**–**	**–**	**2,628**	**2,628**
Interest expenses	**60,281**	**–**	**319**	**60,600**
Exchange adjustments	**–**	**(1,032)**	**(75)**	**(1,107)**
At 31 December 2023	**5,725**	**703,676**	**3,979**	**713,380**

34. RELATED PARTY TRANSACTIONS

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

	2023 US$'000	2022 US$'000
Hon Hai		
Sales of goods	**994,863**	1,637,054
Purchase of goods	**82,116**	153,663
Sales of property, plant and equipment	**–**	4
Lease expense — real properties *(note)*	**624**	667
Subcontracting income	**36,607**	28,250
Consolidated services and subcontracting expense	**8,091**	13,926
General services income	**540**	839
Subsidiaries of Hon Hai		
Sales of goods	**37,955**	315,830
Purchase of goods	**145,912**	305,896
Purchase of property, plant and equipment	**568**	1,957
Sales of property, plant and equipment	**33,853**	957
Lease income — real properties	**5,240**	5,401
Lease income — non-real properties	**10**	–
Lease expense — real properties *(note)*	**5,881**	4,846
Lease expense — non-real properties *(note)*	**62**	3,584
Subcontracting income	**25,179**	33,465
Consolidated services and subcontracting expense	**35,153**	70,932
General services income	**192**	763
General services expense	**8,637**	20,189
Associates of Hon Hai		
Sales of goods	**490,134**	840,498
Purchase of goods	**262,919**	365,400
Purchase of property, plant and equipment	**28**	–
Sales of property, plant and equipment	**–**	106
Lease income — real properties	**19**	61
Lease expense — real properties *(note)*	**84**	86
Subcontracting income	**10,435**	15,291
Consolidated services and subcontracting expense	**673**	1,196
General services expense	**15**	6

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

34. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2023 US$'000	2022 US$'000
Trade receivables:		
Hon Hai	**182,401**	581,001
Subsidiaries of Hon Hai	**22,251**	23,268
Associates of Hon Hai	**73,025**	143,433
	277,677	747,702
Other receivables:		
Hon Hai	**16**	28
Subsidiaries of Hon Hai	**2,410**	131
Associates of Hon Hai	**–**	25
	2,426	184
	280,103	747,886
Trade payables:		
Hon Hai	**17,714**	33,210
Subsidiaries of Hon Hai	**45,423**	116,682
Associates of Hon Hai	**28,911**	75,396
	92,048	225,288
Other payables:		
Hon Hai	**72**	70
Subsidiaries of Hon Hai	**2,158**	2,225
Associates of Hon Hai	**20**	8
	2,250	2,303
	94,298	227,591

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

34. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

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

	2023 **US$'000**	2022 US$'000
Short-term benefits	**3,480**	4,760
Share-based payments	**1,291**	684
	4,771	5,444

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

	2023 **US$'000**	2022 US$'000
Sales of goods	**13,171**	40,746
Other income	**4,384**	2,790
Other expense	**161**	192
	17,716	43,728

The amount due from a joint venture was US$10,784,000 (2022: US$24,321,000), which was interest-free with credit period of 90 days and included in trade and other receivables as at 31 December 2023.

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

	2023 **US$'000**	2022 US$'000
Sales of goods	**3,931**	461
Purchase of goods	**–**	5
Other income	**2,221**	1,897
Other expense	**–**	2

The amounts due from associates were US$4,181,000 (2022: US$539,000), which were interest-free, repayable on demand and included in trade and other receivables as at 31 December 2023.

35. RETIREMENT BENEFITS PLANS

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

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at 31 December 2023 by independent valuers, Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2023	2022
Discount rate	**1.00%**	1.00%
Expected rate of salary increases	**3.00%**	3.00%

The actuarial valuations showed that the market value of plan assets was US$5,932,000 (2022: US$5,797,000) and that the actuarial value of these assets represented 201% (2022: 203%) of the benefits that had accrued to members.

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

36. SHARE-BASED PAYMENT TRANSACTIONS

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

On 26 November 2013, the Company adopted a share option scheme (the "Former Share Option Scheme") for the Company to reward, motivate and retain eligible persons. In order to ensure the continuity of a share option scheme for the Group to attract, reward, motivate and retain the eligible participants which would comply with the new requirements of Chapter 17 of the Listing Rules, the Company adopted the existing share option scheme (the "Existing Share Option Scheme") and consequentially terminated the Former Share Option Scheme. Details of the Existing Share Option Scheme are set out in the Company's circular dated 14 April 2023, and the Existing Share Option Scheme was subsequently approved by the Company's shareholders on 19 May 2023. Since the adoption of the Existing Share Option Scheme on 19 May 2023, no option has been granted under the Existing Share Option Scheme.

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

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

Under the Existing Share Option Scheme, the board of directors of the Company or its duly authorised officer(s) or delegate(s) may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The option granted will be subject to vesting period (as determined by the board of directors of the Company or its duly authorised officer(s) or delegate(s) at the time of granting the option) of a minimum of one year and up to six years or such other period which must not be more than ten years from the date of grant of the relevant option.

The total number of shares issuable upon exercise of all options which may be granted pursuant to the Existing Share Option Scheme and upon being granted pursuant to the Existing Share Scheme (as disclosed below) as at the adoption date (i.e. 19 May 2023) shall be 791,700,000 shares, representing 10% of the total number of shares in issue as at 19 May 2023 and approximately 10.03% of the total number of shares in issue as at the approval date of these consolidated financial statements.

If any options to be granted to a substantial shareholder or an independent non-executive director, or any of his/its associates (as defined in the Listing Rules), will result in the total number of the shares granted and to be granted to such connected person or his/its associate(s) (whether pursuant to the Existing Share Option Scheme or the Existing Share Scheme) during the 12-month period up to and including the date of such proposed grant representing in aggregate over 0.1% of the total issued shares of the Company as at the date of such proposed grant, then such proposed grant will be required to be approved by the independent shareholders of the Company in general meeting, at which all core connected persons (as defined in the Listing Rules) of the Company, such connected person and their respective associates shall abstain from voting on the relevant resolution(s) at the general meeting.

If any proposed grant of an option to any proposed grantee would result in the total number of shares granted and to be granted to such proposed grantee (whether pursuant to the Existing Share Option Scheme or the Existing Share Scheme) during the 12-month period up to and including the date of such proposed grant exceeding 1% of the total number of issued shares of the Company as at the date of such proposed grant, then such proposed grant must be separately approved by the independent shareholders of the Company in general meeting, at which such proposed grantee and his/her close associates (as defined in the Listing Rules) shall abstain from voting.

The period within which the options must be exercised will be specified by the Board (or its duly authorised officer(s) or delegate(s)) at the time of grant, which must not be more than 10 years from the date of grant of such options. All options granted under the Existing Share Option Scheme will be subject to a vesting period of a minimum of one year (subject to a shorter period under any one or more of certain specific circumstances) and up to six years (or such other period which must not be more than 10 years from the date of grant of the relevant options) as determined by the Board (or its duly authorised officer(s) or delegate(s)) at the time of granting the relevant option, which will vary from option holder to option holder. When making an offer to grant an option to a proposed grantee, the Board (or its duly authorised officer(s) or delegate(s)) may in its absolute discretion specify any one or more of the relevant conditions, including (if applicable) satisfactory performance target(s) achievement rating which shall be achieved by the proposed grantee before his exercise of such option as well as the clawback mechanism adopted by the Board as more particularly described at page 21 of the Company's circular as issued and published on 13 April 2023. An offer of grant of an option must be accepted by the date being a date not more than 30 days after the date of the offer. The amount payable upon acceptance of an option is HK$1.00.

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

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

The amount payable for each share to be subscribed for upon exercise of an option shall be determined by the Board and shall be the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

Currently, no options have been granted under the Existing Share Option Scheme and Former Share Option Scheme. No share option was exercisable as at 31 December 2023 and 2022.

No expense in relation to the share options granted by the Company under the Existing Share Option Scheme and Former Share Option Scheme was recognised by the Group for the years ended 31 December 2023 and 2022.

(b) Equity-settled share option scheme of BFIH

On 28 May 2021, the Company adopted a share option scheme at the subsidiary level of the Group relating to BFIH (an indirect subsidiary of the Company incorporated in India) (the "BFIH Share Option Scheme"), which will expire on 27 May 2031.

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

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

The total number of BFIH shares in respect of which options may be granted under the BFIH Share Option Scheme shall be 154,984,498 shares, representing 6.51% of the total number of issued shares of BFIH as at the approval date of these consolidated financial statements.

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

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

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

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

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

BFIH has proposed that certain amendments be made to the BFIH Share Option Scheme to take into account certain Indian regulatory requirements and to remove certain provisions which would no longer be applicable to BFIH due to the recent amendments to Chapter 17 of the Listing Rules. Details of the proposed amendments are set out in the Company's circular dated 1 December 2022, which were subsequently approved by the Company's shareholders on 23 December 2022.

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

Date of grant	Balance at 1 January 2022	Cancelled during the year ended 31 December 2022	Balance at 31 December 2022 and 2023	Vesting period	Exercise price per share INR	Exercisable period
Granted to certain directors of the Company on 23 December 2021	24,000,000	(24,000,000)	–	1–3 years	20	23 December 2022 to 30 November 2029
Granted to certain employees (other than directors of the Company) on 1 December 2021	59,110,000	(59,110,000)	–	1–3 years	20	1 December 2022 to 30 November 2029
	83,110,000	(83,110,000)	–			
Exercisable at 31 December 2022 and 31 December 2023			–			

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

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

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

No share options expenses were recognised by the Group for the year ended 31 December 2023 in respect of the BFIH Share Option Scheme (2022: US$9,516,000 in relation to share options granted and the subsequent cancellation by BFIH).

As at 31 December 2023, no share option was outstanding under the BFIH Share Option Scheme. No share option was exercisable as at 31 December 2023 and 2022.

(c) Other share-based payment plan

On 26 November 2013, the Company adopted a share scheme (the "Former Share Scheme") for the Company to reward, motivate and retain eligible persons. In order to ensure the continuity of a share scheme for the Group to attract, reward, motivate and retain the eligible participants which would comply with the new requirements of Chapter 17 of the Listing Rules, pursuant to the approval of the Company's board of directors (the "Board") on 10 March 2023 and the approval of the Company's shareholders on 19 May 2023, the Company adopted the existing share scheme (the "Existing Share Scheme") and consequentially terminated the Former Share Scheme.

Pursuant to the approval of the Board on 23 December 2021, the Company offered 7,328,361 ordinary shares to a total of two beneficiaries pursuant to the Former Share Scheme of which 7,328,361 ordinary shares were granted with lock-up periods up to 10 January 2023 from the grant date. No consideration was payable on acceptance of offer of the shares. 7,328,361 ordinary shares were purchased by the trustee of the Former Share Scheme from the market in January 2022.

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

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

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

(c) Other share-based payment plan *(Continued)*

Pursuant to the approval of Board on 13 September 2023 and the subsequent finalisation by the Board's delegate, the Company offered 1,366,993 ordinary shares to a beneficiary pursuant to the Existing Share Scheme of which 1,366,993 ordinary shares were granted with a lock-up period up to 12 September 2024 from the grant date, i.e. 13 September 2023. No consideration was payable on acceptance of offer of the shares. 1,366,993 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in September 2023.

Pursuant to the approval of Board on 13 September 2023 and the subsequent finalisation by the Board's delegate, the Company offered 1,979,598 ordinary shares to a beneficiary pursuant to the Existing Share Scheme of which 1,979,598 ordinary shares were granted with a lock-up period up to 5 November 2024 from the grant date, i.e. 6 November 2023. No consideration was payable on acceptance of offer of the shares. 1,979,598 ordinary shares were purchased by the trustee of the Existing Share Scheme from the market in November 2023.

Equity-settled share-based payments of US$1,291,000 (2022: US$684,000) were recognised during the year ended 31 December 2023.

37. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2023 and 2022:

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company Directly 2023	Directly 2022	Indirectly 2023	Indirectly 2022	Principal activities
Chiun Mai Communication Systems, Inc.	Limited company	Taiwan	NT$750,000,000	–	–	**87.06%**	87.06%	Design and manufacture of handsets
FIH (Hong Kong) Limited	Limited company	Hong Kong/PRC	HK$155,146,001	–	–	**100%**	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$218,000,000	**100%**	100%	–	–	Provision of services to group companies
FIH Mexico Industry SA de CV	Limited company	Mexico	MXN2,007,283,685	–	–	**100%**	100%	Manufacture of handsets
富智康精密組件(北京)有限公司 (FIH Precision Component (BeiJing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	**100%**	100%	Manufacture of handsets
宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000	–	–	**100%**	100%	Manufacture of handsets
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$184,720,000	–	–	**100%**	100%	Manufacture of handsets
S&B Industry, Inc.	Corporation	USA	US$31,817,356	–	–	**100%**	100%	Repair services
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	**100%**	100%	–	–	Investment holding

37. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2023	2022	2023	2022	
富智康(南京)通訊有限公司 (FIH (Nan Jing) Communications Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$17,500,000	–	–	100%	100%	Research and development; sales
BFIH	Public company	India	INR23,809,449,800	–	–	100%	100%	Manufacture of handsets
Rising Stars Hi-Tech Private Limited	Limited company	India	INR4,500,000,000	–	–	100%	100%	Manufacture of electronic products
Bharat Taiwan Corporation 台灣羅星股份有限公司	Limited company	Taiwan	NT$59,000,000	–	–	100%	100%	Research and development
富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$75,000,000	–	–	100%	100%	Manufacture of handsets
富泰京精密電子(煙台)有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.*)	Wholly foreign owned enterprise	PRC	US$20,000,000	–	–	100%	100%	Manufacture of handsets
富智康精密電子(廊坊)有限公司 (FIH Precision Electronics (Lang Fang) Co., Ltd.)	Sino-foreign jointly owned enterprise	PRC	US$475,500,000	–	–	100%	100%	Manufacture of handsets
衡陽富泰宏精密工業有限公司 (Hengyang Futaihong Precision Industrial Co., Ltd*)	Sino-foreign jointly owned enterprise	PRC	RMB50,000,000	–	–	100%	100%	Manufacturing, import and export
Fushan Technology (Vietnam) Limited Liability Company	Limited company	Vietnam	VND1,992,300,000,000	–	–	100%	100%	Manufacture of handset

* for identification purposes only

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2023 US$'000	2022 US$'000
ASSETS		
Investments in subsidiaries	**2,296,907**	2,250,066
Other receivables and prepayment	**4,266**	3,246
Amounts due from subsidiaries	**–**	10,000
Cash and cash equivalents	**7,341**	5,735
	2,308,514	2,269,047
LIABILITIES		
Bank borrowings	**583,800**	513,800
Other payables	**10,060**	5,681
	593,860	519,481
NET ASSETS	**1,714,654**	1,749,566
CAPITAL AND RESERVES		
Share capital	**316,200**	317,550
Share premium	**1,173,189**	1,175,203
Shares bought-back pending cancellation	**(714)**	(1,170)
Other reserves	**225,979**	257,983
TOTAL EQUITY	**1,714,654**	1,749,566

Under the Companies Act (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution to shareholders amounted to approximately US$1,398,675,000 (2022: US$1,432,016,000), consisted of share premium of approximately US$1,173,189,000 (2022: US$1,175,203,000) and retained profits of approximately US$226,200,000 (2022: US$257,983,000), less shares bought-back pending cancellation of approximately US$714,000 (2022: US$1,170,000).

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share premium US$'000	Shares bought-back pending cancellation US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2022	1,182,629	(1,170)	513	472,427	1,654,399
Loss for the year	–	–	–	(214,444)	(214,444)
Repurchase of ordinary shares	–	(10,276)	–	–	(10,276)
Cancellation of ordinary shares	(7,426)	10,276	–	–	2,850
Payment made for equity-settled share-based payment	–	–	(1,197)	–	(1,197)
Recognition of equity settle share-based payment *(note 36)*	–	–	684	–	684
Balance at 31 December 2022	1,175,203	(1,170)	–	257,983	1,432,016
Loss for the year	–	–	–	(31,783)	(31,783)
Repurchase of ordinary shares	–	(2,908)	–	–	(2,908)
Cancellation of ordinary shares	(2,014)	3,364	–	–	1,350
Payment made for equity-settled share-based payment	–	–	(1,512)	–	(1,512)
Recognition of equity settle share-based payment *(note 36)*	–	–	1,291	–	1,291
Balance at 31 December 2023	1,173,189	(714)	(221)	226,200	1,398,454

FINANCIAL SUMMARY

	For the year ended 31 December				
	2019 (US$'million) *(Note)*	2020 (US$'million)	2021 (US$'million)	2022 (US$'million)	**2023 (US$'million)**
Results					
Revenue	14,378.66	8,934.75	8,582.56	9,394.32	**6,445.80**
(Loss) profit from operations	32.96	(136.80)	79.04	(30.11)	**(39.30)**
Interest expenses	(37.55)	(12.18)	(8.88)	(29.58)	**(60.60)**
(Loss) profit before tax	(4.59)	(148.98)	70.16	(59.69)	**(99.90)**
Income tax expense	(27.93)	(24.86)	(13.74)	(12.45)	**(20.87)**
(Loss) profit after tax and before non-controlling interests	(32.52)	(173.84)	56.42	(72.14)	**(120.77)**
Non-controlling interests	(0.11)	(0.10)	(0.09)	0.03	**0.09**
Net (loss) profit for the year	(32.63)	(173.94)	56.33	(72.11)	**(120.68)**

	2019 (US$'million)	2020 (US$'million)	2021 (US$'million)	2022 (US$'million)	**2023 (US$'million)**
Assets and liabilities					
Total assets	7,002.52	6,032.07	5,979.69	5,510.29	**4,319.44**
Total liabilities	(4,901.92)	(3,950.00)	(3,812.42)	(3,722.52)	**(2,758.06)**
Non-controlling interests	(6.11)	(6.64)	(7.31)	(6.12)	**(2.89)**
Capital and reserves	2,094.49	2,075.43	2,159.96	1,781.65	**1,558.49**

Note: The financial information for the year 2019 was from continuing operations.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

This corporate governance report is issued as of 7 March 2024.

The Company has adopted the corporate governance compliance manual (the "Manual") since 15 April 2010, as amended and supplemented from time to time. The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules (the "CG Code") and the related rules set out in the Listing Rules and the SFO respectively and also setting out certain guidelines for the implementation of corporate governance measures of the Company.

As an overview, for the purposes of corporate governance enhancements and better compliance with applicable requirements under the Listing Rules, during the year ended 31 December 2023 (the "year under review") and up to the date of this report, the Company has adopted and implemented the following principal documents since 20 December 2023, in addition to the documents referred to in pages 162 and 163 of the Company's 2023 interim report as issued and published on 14 September 2023:

- Overview on Core Corporate Governance Practices, which is accessible on the Company's website and summarizes the overall framework of the Company's core corporate governance practices, covering (among other things) the Manual, the Board committees, accountability and audit as well as the linkage between corporate governance and environmental, social and governance ("ESG").

- Statements regarding Corporate Communications, which are accessible on the Company's website and provide for (among other things) the scope of the Company's corporate communications, the means of dissemination of such corporate communications and the election by the Company's shareholders of the language and means of receipt of such corporate communications.

- Corporate Communication and Crisis Reporting Guideline, which serves (among other things) to effectively control the release of the Group's public information, manage participation in external activities and timely respond to corporate crisis, ensuring consistent external communications by the Company.

- Revised Corporate Vision, Values and Mission as more particularly described below in the section headed "Corporate Vision, Mission and Values and Alignment with Corporate Culture" of this report.

- Revised Shareholders Communication Policy as more particularly described below in the section headed "Shareholder and Other Key Stakeholder Communications — Communications with Shareholders" of this report.

- Revised, and further revised, Overview on Mechanisms for Independent Views and Inputs available to the Board as more particularly described below in the section headed "Overview on Mechanisms for Independent Views and Inputs" of this report.

- Revised form of Independence Confirmation Letter from each of the Company's independent non-executive directors, to the effect that the Letter would be addressed to the Company in place of the Stock Exchange due to the recent amendments to applicable requirements under the Listing Rules, together with some housekeeping amendments as a matter of interpretation/clarification.

- In the ESG context, the following policies which are accessible on the Company's website, details of which have been set out in the Company's 2023 environmental, social and governance report ("2023 ESG Report") as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report:

  (a) Global Code of Conduct, which serves (among other things) to make CSR (Corporate Social Responsibility) and sustainability a part of the Group's core competencies and to demonstrate the Company's core values of global operations.

  (b) Responsibility Standards, which serve (among other things) to provide an explicit interpretation of the requirements of the aforesaid Global Code of Conduct and are supplemental thereto.

  (c) Chapter on Employee Human Rights, which provides for (among other things) the beliefs and key requirements relating to employee human rights in support of the Company's core commitment to uphold and promote respects for human rights.

CORPORATE VISION, MISSION AND VALUES AND ALIGNMENT WITH CORPORATE CULTURE

Corporate Vision, Mission and Values

On the basis of the views and recommendations from the corporate governance committee, on 20 December 2023, the Board conducted an ad-hoc review of the Company's corporate vision, mission and values together with their alignment with its corporate culture and adopted their revised version, basically to provide for the Company's adoption and implementation of its own global code of conduct and other relevant policies; adoption of care, confidence, determination and integrity as the Group's common core values; and explicit references to the ESG Committee and other functional units as designated by the Board to operate and enforce the corresponding policies, systems and measures. The Company's corporate vision, mission and values together with their alignment with its corporate culture mentioned below refer to their latest version as so revised.

In compliance with Paragraph A.1.1 of Part 2 of the CG Code, the Company has adopted and maintained the following corporate vision, mission and values of the Group to guide the Group and its operations:

Vision: Creating comprehensive smart living experiences for the Group's customers across the globe.

Mission: The Group's corporate mission focuses on five aspects:

(i) Long-term value creation: The Group believes in long-term value creation for its people and its customers to drive long-term sustainable business growth.

(ii) Business sustainability: The Group is devoted to establishing a solid and stable foundation for sustainable growth, though stability does not mean that the Group is at a standstill. The Group is ready to embrace change through strategic business planning and execution.

(iii) Constant pursuit of improvement: The Group and its employees will always strive to succeed and improve the business to ensure global competitiveness within the industry.

(iv) Innovation: The Group is committed to the research and development of emerging technologies, the acquisition and application of new knowledge, and protection of intellectual properties in pursuit of technological and science breakthroughs.

(v) Global perspective: The Group is one of the global industry leaders, and offers its customers advanced, integrated technologies and a strong production scale across its strategic global network.

Values: The Group operates its business with care, confidence, determination and integrity:

(i) Care: The Group cares and respects others and applies these values to its day-to-day operations.

(ii) Confidence: The Group always acts with a strong desire to succeed and is confident that it can achieve.

(iii) Determination: The Group has an unwavering commitment to deliver against all odds.

(iv) Integrity: The Group does what it says with honesty and integrity.

Alignment with Corporate Culture

The Group's corporate culture is the driving force for achieving its corporate vision, mission and values (forming part of the Manual), all of which underpin the Group's long-term success and sustainable performance where the Group's shareholders/investors, customers, suppliers, employees and other key stakeholders could benefit in the shared value of its business success.

To achieve the Group's vision, mission and values, as well as its long-term success and sustainability as a business and as an organisation to act lawfully, ethically and responsibly across all levels, the Group upholds a corporate culture of integrity and management with dignity. The Group expects its directors, officers and employees to demonstrate high standards of ethical attitudes and behaviours in the Group's operations and relations with its stakeholders. In particular, the Group takes care, confidence, determination and integrity as the common core values of the Group, which are reinforced by the actions and attitudes of its employees to help create economic growth under the vision of achieving corporate sustainable operation, fulfilling social citizenship responsibilities and working together with global brand customers to create a comprehensive smart life and enhance human well-being. The Company's board of directors (the "Board") and management lead and shape the Group's corporate culture. As the leader of the Company, all directors must understand the Group's corporate culture. As a tone from the top, the directors have acted lawfully, ethically and responsibly with integrity, led by example, and promoted the Group's corporate culture, with an aim to instilling and continually reinforcing such culture with the Group's values of acting lawfully, ethically and responsibly, particularly through the Board's behaviour and attitudes to continuously influence such culture. The Group's senior and middle management should support this by setting the example and conveying the Board's messages and desired culture to their team members.

The Group's corporate culture has been reflected consistently, fostered and developed in various policies, systems and measures implemented and maintained by the Group (including without limitation the Group's global code of conduct, the Manual, the anti- corruption code of conduct, the whistle-blowing policies and the system of internal controls and enterprise risk management ("ERM")) which are subject to regular review and promoted across the organisation, as well as reinforced by training and appropriate actions (including disciplinary actions in the event of serious or repeated unethical acts or improper conducts), in support and furtherance of the Group's commitment to high standards of ethical attitudes and behaviours in its business conduct and to ensure good practices across the organisation. Please also see the section headed "Accountability and Audit" below of this report for more details about the Group's governance practices.

The Board designates the roles and responsibilities for operating and enforcing these policies, systems and measures, which are functionally designated to, among others, the Board Committees, the Chief Executive Officer, the Chief Operating Officer (if any), the Chief Financial Officer, the ERM Team, the ESG Committee as well as the corresponding heads/leaders of other functional units namely human resources, supply chain/procurement services, legal and compliance, company secretarial services, strategic investments, corporate communications, investor relations and internal audit departments/divisions. During the year under review, the Company Secretary of the Company obtained the respective confirmations from such heads/leaders that such policies, systems and measures have remained, and would remain, consistent with the Company's corporate vision, mission and values as well as corporate culture.

To build and develop a better corporate culture, the Board should pay attention to accountability, transparency, effective communications, open and bilateral dialogues, proactive engagement, provision of training and also hints of potential cultural weaknesses (e.g. a high rate of staff turnover, a low level of communication/engagement and a lack of transparency within the Group); implement and maintain measures for assessing and monitoring culture and its embedding in the organisation; and evaluate the effectiveness of such measures.

During the year under review, the Group organised a series of training initiatives, including without limitation: (1) training to promote, implement and maintain the Company's corporate vision, mission and values as well as corporate culture across the Group at different workforce levels (comprising senior management, middle management and general staff) to ensure that their behaviours are aligned with the Company's corporate vision, mission and values as well as corporate culture; and (2) refresher and update training to reinforce and develop a stronger culture of compliance, internal controls and ERM within the Group. For details, please refer to "People-Oriented" and "Performance Data Table — Social Performance — Average training hours" of the Company's 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report.

In order to promote, implement/enhance and maintain the Company's corporate vision, mission and values as well as corporate culture on the external front vis-a-vis the Group's customers, suppliers, shareholders/investors and other key stakeholders dealing with the Group, the Company has published its corporate vision, mission and values on its website, and also covered this "Corporate Vision, Mission and Values and Alignment with Corporate Culture" section in this report.

Also, during the stakeholder engagement exercise in preparation for the Company's 2023 ESG Report as conducted in the year under review, an online survey was distributed to certain external and internal stakeholders (including customers, suppliers, investors, non-governmental organisations, and employees) of the Group to gather perspectives and suggestions on various ESG issues. The online survey covered a range of topics, including perceptions of the Company's corporate vision, mission and values as well as corporate culture. The Group has received nearly 850 responses from its key stakeholders, focusing specifically on climate, renewable energy, employee development, and corporate governance issues. The result of the online survey has been analysed by the Company's ESG task force team and presented to the Company's senior management, with consideration of the next steps for future enhancement.

In addition, the Group is generally committed to fostering an environment of open communications by continuing to explore more cost-effective communication channels and intervals, such as utilising digital communication channels like emails and internal communication platforms, as opposed to physical face-to-face interactions.

However, as to the forums available for sharing ideas and concerns on any misconduct or misalignment identified and how they are being dealt with, the channels available under the Group's whistle-blowing policies as mentioned above remain the most appropriate ones where issues/concerns and complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through such channels, while whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice and all issues/concerns and complaints will be handled confidentially, timely, fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions.

The Group assesses and monitors its corporate culture on the basis of different specific indicators, including without limitation: (i) staff turnover rate; (ii) level of communications or engagements across the Board, senior management, middle management and employees at all levels; and (iii) the level of transparency across the Group. For details about (i), please refer to the Performance Data Table (Social Performance — Employee turnover rate) of the 2023 ESG Report. For details about (ii) and (iii), please refer to the section headed "Overview on Mechanisms for Independent Views and Inputs" below of this report.

The Group believes that its success as a business and as an organisation is underpinned by its strong corporate governance, solid corporate vision, mission and values as well as positive and progressive corporate culture. During the year under review, the challenging operating environment faced by the Group created a lot of headwinds, and the Group has expected to continue to operate in an environment riddled with external shocks on a global scale. Notwithstanding the foregoing, the Group believes that the Group's resilience lies in its ability to not only traverse adverse and challenging conditions but adapt and persist and stay on course. Through the Group's efforts in promoting and developing the corporate culture upon the basis of its corporate vision, mission and values (particularly the values of confidence and determination) in the year under review, the Group has achieved a lower employee turnover rate for the year under review as compared with that in 2022.

Board's Evaluations

On the basis of the views and recommendations from the corporate governance committee, the Board will annually review the Company's corporate vision, mission and values together with their alignment with its corporate culture to ensure their implementation and effectiveness. At the meetings held on 7 March 2024, on the basis of the recommendations from the corporate governance committee as well as the aforesaid confirmations obtained by the Company Secretary, the Board considered that: (1) the Group's vision, mission and values as described above have remained appropriate and effective and relevant to the Company's needs, and have also reflected both the then current regulatory requirements and good corporate governance practices; (2) the Group's corporate culture as described above has remained appropriate and effective as the Group's desired culture in support and furtherance of its corporate vision, mission and values; and (3) the Group's corporate vision, mission and values have continued to align with the Group's corporate culture.

OVERVIEW ON MECHANISMS FOR INDEPENDENT VIEWS AND INPUTS

The Company refers to the mechanisms (the "Mechanisms") which have been established and operated under certain existing policies, systems and measures of the Group to ensure that independent views and inputs have been and will be available to the Board. For the purposes of compliance with Paragraph B.1.4 of Part 2 of the CG Code, an overview of the Mechanisms (forming part of the Manual) is set out in this report.

On the basis of the views and recommendations from the corporate governance committee: (a) on 10 March 2023, the Board conducted an annual review of the Mechanisms and adopted the revised Mechanisms, basically to make some housekeeping amendments to reflect establishment of the ESG Committee, add references to the latest ESG report in the ESG context, etc.; and (b) on 7 March 2024, the Board conducted an annual review of the Mechanisms and adopted the further revised Mechanisms, basically to provide for the Company's adoption and implementation of its own global code of conduct and other relevant policies; the implementation and monitoring of the global code of conduct by the ESG Committee, the ESG task force team and other designated functional departments; and updates on sharing of the relevant information by the internal audit services department. The Mechanisms mentioned below refer to their latest version as so revised and further revised.

The Mechanisms are highlighted and summarised as follows:

(a) Communications and Independent Elements within the Board

- The Company's board meeting procedures provide (among other things) that: (1) Board meetings are held no less frequently than four times a year at approximately quarterly intervals; (2) any director of the Company may at any time summon a Board meeting; and (3) any director of the Company may include any matter in the agenda for a regular Board meeting.

- The Company's chairman/acting chairman holds a meeting with the Company's independent non-executive directors without the presence of other directors at least once per year. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the independent non-executive directors.

- The Company's procedures for seeking independent professional advice sets forth the procedures under which a director of the Company can seek independent professional advice in appropriate circumstances at the Company's expense in the furtherance of his duties as the Company's director.

- Every Board member is entitled to have access to the advice and services of the Company's company secretary.

- The Board has a balanced composition of executive and independent non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

- The Board members do not have any financial, business, family or other material/relevant relationships with each other.

- The Company's policies and procedures governing director's potential/actual conflicts of interests provide (among other things) that in relation to any proposed material transaction involving any Group member which may give rise to any potential/actual conflicts of interests on the part of a director of the Company, such director shall not participate in the discussions relating to such proposed material transaction and shall also abstain from voting on the resolutions proposed in respect thereof.

- The independent non-executive directors of the Company provide the Company with the benefit of a wide range of their skills, expertise and varied backgrounds and qualifications and brought independent judgement on issues of strategic direction, policy, development and performance through their contributions at Board meetings and (as appropriate) committee meetings. In this respect, the Board (on the basis of the recommendations from the Company's nomination committee) annually re-assesses the independence of each of the Company's independent non-executive directors.

(b) Communications between the management and the Board

- Two members of the Company's senior management, namely CHEN Hui Chung, John (the Company's Head of Finance and Treasurer) and TAM Kam Wah, Danny (the Company's Chief Financial Officer ("CFO")) have been invited and participated in Board meetings and Board committee meetings and hence have open dialogues and proactive engagements with the Board members in the meetings, so that senior management's views can be brought to the Board's attention in the decision-making process.

- In addition, the CFO has been providing to the Board: (1) a monthly management update ("MMU") covering (among other things) unaudited monthly management accounts; financial highlights covering turnover breakdown, sales, profit and loss, segment information; and updates on significant investments and projects; (2) at each regular Board meeting, a quarterly business overview and outlook relating to the Group (the "Quarterly Business Overview and Outlook"); and (3) in his own capacity and on behalf of the management, a bi-annually confirmation on the adequacy and effectiveness of the Group's system of internal controls and enterprise risk management. Corresponding communication platforms have been established and maintained accordingly.

- The aforesaid two members of the Company's senior management regularly discuss with each other the Group's performance and material issues/concerns/difficulties (including any material issues/concerns raised to him/them by the Group's middle management and general staff respectively), and frequently participate in the Monthly Business Review (MBR) meetings chaired by the Company's Chief Executive Officer ("CEO") and attended by the Company's Business Control Head, during which the Group's business unit heads/managers report to CEO on the operation and performance of their respective business units and identify the respective problems, difficulties and risks faced by them, whereas CEO critically reviews the same and gives instructions/guidances/recommendations to the respective business unit heads/managers on how to rectify the issues and make improvements. In this respect, CFO cum senior management reviews the MBR meeting papers, minutes and related materials, and also constantly checks with the business unit and functional unit heads/managers as to the latest business outlook, the challenges, their respective issues/concerns, etc. and then includes the relevant information (in case of appropriate escalation, including any material issues/concerns disclosed by the Group's business unit and functional unit heads/managers) in the MMUs, the Quarterly Business Review and Outlook and (as appropriate) the relevant Board meeting agenda items and the corresponding Board meeting papers and related presentation materials. Corresponding communication platforms have been established and maintained accordingly.

(c) Communications between the management and the employees at all levels

- Staff members have the opportunities through different channels (such as routine meetings, performance appraisals, town halls, etc.) to raise issues/concerns to their respective supervisors and managers, who (in case of appropriate escalation) will report the relevant issues/concerns to senior management (direct or through middle management, as the case may be). Please see (b) above regarding escalation of the relevant issues/concerns from middle management through senior management to the Board, as and when necessary.

- The Company's human resources department will continue to explore more cost-effective communication channels and intervals, e.g. utilising digital communication channels like emails and internal communication platforms, as opposed to physical face-to-face interactions.

- In the ESG context, please refer to the Company's latest ESG report.

(d) Communications between the management and all stakeholders

- Similar to the relevant mechanism under the Company's shareholders communication policy, the Company's company secretary or handling officer of the Company's investor relations department or the Company's relevant functional owner (as the case may be) will review the enquiries, requests, comments or suggestions from the relevant stakeholder and (as appropriate) forward the same: (1) to the Board (through the Company's company secretary, as appropriate) if the same falls within the Board's purview; (2) to the members of the relevant Board committee (through the Company's secretary, as appropriate) if the same falls within such Board committee's area of responsibility; and (3) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

- In the ESG context, please refer to the Company's latest ESG report.

(i) Shareholders/ Investors

The Company has formulated and maintained the shareholders communication policy setting out the framework that the Company has put in place to maintain and promote effective communication and ongoing dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. The shareholders communication policy provides for (among other things) the procedures by which enquiries, requests, comments or suggestions may be put forward to the Company, and that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board. Please also see the above regarding the mechanism for escalation of the relevant enquiries, requests, comments or suggestions from any such shareholders to the Board, as and when necessary, under the Company's shareholders communication policy.

Moreover, the Company has formulated and maintained the memorandum on shareholder rights (setting out, among other things, its shareholders' right to convene the Company's extraordinary general meeting and right to add resolutions to the meeting agenda) as well as the procedures for shareholders to propose candidates for election as a director of the Company. In particular, the Company's company secretary will escalate such requisition or proposal from any such shareholders to the Board under the Company's memorandum on shareholder rights.

As to the investment community generally, the Company's shareholders communication policy provides (among other things) that for the sake of comprehensiveness, the Company may upon invitation have results briefings and one-on-one meetings with analysts and journalists. Please see the above regarding the mechanism for escalation of the relevant enquiries, requests, comments or suggestions from any such analysts and journalists to the Board, as and when necessary.

(ii) Employees

On top of the Mechanism under (c) above, the Group is committed to creating a good corporate culture and has established and maintained its whistle-blowing policies and the related procedures which apply to the Group's key stakeholders (including all current and former directors, officers and other employees (both permanent and temporary); customers; suppliers; joint venture partners; and other business partners) (the "Whistle-blowing Policies and Procedures"). Issues/concerns and complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through established hotlines and other channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All issues/concerns and complaints will be handled confidentially, timely, fairly and professionally by the Group's Chief Internal Auditor for further investigation and appropriate follow-up actions. Please see the above regarding the mechanism for escalation of the relevant issues/concerns/complaints from any such key stakeholders to the Board, as and when necessary. The Whistle-blowing Policies and Procedures will be reviewed regularly according to changes to the business and/or regulatory environments and requirements.

In addition, as to anti-corruption, anti-bribery, anti-extortion and anti-money-laundering, the Group has implemented and maintained the code of conduct and the code of ethics (including the anti-corruption code of conduct) which apply to its directors, officers and employees by way of policies, rules and principles, administering appropriate and prohibited individual behaviours within the Group.

Moreover, the Company has adopted the global code of conduct (the "CoC") as supplemented by the related responsibility standards, both of which are accessible on the Company's website under the "ESG — Resources — Policies, Guidelines and Others" section. The CoC sets out the Group's standards relating to (among other things) ethics and management systems which are highlighted and summarised as follows:

- The ethics standards include (among other things) the protection of identity and non-retaliation which requires that: (1) programs that ensure the confidentiality, anonymity and protection of supplier and employee whistleblowers are to be maintained, unless prohibited by law; (2) anonymous complaints with clear and specific descriptions of person/time/place/event are to be accepted and protected; and (3) the Company should have a communication process for its personnel to be able to raise any concerns without fear of retaliation.

- The standards relating to management systems include (among other things): (1) training programmes for managers and workers to implement policies, procedures and improvement objectives, and core curriculums (such as orientation training and CoC training) should be arranged for new employees, and employees in service should take at least two hours of CoC training per year (for details, please see (e) below); (2) communication with processes for communicating clear and accurate information about the Company's policies, performance, practices and expectations to workers, suppliers and customers; (3) ongoing processes, including an effective grievance mechanism, to assess workers' understanding of and obtain feedback on or violations against practices and conditions covered by the CoC and to foster continuous improvement, and also, workers must be given a safe environment to provide grievance and feedback without fear of reprisal or retaliation; and (4) a process to communicate the CoC requirements to suppliers.

Compliance with the CoC is implemented and monitored by the Company's ESG Committee (chaired by CEO), the ESG task force team, the human resources department, the internal audit services department and other relevant functional departments.

Furthermore, the Company has adopted the chapter on employee human rights, which is accessible on the Company's website under the "ESG — Resources — Policies, Guidelines and Others" section. The chapter on employee human rights covers (among other things) the following beliefs and key requirements: (1) provide a variety of effective channels, anonymous ones included, for stakeholders to raise suggestions and appeals or report any violations and ethical concerns; and (2) protect whistleblowers from workplace violence/unlawful infringement.

(iii) Suppliers

Formal business communications are scheduled and held on a regular basis between the Group's suppliers and the Company's sourcing teams as follows:

- Such communications are held in the form of QBR (Quarterly Business Review) between the parties, usually once in every quarter.

- Key business stakeholders from the Company's sourcing teams and suppliers are invited to participate in QBR, including the Company's sourcing officer responsible for the commodity and the responsible supplier representative.

- Subjects covered in QBR usually are near-term business issues, supply and pricing in the past and coming quarters, performance review, supplier feedback and any outstanding near or longer term challenges.

Also, clear and specific requirements in conducting business with the Group are communicated to all suppliers in legally binding documentation which is required to be signed off between the Group and each of its suppliers and presented in the Group's supplier qualification process, i.e., only after all required documentation is signed can business start to commence between the Group and its supplier. Anti-corruption covenants and undertakings on the part of supplier as well as ethics audit are included in the following documentation:

- Master Purchase Agreement;
- Supplier's Undertaking; and
- Supplier SER (Social and Environmental Responsibility) Audit Checklist.

The Company's internal audit services department shares information related to the department (including concepts and cases involving internal controls and enterprise risk management) online through the employee service and mass messaging communication application "iPound" subscribed by all employees of the Group, and provides guidance on information related to this aspect.

As mentioned in (ii) above:

- the Whistle-blowing Policies and Procedures apply to suppliers. As such, suppliers are able to raise issues/concerns to the Company pursuant to the Whistle-blowing Policies and Procedures. Please see the above regarding the mechanism for escalation of the relevant issues/concerns from any such suppliers to the Board, as and when necessary.
- the protection of identity and non-retaliation under the Whistle-blowing Policies and Procedures applies to suppliers. As such, the confidentiality and anonymity of supplier whistleblowers is protected.

(iv) Customers

Formal business communications are scheduled and held on a regular basis between each of the Group's customers and the Group's handling business unit project manager facing such customer. As to the Group's major customers, such communications include (among others) weekly, quarterly and annual business review meetings; regular product review meetings; regular production, sales and quality review meetings; and other ad-hoc meetings when necessary.

Also, the Group has established and maintained customer complaint handling procedures to respond to product-related and service-related complaints in a systematic manner. Once the factory/business units receive complaints from customers, they will verify the complaint information followed by a check on the production process to investigate into the circumstances underlying and leading to the complaint. If the complaint is evidenced to be valid, the factory/business units will propose remedial measures to customers and conduct performance tracking. After customer complaint cases are closed, the cases are filed for record tracking and continuous enhancement purposes. Please see the above regarding the mechanism for escalation of the relevant complaints from any such customers to the Board, as and when necessary.

In addition, the Group requires (as a prerequisite to the establishment of business relationship) its customers to strictly enforce high standards of anti-corruption.

As mentioned in (ii) above:

- the Whistle-blowing Policies and Procedures apply to customers. As such, customers are able to raise issues/concerns to the Company pursuant to the Whistle-blowing Policies and Procedures. Please see the above regarding the mechanism for escalation of the relevant issues/concerns from any such customers to the Board, as and when necessary.

- the protection of identity and non-retaliation under the Whistle-blowing Policies and Procedures applies to customers. As such, the confidentiality and anonymity of customer whistleblowers is protected.

(v) Community/ non-governmental organisations (NGOs)

The Group embraces a culture of sharing, contributing and giving back to the community, and actively participates in social and community-based programmes, including sponsoring and hosting philanthropic activities and volunteer programmes. Through its participation in such programmes and the activities carried out thereunder, the Group has established and maintained ongoing dialogues and engagements with a number of local NGOs. Please see the above regarding the mechanism for escalation of the relevant enquiries, requests, comments or suggestions from any such NGOs to the Board, as and when necessary.

(e) Ongoing training on the Company's desired behaviours

- The Company's Corporate Vision, Values and Mission (as adopted by the Board on 15 March 2022, as amended from time to time) provides (among other things) that the Group's relevant policies, systems and measures are, and would be, promoted across the organisation and particularly the functional owners/stakeholders who are the targets/addressees thereunder and reinforced by training.

- The Company's human resources department has been organising and implementing appropriate training programmes by e-learning (via the "FoxconnEdu" application) or face-to-face classroom learning to the Group's directors, officers and employees, and would continue to regularly review the subject matters and target audience of such training programmes, as and when necessary.

- With reference to the CoC, the training programmes include the following: (1) as part of new employee orientation, training programmes relating to the CoC, occupational health and safety, and anti-corruption; (2) all employees are also inducted with at least two hours of compulsory anti- corruption training every year; and (3) all employees in service should also take at least two hours of CoC training per year.

- In addition to on-job training, the Group also encourages employees' learning by utilising e-learning platform (namely the "FoxconnEdu" application) with more than thousands of training course subjects and materials.

On the basis of the views and recommendations from the corporate governance committee, the Board will annually review the Mechanisms to ensure their implementation and effectiveness. At the meetings held on 10 March 2023 and 7 March 2024 respectively, on the basis of the recommendations from the corporate governance committee as well as the aforesaid confirmations obtained by the Company Secretary, the Board considered that the Mechanisms have been implemented and remained effective and that the Mechanisms have remained relevant to the Company's needs and reflected both the then current regulatory requirements and good corporate governance practice.

CORPORATE GOVERNANCE CODE

The Company has applied and complied with all the code provisions set out in Part 2 of the CG Code during the year under review.

The code provision contained in Paragraph C.2.1 of Part 2 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

However, Mr. TONG Wen-hsin ("Mr. Tong"), the Company's former chairman and former executive director, had resigned from his positions within the Company with effect from 1 January 2017. Upon Mr. Tong's resignation, the Company has not been able to comply with the code provision contained in Paragraph C.2.1 of Part 2 of the CG Code. The reasons for such deviation are set out below.

Since the resignation of Mr. Tong as the chairman of the Company, the Company has been searching for the right candidate to fill the position of chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfil the role of chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an arrangement by appointing Mr. CHIH Yu Yang ("Mr. Chih"), the current chief executive officer, to act as the acting chairman with effect from 1 January 2017. Mr. Chih has been the Company's executive director and chief executive officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive and in-depth knowledge, experience and network in both the Company and the industry. The Board believes that this arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, and that the status quo should be maintained when the Group has been facing challenging conditions, particularly when the Group had made a consolidated net loss on an annual basis since 2017 until 2020 and recorded a consolidated net profit for 2021 but turned back to a consolidated net loss for 2022 and also the year under review. Although the arrangement deviates from the relevant code provision, the Board considers that the arrangement will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high-caliber individuals of diversified perspectives, with whom three being independent non-executive directors (out of the seven Board members). The Board meets regularly to consider major matters affecting the operations of the Group and all directors of the Company are properly and promptly briefed on such matters with adequate, complete and reliable information.

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

In light of the above, the Board believes that there have been adequate checks and balances at both the Board level and the Company's senior management level, and there has been sufficiently close supervision over the key operational matters of the Group, notwithstanding that the Company has not been able to comply with the code provision contained in Paragraph C.2.1 of Part 2 of the CG Code during the year under review. The Board therefore considers that the circumstances justify the adoption of the arrangement for the chief executive officer to serve also as the acting chairman, and considers that this arrangement is currently in the best interests of the Company and its shareholders as a whole.

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

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's overall businesses, strategic decisions and performance.

According to the Manual, the respective responsibilities, accountabilities and contributions of the Board and the Company's management have been divided through the adoption of a detailed list of matters reserved specifically for the decision of the Board as more particularly described in page 173 of the Company's 2020 annual report as issued and published on 20 April 2021. Upon the Board's annual review on 10 March 2023 and 7 March 2024 respectively, the aforesaid list of matters has remained effective and appropriate to the Company's needs.

Subject to the foregoing as well as the delegation mechanism and delegation of authority forming part of the internal control measures as mentioned above, the Board has delegated its powers to the Company's management for the daily management and operations of the Group. In addition, the Board has delegated its powers to the Board committees. The Board has four Board committees, namely the audit committee, the remuneration committee, the nomination committee and the corporate governance committee, each of which discharges its functions and duties in accordance with the respective terms of reference with reference to the relevant provisions under the CG Code.

The Board currently consists of three executive directors, one non-executive director and three independent non-executive directors.

Executive Directors

CHIH Yu Yang *(acting chairman, chief executive officer and chairman of the corporate governance committee)*
KUO Wen-Yi *(member of the corporate governance committee)*
LIN Chia-Yi (also known as Charles LIN) (appointed with effect from 10 March 2023)
MENG Hsiao-Yi *(chief operating officer)* (resigned with effect from 10 March 2023)

Non-executive Director

CHANG Chuan-Wang (appointed with effect from 29 June 2023)

Independent Non-executive Directors

LAU Siu Ki *(chairman of the audit committee, remuneration committee and nomination committee respectively)*
CHEN Shu Chuan (also known as Nadia CHEN) (appointed with effect from 19 May 2023)
(member of the audit committee, remuneration committee and nomination committee respectively)
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (appointed with effect from 29 June 2023)
(member of the audit committee, remuneration committee and nomination committee respectively)
Daniel Joseph MEHAN (resigned with effect from 29 June 2023)
(member of the audit committee, remuneration committee and nomination committee respectively)
TAO Yun Chih (retired with effect from 19 May 2023)
(member of the audit committee, remuneration committee and nomination committee respectively)

Each of the directors of the Company which were appointed during the current year, namely Mr. LIN Chia-Yi (also known as Charles LIN), Ms. CHEN Shu Chuan (also known as Nadia CHEN), Mr. CHANG Chuan-Wang and Mr. CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis), had obtained on 16 March 2023 (for Mr. Lin), 22 May 2023 (for Ms. Chen), 30 June 2023 (for Mr. Chang) and 30 June 2023 (for Mr. Chiu) the legal advice from a firm of solicitors qualified to advise on Hong Kong law as regards the requirements under the Listing Rules that were applicable to him/her as a director of the Company and the possible consequences of making a false declaration or giving false information to the Stock Exchange. Promptly after having obtained such legal advice, such director had confirmed that he/she understood his/her obligations as a director of the Company.

The respective biographical details (including, without limitation, gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge) of each director are set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2023 annual report incorporating this report).

In accordance with the Articles, any director, appointed either to fill a casual vacancy on or as an addition to the then existing Board, shall hold office only until the first annual general meeting after his/her appointment and shall then be eligible for re-election at such annual general meeting.

In accordance with the Articles, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every director shall be subject to retirement by rotation at an annual general meeting at least once every three years. The directors to retire in the relevant year will be those who have been longest in office since their last re-election.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. The balanced Board composition (comprising three independent non-executive directors out of a total of seven Board members) also ensures that strong independence exists across the Board. The biographical details of the directors as at the date of this report as set out in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2023 annual report incorporating this report) demonstrate a diversity of skills, expertise, experience, qualifications and other perspectives appropriate to the requirements of the Company's business.

The Board meets regularly and Board meetings are held at least four times a year to discuss principally the overall strategies as well as the operational and financial performance of the Group, and (in relation to the first and third regular Board meetings) to review and approve the Company's final results and interim results, respectively. At least fourteen days' notice (in relation to each regular Board meeting) or a reasonable notice (in relation to any other ad-hoc Board meeting) is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying Board papers are sent to all directors at least three days before the intended date of a Board meeting. Every Board member is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. They can also seek independent professional advice in appropriate circumstances, at the Company's expense. If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting (for details about the policies and procedures governing directors' potential/actual conflicts of interests, please refer to page 172 of the Company's 2020 annual report as issued and published on 20 April 2021). The minutes books are kept by the company secretary. Draft and final versions of minutes of the Board meetings were sent to all directors for their comments and records respectively within a reasonable time after the meetings. During the year under review, seven Board meetings were held. The meeting attendance of each Board member is set out in the section headed "Board, Committees and General Meeting" below of this report. In addition to the Board meetings, the Board dealt with matters by way of circulation and signing of one set of written resolutions during the year under review.

CHAIRMAN

The chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. On 20 December 2023, Mr. Chih (the Company's acting chairman) held a meeting with the independent non-executive directors without the presence of the other executive and non-executive directors.

NON-EXECUTIVE DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors, namely Mr. CHANG Chuan-Wang ("Mr. Chang"), Mr. LAU Siu Ki ("Mr. Lau"), Ms. CHEN Shu Chuan (also known as Nadia CHEN) ("Ms. Chen") and Mr. CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) ("Mr. Chiu"), setting out the terms and conditions governing his/her appointment and ancillary matters, as amended and supplemented from time to time.

With reference to the requirement under the Articles regarding directors' retirement from office by rotation at each annual general meeting of the Company as mentioned above, it follows that pursuant to the resolution passed by the Company's shareholders at an annual general meeting of the Company in relation to the re-election of any one director of the Company, the current term of such director's appointment with the Company will commence from the closing of such annual general meeting, ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) such director's next re-election is considered in accordance with the Articles.

Pursuant to the approval of the Board on 26 March 2021 and the approval of the Company's shareholders on 28 May 2021, Mr. Lau, the independent non-executive director of the Company, was re-elected in his capacity for a term commencing from 28 May 2021 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is currently scheduled to be held on 22 May 2024. For details, please refer to the section headed "Proposed Re-election of Mr. Lau Siu Ki as the Company's Independent Non-executive Director" below of this report.

Pursuant to the approval of the Board on 10 March 2023 and the approval of the Company's shareholders on 19 May 2023, Ms. Chen, the independent non-executive director of the Company, was appointed in her capacity for a term commencing from 19 May 2023 and ending upon the conclusion of the relevant annual general meeting of the Company at which (among other things) her next re-election is considered in accordance with the Articles.

Also, reference is made to the requirement under the Articles regarding director's re-appointment at the first annual general meeting of the Company after his/her appointment either to fill a casual vacancy on or as an addition to the then existing Board as mentioned above. Pursuant to the approval of the Board on 29 June 2023, Mr. Chang and Mr. Chiu, the non-executive director and independent non-executive director respectively of the Company, were appointed in their respective capacities for a term commencing from 29 June 2023 and ending upon the conclusion of the first annual general meeting of the Company after their appointments at which (among other things) their re-elections are considered in accordance with the Articles, which meeting is currently scheduled to be held on 22 May 2024.

During the year under review, the independent non-executive directors provided the Company with the benefit of a wide range of their skills, expertise and varied backgrounds and qualifications and brought independent judgement on issues of strategic direction, policy, development and performance through their contributions at Board meetings and (as appropriate) committee meetings.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received written annual confirmation of independence from the three independent non-executive directors, namely Mr. Lau, Ms. Chen and Mr. Chiu.

In this respect, the nomination committee of the Company re-assessed the continued independence of all the independent non-executive directors in respect of the year under review, and was satisfied (among other things) that each of Mr. Lau, Ms. Chen and Mr. Chiu had remained independent in accordance with Rule 3.13 of the Listing Rules. On the basis of the recommendation from the nomination committee and up to the date of this report, the Board is not aware of the occurrence of any event or circumstance which would cause it to believe that the continued independence of any of the independent non-executive directors has been impaired. Accordingly, the Company confirms that it still considers each of the independent non-executive directors to be independent as of the date of this report. In relation to Mr. Lau who has served the Board for more than nine years, please also see the section headed "Proposed Re-election of Mr. Lau Siu Ki as the Company's Independent Non-executive Director" below of this report.

The Company's independent non-executive directors comprise individuals of a diverse range of cultural, educational and technical backgrounds, coming from Hong Kong and Taiwan and holding academic qualifications from these jurisdictions, and also, starting from 19 May 2023 on which Ms. Chen was appointed as the Company's independent non-executive director, comprise individuals of both genders. They are also equipped with a diverse range of skills, knowledge, experience and reputation in different industries and professional fields ranging from corporate governance, corporate finance, financial advisory and management, accounting and auditing, banking advisory, project finance, sustainability strategies and management, professional developments and risk management. In addition, their ages diversely range from 53 to 65. For further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2023 annual report incorporating this report.

PROPOSED RE-ELECTION OF MR. LAU SIU KI AS THE COMPANY'S INDEPENDENT NON-EXECUTIVE DIRECTOR

Long Service

Mr. Lau has served the Board for more than nine years, and subject to retirement and re-election under the Articles as mentioned above, the current appointment term of Mr. Lau with the Company as an independent non-executive director will be ending upon the conclusion of the forthcoming annual general meeting of the Company at which (among other things) his next re-election is considered in accordance with the Articles, which meeting is currently scheduled to be held on 22 May 2024 (the "2024 AGM").

The proposed re-election of Mr. Lau as the Company's independent non-executive director at the 2024 AGM had gone through the following processes at both the Company's nomination committee and the Board levels:

(a) Mr. Lau (as the chairman of the nomination committee) had abstained from all the discussions, consideration, voting and resolution at the meeting of the nomination committee to consider (among other things) his proposed re-election, to the extent of the agenda and related matters regarding his proposed re-election;

(b) Ms. Chen and Mr. Chiu (as the members of the nomination committee) had balanced Mr. Lau's history and familiarity with the Company's affairs and management against Mr. Lau's ability to stay independent and the necessity of Board refreshment and succession planning, and according to the Company's nomination policy for directorship (the "Nomination Policy") and the Company's board diversity policy (the "Board Diversity Policy") respectively, had then considered Mr. Lau's proposed re-election with reference to (among other things) effective succession planning in place to manage any staggered retirement of the Company's director(s) to ensure Board continuity, and the factors more particularly described below; neither Ms. Chen nor Mr. Chiu had raised any issue about the continued independence of Mr. Lau, and had unanimously resolved that Mr. Lau had remained independent, and had also recommended Mr. Lau's proposed re-election to the Board for the latter's consideration;

(c) Mr. Lau (as a member of the Board) had abstained from all the discussions, consideration, voting and resolution at the meeting of the Board to consider (among other things) his proposed re-election, to the extent of the agenda and related matters regarding his proposed re-election; and

(d) the Board (comprising all members other than Mr. Lau) had considered Mr. Lau's proposed re-election with reference to (among other things) the aforesaid succession planning, the factors more particularly described below, the aforesaid recommendation from the nomination committee, the Nomination Policy and the Board

Diversity Policy respectively, and had also balanced Mr. Lau's history and familiarity with the Company's affairs and management against Mr. Lau's ability to stay independent and the necessity of Board refreshment and succession planning; none of the above Board members had raised any issue about the continued independence of Mr. Lau and had unanimously resolved that Mr. Lau had remained independent, and had also recommended Mr. Lau's proposed re-election to the Company's shareholders for the latter's consideration at the 2024 AGM.

During the above processes, each of the nomination committee and the Board had considered the following factors:

(a) Mr. Lau has over 40 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing (for further details, please refer to the section headed "Profile of Directors and Senior Management" forming part of the Company's 2023 annual report incorporating this report). On the basis of Mr. Lau's professional background, skill sets, ethics, integrity, reputation and experience as well as his diversity of perspectives appropriate to the requirements of the Company's business operations and environment, the industry in which the Company operates as well as the overall business culture that the Company needs to maintain in the development and operation of its business, Mr. Lau has accumulated in-depth understanding of the Group's affairs and management, and has been contributing objectively and giving independent guidance, views and comments to the Company over the past years. For the year under review, Mr. Lau has confirmed no relationship with any directors, senior management members, or substantial or controlling shareholders of the Company, has not held any executive or management role or position within the Group, and has not been involved in the daily operations and management of the Group during the years that he has been a director. In view of the foregoing (particularly Mr. Lau's mindset throughout the past years as evidenced by his past performance and conducts), Mr. Lau has clearly demonstrated to the Company his willingness and ability to continue to exercise independent judgement and to provide objective views and contributions to the Company;

(b) Neither the nomination committee nor the Board is aware or is made aware of: (i) the occurrence of any event or circumstance which would cause it to believe that the continued independence of Mr. Lau has been or would be impaired; (ii) any evidence that the length of tenure of Mr. Lau has had any adverse impact on his continued independence; and (iii) any circumstance that might influence Mr. Lau in effectively exercising his judgement independently, in each case in his capacity as the Company's independent non-executive director despite his tenure and his familiarity with the Group's affairs and management;

(c) During the year under review, Mr. Lau spent over 25 hours in training which evidences his proactive and on-going efforts to keep abreast of updates and new changes for his continuous professional developments, and which represents the highest training hours among all the Board members during the year under review. Also, Mr. Lau's directorship experience in other companies listed on the Stock Exchange has enabled him to discharge his duties as the Company's independent non-executive director more effectively as such experience has been beneficial in equipping him with accumulative knowledge, familiarity and experience on matters such as the latest developments and trends in directors' duties, Listing Rules requirements, regulatory focus and common risks and limitations in management and compliance. In view of the foregoing, Mr. Lau's continuous professional developments when coupled with his other directorship experience have been continuously bringing fresh perspectives to the Board, thereby leading to adequate and on-going Board refreshment despite Mr. Lau's tenure and familiarity with the Group's affairs and management;

(d) The factors referred to in the section headed "Directorships with Five Other Listed Companies" below of this report in relation to Mr. Lau's continued time commitment and attention to perform his duties as the Company's independent non-executive director; and

(e) After a comprehensive review of all the above factors, both the nomination committee and the Board (each comprising all members other than Mr. Lau) have believed that Mr. Lau possesses the required ethics, character, competence, integrity, reputation and experience to continue fulfilling his role as the independent non-executive director of the Company, and his continued tenure will continue to bring valuable insights, advices, expertise, independent views and fresh perspectives to the Board.

Directorships with Five Other Listed Companies

As disclosed in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2023 annual report incorporating this report, as at the date of this report, Mr. Lau holds the position of independent non-executive director in five other companies, the shares of which are listed on the Stock Exchange. In this respect, Mr. Lau has confirmed to the Company that he does not have a present intent to take up any additional directorship with any other company, the securities of which are listed on any securities market in Hong Kong or overseas.

Both the nomination committee and the Board have considered that Mr. Lau has, throughout the period during which he has been acting as an independent non-executive director of the Company, demonstrated that he has been, and will continue to be, able to devote sufficient time to the Board after having taken into account a variety of considerations, including without limitation the following: (i) given all the above-mentioned directorships are of an independent non-executive nature and do not require Mr. Lau to devote his full time and attention to the day-to-day operation and management of those companies; (ii) Mr. Lau is a competent professional and good at time management who has sound knowledge and skills to efficiently handle six or more companies' directorships, and since his appointment as a director of the Company in December 2004, Mr. Lau has demonstrated outstanding time management, planning and organisation skills with the help of sufficient staff support despite overlapping of financial year-end and peak seasons for listed companies, and also, during the year under review, he spent over 25 hours in training to effectively facilitate the performance of his appointments; (iii) Mr. Lau has a proven track record of ability and commitment to manage and allocate sufficient time for matters relating to the Group from time to time handled by the Board and/or the Board committees chaired by Mr. Lau (the "Group Matters"), as evidenced by his full attendance at a total of seven meetings of the Board (out of seven in the year under review), six meetings of the audit committee (out of six in the year under review), two meetings of the nomination committee (out of two in the year under review), three meetings of the remuneration committee (out of three in the year under review), one meeting with the Company's acting chairman and other independent non-executive directors (out of one in the year under review) and one meeting of the Company's shareholders (out of one in the year under review); and (iv) at the request of the Company, Mr. Lau provides an annual confirmation that he has devoted sufficient time and attention to the Group Matters for the year under review and will continue to do so, and in particular, Mr. Lau has disclosed to the Company: (a) the number and nature of offices held by him in public companies, organisations and other significant commitments as more particularly described in his biographical details; (b) the identity of the said companies and organisations; and (c) an indication of time involved in each of such offices, and Mr. Lau will also notify the Company of any change of such information in a timely manner. Further, the Board is of the view that Mr. Lau's directorship experience in other companies listed on the Stock Exchange would enable him to discharge his duties as an independent non-executive director of the Company more effectively as such experience is beneficial in equipping him with accumulative knowledge, familiarity and experience on matters such as the latest developments and trends in directors' duties, Listing Rules requirements, regulatory focus and common risks and limitations in management and compliance. The Board will continue to maintain regular communications with Mr. Lau and re-assess Mr. Lau's ability to devote sufficient time to the Group Matters and discussions and deliberations at the Board level on an on-going basis.

COMPANY SECRETARY

Ms. Vanessa WONG Kin Yan has been the company secretary of the Company since June 2017. She has over 27 years of extensive working experience in company secretarial and corporate governance matters. She is a Fellow member (being the highest membership status) of both CGI (The Chartered Governance Institute, formerly known as The Institute of Chartered Secretaries and Administrators) and HKCGI (The Hong Kong Chartered Governance Institute, formerly known as The Hong Kong Institute of Chartered Secretaries). Ms. Wong is a full-time employee of the Company and has been supporting the Board (among other things) for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and timely preparation and dissemination to directors comprehensive Board meeting agendas and papers. During the year under review, Ms. Wong undertook over 15 hours of relevant professional training to update her skills and knowledge.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to Rule 3.09D of the Listing Rules, prior to appointment, every intending director of the Company is provided with a briefing and training provided by the Company's professional legal advisers which are qualified to advise on Hong Kong law to ensure that he/she is fully aware of and understands the requirements (including without limitation the duties, roles, responsibilities and obligations as a director of a Hong Kong-listed company) under the Listing Rules and other applicable legal and regulatory requirements that are applicable to him/her as a director of the Company and the possible consequences of making a false declaration or giving false information to the Stock Exchange. Such briefing and training are provided at the Company's expense. The intending director also receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the Group's operations and businesses, including without limitation applicable legal, regulatory and related compliance requirements; corporate structure; Board and Board committee meeting procedures; shareholders communications; internal control and enterprise risk management systems and related processes; corporate governance practices; and securities dealing.

The Company from time to time provides briefings, training sessions and materials to the directors to develop and refresh their knowledge and skills, including updates on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to enhance their awareness and understanding of the same.

During the year under review, all directors had participated in appropriate continuous professional development activities through different means as appropriate, including but not limited to attending briefings and/or training sessions and/or reading materials relating to a variety of subject matters such as the Group's business operations, general economy and geopolitics, manufacturing or technology or handset industry and dynamics, directors' duties and responsibilities, and applicable legal and regulatory requirements. In particular, all directors had attended the following training sessions: (a) a training on crisis management as provided by the Company's chief internal auditor; (b) training sessions to refresh (among other things) directors' duties, directors' conflicts of interests with reference to the Company's Policies and Procedures governing Directors' Actual/Potential Conflicts of Interests (as more particularly described in page 172 of the Company's 2020 annual report as issued and published on 20 April 2021) as well as recent legal and regulatory updates (covering, among other things, the Stock Exchange's Snapshot of INEDs' Roles and Responsibilities) as provided by the Company's Hong Kong external counsel; (c) a training on ESG reporting and trends as provided by the Company's Hong Kong ESG consultant; and (d) the Company's online training sessions to refresh (among other things) the requirements of the Company's Global Code of Conduct and Anti-corruption Code of Conduct respectively.

The company secretary of the Company is responsible for keeping the records of training taken by the directors. According to the records kept by the Company, the directors attended the following continuous professional development activities during the year under review:

Name of director	Type(s) of continuous professional development activities
CHIH Yu Yang	A, B
KUO Wen-Yi	A, B
LIN Chia-Yi (also known as Charles LIN) (appointed with effect from 10 March 2023)	A, B
MENG Hsiao-Yi (resigned with effect from 10 March 2023)	A, B
CHANG Chuan-Wang (appointed with effect from 29 June 2023)	A, B
LAU Siu Ki	A, B
CHEN Shu Chuan (also known as Nadia CHEN) (appointed with effect from 19 May 2023)	A, B
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (appointed with effect from 29 June 2023)	A, B
Daniel Joseph MEHAN (resigned with effect from 29 June 2023)	A, B
TAO Yun Chih (retired with effect from 19 May 2023)	A, B

A: Attending briefing(s) and/or training session(s)
B: Reading articles, journals, newspapers and/or other materials

AUDIT COMMITTEE

The Company has established and maintained an audit committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the audit committee are accessible on the websites of the Stock Exchange and the Company respectively.

The audit committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the audit committee)*
CHEN Shu Chuan (also known as Nadia CHEN) (appointed with effect from 19 May 2023)
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (appointed with effect from 29 June 2023)

The principal duties of the audit committee are to review the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and enterprise risk management systems and provide advice and comments to the Board. It also makes recommendations on the appointment, re-appointment and removal of external auditor, and approves the remuneration and terms of engagement of the external auditor. It also reviews and monitors the external auditor's independence and objectivity as well as the effectiveness of the audit process. Please see the section headed "Accountability and Audit" below of this report for more details.

In particular, the Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the audit committee (which must comprise a minimum of three members with non-executive directors only and must be chaired by an independent non-executive director) is an independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The audit committee shall meet at least twice a year. Also, at least once a year the audit committee shall meet with the external auditor without any members of management of the Company present. During the year under review, the audit committee held a total of six meetings with the external auditor, including two meetings with the external auditor without the presence of any members of management of the Company. Six audit committee meetings were held during the year under review and the meeting attendance of each member of the audit committee is set out in the section headed "Board, Committees and General Meeting" below of this report. In particular, the committee meetings served (among other things) (i) to review the unaudited interim financial statements and report and the audited full-year financial statements and report together with the related management representation letters, (ii) to review and approve the external auditor's engagement letters, (iii) to review and approve the internal audit plan of the Group, (iv) to review the Group's system of enterprise risk management and internal controls and the effectiveness of the Group's internal audit function, (v) to review the Group's relevant continuing connected transactions, (vi) to initiate the Company's Preapproval Policies and Procedures relating to Independent Auditor's Non-Assurance Services, as well as to make recommendations to the Board on the relevant matters. In relation to the non-audit services provided by the external auditor during the year under review and up to the date of this report, the audit committee had reviewed such non-audit services approved by the Company's Chief Financial Officer pursuant to the Company's Preapproval Policies and Procedures relating to Independent Auditor's Non-Assurance Services, and had also confirmed the independence of the external auditor which had not been impaired by its provision of such non-audit services.

Also, please see the section headed "Accountability and Audit" below of this report for a summary of the relevant work of the audit committee during the year under review and up to the date of this report.

Full minutes of the meetings of the audit committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the audit committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

REMUNERATION COMMITTEE

The Company has established and maintained a remuneration committee with written terms of reference by reference to the code provisions of the CG Code. The terms of reference of the remuneration committee are accessible on the websites of the Stock Exchange and the Company respectively.

The remuneration committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the remuneration committee)*
CHEN Shu Chuan (also known as Nadia CHEN) (appointed with effect from 19 May 2023)
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (appointed with effect from 29 June 2023)

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, to consider and review the remuneration of the directors and senior management by reference to corporate goals and objectives, and to make recommendations to the Board on the remuneration packages of the directors and senior management.

The remuneration committee shall meet at least once a year (as necessary). During the year under review, three remuneration committee meetings were held and the meeting attendance of each member of the remuneration committee is set out in the section headed "Board, Committees and General Meeting" below of this report. In addition to the committee meetings, the remuneration committee also dealt with matters once by way of circulation and signing of written resolutions during the year under review. In particular, the committee meetings and the written resolutions served (among other things) to review the proposed 2023 share grants under the Former Share Scheme and the Existing Share Scheme respectively, the annual expenses allowances to directors, the annual remuneration packages of directors and senior management, the proposed adoption of the Existing Share Option Scheme and the Existing Share Scheme and consequential termination of the Former Share Option Scheme and the Former Share Scheme, the proposed appointment of new executive director, new non-executive director and new independent non-executive directors together with the related appointment letters, the non-executive director's proposed remuneration together with the related supplemental appointment letter, the 2023 remuneration packages for directors and senior management, and certain revised documents relating to the Existing Share Scheme and the Existing Share Option Scheme, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the remuneration committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the remuneration committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

Details of the remuneration paid/payable to the directors of the Company during the year under review are set out in note 8 to the consolidated financial statements and "Report of the Directors" above, respectively, both forming part of the Company's 2023 annual report incorporating this report.

In relation to the aforesaid proposed 2023 share grants under the Former Share Scheme, the remuneration committee considered the following facts before recommending the proposed share grants to the Board:

(a) the shorter lock-up period (less than one month) applicable to the proposed share grants was in line with the Company's remuneration policies in force for time being as advised by the Company's human resources department which have been in force since 2013 when the Former Share Scheme was adopted (which is long before the Existing Chapter 17 has become effective on 1 January 2023). In this respect, the remuneration committee was of the view that such shorter lock-up period was appropriate in the circumstances as a timely recognition of the achievements and contributions made by the proposed grantees, having also taken into consideration, among others, (1) the base and other form of remuneration available to the proposed grantees; and (2) factors affecting the Group's business performance which might be beyond their control or otherwise irrelevant to their individual contributions; and

(b) the remuneration committee was of the view that following past practice since 2013 when the Former Share Scheme was adopted, the proposed share grants would be made unconditionally without any performance targets nor clawback mechanism; that said, the proposed share grants were aligned with the purposes of the Former Share Scheme by recognising the achievements and contributions made by the proposed grantees and by giving incentives to reward, motivate and retain them for the purposes of the Group's future development, expansion and long-term success.

For the sake of completeness, the proposed 2023 share grants under the Existing Share Scheme during the year under review have been subject to (among other things) a lock-up period of one year, achievement of satisfactory performance targets and clawback mechanism. For details, please see the Company's announcements dated 13 September 2023 and 6 November 2023 respectively.

Directors' Remuneration Policy

On 23 December 2022, the Company adopted the Directors' Remuneration Policy, forming part of the Manual (this "Policy") which sets out consistently-applied remuneration structures to remunerate the Company's directors (the "Directors"), comprising executive directors (the "Executive Directors") and non-executive directors including independent non-executive directors (the "Non-Executive Directors"), equitably and competitively at an appropriate (but not excessive) level, thereby enabling the Company to attract and retain high-caliber executive talents of diversified perspectives for their commitment to the Company as a sustainable Board and also to motivate the Directors to implement and materialise the Company's business strategies, financial goals and corporate developments which could ultimately create long-term values for the Company's shareholders and other key stakeholders, in a manner consistent with the Company's core business and leadership values.

1. Underlying Procedures and Measures

The procedures for devising and implementing this Policy are summarised as follows:

(1) this Policy is first prepared and subsequently reviewed and revised (please also see Section 6 below) by the Company's remuneration committee on the basis of (among other things) the following:

(a) applicable requirements under the Listing Rules;

(b) the prevailing market practices and remuneration levels and trends in the market at the relevant time, including without limitation the results of the benchmarking referred to in Section 3 below as conducted with comparable remuneration structures and levels adopted by the Benchmarking Group (as defined in Section 3 below); and

(c) in relation to the remuneration proposals for the Executive Directors, prior consultation with the Company's Chairman or Acting Chairman (as the case may be) and/or Chief Executive Officer; and

(2) with reference to the remuneration committee's recommendations, the Board considers and (if thought fit) adopts and implements this Policy and its subsequent review and revision (please also see Section 6 below).

To avoid any potential/actual conflicts of interests, the following measures have been adopted in respect of the implementation of this Policy and its subsequent review and revision:

(a) the remuneration committee must at all times be chaired by an independent Non-Executive Director, and comprise a majority of independent Non-Executive Directors;

(b) the Executive Directors (at the Board level) should review and adopt this Policy (and any subsequent amendments thereto) only to the extent of the general provisions applicable to all the Directors as well as those portions relating to the Non-Executive Directors; and

(c) the Non-Executive Directors (at the Board level) should review and adopt this Policy (and any subsequent amendments thereto) only to the extent of the general provisions applicable to all the Directors as well as those portions relating to the Executive Directors.

The procedures for determining and fixing the Directors' annual remuneration are summarised as follows:

(i) the Company's shareholders authorise the Board to fix the remuneration of each Director proposed to be re-elected at each annual general meeting of the Company;

(ii) the remuneration committee considers the respective annual remuneration of the Directors (as regards the annual remuneration of each independent Non-Executive Director, his/her annual remuneration shall be determined by the other members of the remuneration committee) and then recommends the same to the Board;

(iii) with reference to the remuneration committee's recommendations, the Board considers and (if thought fit) approves the respective annual remuneration of the Directors (in this respect, no Director should be involved in considering and deciding his/her own annual remuneration); and

(iv) the annual remuneration of each Director is disclosed in the Company's corresponding annual report (incorporating its consolidated financial statements).

2. Remuneration Principles

A summary of the Company's general remuneration principles (which also apply to the Directors' remuneration) is set out as follows:

Transparency	Remuneration arrangements should be transparent and promote effective engagements with the Company's shareholders and other key stakeholders.
Alignment with corporate culture	Remuneration should drive behaviours consistent with the Company's corporate vision, values and mission as well as desired corporate culture.
Merit-based reward	Remuneration must reinforce the Company's merit-based culture and philosophy at all levels within the organisation.
Competitiveness	Remuneration is competitive against the comparable market and is set in a manner to attract, motivate and retain expert leaders and highly qualified executives.
Long-term value creation	Targets triggering any variable remuneration are in the long-term interests of the Company and its shareholders and other key stakeholders.
Compliance	The Company's remuneration policies and proposals are devised and implemented in compliance with applicable requirements under the Listing Rules and (as appropriate) other applicable laws and regulations.
Risk prudence	Remuneration arrangements should avoid or at least mitigate any reputational risks that may arise from excessive rewards, and also any behavioural risks that may arise from target-based incentive proposals.

3. Remuneration Benchmarking

While continuously monitoring the prevailing market practices and remuneration levels and trends in the market at the relevant time, the Company benchmarks the Directors' remuneration against the Benchmarking Group (as defined in this Section 3) at least on an annual basis.

The Company's Human Resources Department assists the remuneration committee in identifying and updating a benchmarking group that best serves directors' (or comparable role/title's) remuneration comparisons with the Company in terms of business, operational scale, revenue, market capitalisation as well as corporate culture and values (the "Benchmarking Group"), including without limitation companies with global manufacturing operations in the handset industry; and the Hon Hai Technology Group to which the Company belongs (comprising Hon Hai and its subsidiaries and associates other than the Group).

4. Overview on Remuneration Components

(A) Remuneration of Executive Directors

The remuneration structure for the Executive Directors comprises a fixed component as well as short-term and long-term variable components, which could promote the alignment between the interests of the Company and those of the Executive Directors in both the short and long terms, taking into account (among other things) each Executive Director's individual performance, achievements and contributions vis-à-vis the Company's operation results, financial performance and business objectives.

The Executive Directors' remuneration consists of the following primary components:

Component	Objective(s)	Description
Basic salary and (if any) allowance(s) (as fixed component)	To provide competitive fixed remuneration that attracts, motivates and retains the high-caliber Executive Directors, and also corresponds to their duties, responsibilities and experience in relation to his/her performance of the Company's day-to-day activities.	• As to each Executive Director, basic salary is normally determined with reference to (among other things) the following: (a) his/her duties, responsibilities and experience in relation to his/her performance of the Company's day-to-day activities and employment conditions of the Company; and (b) the prevailing market practices and remuneration levels and trends in the market at the relevant time, including without limitation the results of the benchmarking referred to in Section 3 above as conducted with comparable basic salaries (if applicable, together with allowances) paid to executive directors belonging to the Benchmarking Group.

Component	Objective(s)	Description
		• Basic salary is usually reviewed on an annual basis. • Basic salary is not linked to any performance target. • There is no prescribed maximum basic salary nor automatic/ guaranteed basic salary increment periodically/annually. • Where appropriate, an annual expenses allowance may be payable to the relevant Executive Director in such amount determined by the Board from time to time in its absolute discretion, mainly depending on the individual needs and other relevant circumstances of such Executive Director.
Performance-based bonus (short-term incentive as variable component)	• To focus on and drive the business priorities for the current year. • To motivate the Executive Directors to achieve performance targets that are critical to the Company's business strategies and financial goals over the relevant period.	• As to the relevant period, the short-term bonus is normally based on (among other things) the following: (a) the Company's consolidated financial results and overall performance; (b) the relevant Executive Director's individual performance in terms of his/her pre-determined key performance indicators (KPI); (c) the prevailing market practices and remuneration levels and trends in the market at the relevant time, taking into account (among other things) the results of the benchmarking referred to in Section 3 above as conducted with comparable short-term performance-based bonuses paid to executive directors belonging to the Benchmarking Group; (d) if applicable, the achievement of specific short-term targets assigned to the relevant Executive Director; (e) if applicable, the attainment of certain short-term financial and/or other objectives set for the relevant Executive Director; and (f) if applicable, the achievements and contributions of the business unit(s) and/or functional department(s) for which the relevant Executive Director is responsible. • The short-term bonus is usually paid in cash.

Component	Objective(s)	Description
Performance-based bonus, including share-based payments (long-term incentive as variable component)	• To drive and reward value creation over a longer period. • To align with objectives of the Company's shareholders through acquisition of interests in the Company's shares.	• As to the relevant period, the long-term bonus is normally based on (among other things) the following: (a) the pre-determined performance targets set for the relevant Executive Director vis-à-vis the Company's long-term business strategies and financial goals, which should be measured over a period of three years; (b) the profit/loss and balance sheet indicators and rolling operating profit/loss of the Company; and (c) the prevailing market practices and remuneration levels and trends in the market at the relevant time, taking into account (among other things) the results of the benchmarking referred to in Section 3 above as conducted with comparable long-term performance-based bonuses paid to executive directors belonging to the Benchmarking Group. • The Company's Human Resources Department assists the remuneration committee in determining and monitoring the performance targets and the measurement thereof for the relevant period in respect of the relevant Executive Director. • The long-term bonus is normally paid in the form of share-based payments pursuant to the Company's share scheme and/or share option scheme as adopted from time to time (collectively, the "Long-Term Incentive Schemes"), pursuant to which (among other things) the Board may in its absolute discretion offer grants of awards and/or options over the Company's shares to the relevant Executive Director subject to any applicable vesting period(s) and/or lock-up period(s) upon and subject to the terms and conditions set out therein.

With reference to the remuneration committee's recommendations, the Board may adapt the above remuneration structure (with appropriate adjustments/amendments) as the remuneration structure for the Company's senior management.

(B) *Remuneration of Non-Executive Directors*

The remuneration of each Non-Executive Director is fixed with no variable component, and the fixed remuneration in the form of an annual fee is normally based on (among other things) the following:

(1) his/her duties and responsibilities as well as time commitment;

(2) his/her achievements and contributions to the Company; and

(3) the prevailing market practices and remuneration levels and trends in the market at the relevant time, taking into account (among other things) the results of the benchmarking referred to in Section 3 above as conducted with comparable fees and/or allowances paid to non-executive directors and/or independent non-executive directors belonging to the Benchmarking Group.

In addition, a fixed annual allowance is given for each chairmanship on the relevant committee of the Board, and is normally based on (among other things) the foregoing.

According to Paragraph E.1.9 (as a recommended best practice) of Part 2 of the CG Code, issuers generally should not grant equity-based remuneration (e.g. share options or grants) with performance-related elements to independent non-executive directors as this may lead to bias in their decision-making and compromise their objectivity and independence. In line with this, the independent Non-Executive Directors are not eligible to participate in any one or more of the Long-Term Incentive Schemes and other incentive programs/plans adopted by the Company from time to time, nor to receive any fringe benefits from the Company, so that their objectivity and independence may not be affected.

5. Derogation

The Board may, upon the remuneration committee's recommendations, deviate from any aspect of this Policy on a case-by-case basis only if exceptional circumstances could justify such deviation, provided that any proposed deviation from this Policy shall be aligned with the objective of this Policy as aforesaid, applying a consistent approach.

Exceptional circumstances are circumstances in which a deviation from this Policy is, in the Board's opinion, necessary to serve the long-term prospects and sustainability of the Company, including without limitation any proposed payment of above-market levels of remuneration to retain a Director or secure an individual who is considered by the Board to have outstanding expertise and experience that are critical to the attainment of the Company's business objectives and financial goals; and material changes in the Company's structure, organisation, ownership and operations (for example, merger, takeover, acquisition, etc.) triggering exceptional short-term and long-term incentive awards to any one or more of the Directors.

6. Annual Review

On the basis of the views and recommendations from the remuneration committee, the Board will annually review this Policy to ensure its implementation and effectiveness. At the meeting held on 7 March 2024, on the basis of the recommendations from the remuneration committee, the Board considered that this Policy has been implemented and remained effective and that this Policy has remained relevant to the Company's needs and reflected both the then current regulatory requirements and good corporate governance practice.

NOMINATION COMMITTEE

The Company has established and maintained a nomination committee with written terms of reference together with the nomination policy for directorship (the "Nomination Policy") as well as the board diversity policy (the "Board Diversity Policy"), both policies forming part of the Manual, by reference to the code provisions of the CG Code. The terms of reference of the nomination committee are accessible on the websites of the Stock Exchange and the Company respectively.

The nomination committee now consists of three independent non-executive directors. The members are:

LAU Siu Ki *(chairman of the nomination committee)*
CHEN Shu Chuan (also known as Nadia CHEN) (appointed with effect from 19 May 2023)
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (appointed with effect from 29 June 2023)

The principal duties of the nomination committee include:

- reviewing the structure, size and composition of the Board annually and make recommendations on any proposed changes;

- making recommendations to the Board on the appointment or re-appointment of the directors and succession planning for the directors, in particular the chairman of the Board and the chief executive officer of the Company;

- assessing the independence of the independent non-executive directors;

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships in accordance with the Nomination Policy and the Board Diversity Policy; and

- together with the corporate governance committee, reviewing each of the Nomination Policy and the Board Diversity Policy (as appropriate) to ensure its effectiveness, relevance to the Company's needs and alignment with the then current regulatory requirements and good corporate governance practice, and discussing any proposed changes to the then existing Policy for recommendation to the Board for consideration.

Nomination Policy

On 22 March 2012, the Company adopted the Nomination Policy, as amended and supplemented from time to time. The Nomination Policy aims at setting out (among other things) the process for the nomination of directorship candidates by a director or shareholder of the Company, the information collection and candidate selection process of the nomination committee, criteria which the nomination committee would consider and details on the nomination procedures for appointment and re-appointment of director(s) of the Company, in order to facilitate the constitution of the Board with a balance of skills, knowledge, ability, experience and diversity of perspectives that is appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Nomination Policy supplements the terms of reference of the nomination committee.

Further to the requirements under the Articles applicable to the nomination of directorship candidates by a director or shareholder of the Company, the nomination committee shall take into account a variety of considerations in assessing and evaluating whether a candidate is suitably qualified to be appointed as a director of the Company before making recommendations to the Board. The main considerations are summarised as follows:

- the candidate's qualifications, skills, knowledge, ability and experience, with reference to the corresponding professional knowledge and industry experience that may be relevant to the Company and also the potential contributions that such candidate could bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

- the candidate's potential time commitment and attention to perform director's duties under common law, legislation and applicable rules and regulations (including without limitation the Listing Rules);

- the candidate's personal ethics, integrity and reputation (including without limitation to conduct appropriate background checks and other verification processes against such candidate), which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business;

- the then current structure, size and composition of the Board and the Company's corporate strategy with reference to the Board Diversity Policy, with due regard for the benefits of the appropriate diversity of perspectives within the Board;

- Board succession planning considerations and the long-term needs of the Company; and

- any other factors and matters as the nomination committee may consider appropriate.

In case of a candidate for an independent non-executive director of the Company, the nomination committee will also assess:

- the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and

- the requirements relating to independent non-executive directors set out in Paragraph B.3.4 of Part 2 of the CG Code,

and for such purposes, the nomination committee may refer to the practical advice and suggestions provided in the Guidance for Boards and Directors and the Corporate Governance Guide for Boards and Directors (each as amended and supplemented from time to time) published by the Stock Exchange in respect of independent non-executive directors.

As to the re-appointment of a director of the Company, the nomination committee will *mutatis mutandis* apply the above process and criteria, and if applicable, assess whether such director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company. Please see below for details.

The nomination committee will follow the nomination procedures set out in the Nomination Policy to select and recommend candidates for the Company's directorship to ensure that the candidates possess the expertise and experiences to perform his/her duties and fulfil the relevant requirements as a director of the Company. Such nomination procedures are summarised as follows:

- Upon receipt of a nomination from the nominating director or the company secretary of the Company, the chairman of the nomination committee will convene a meeting of the nomination committee to consider the same in accordance with the terms of reference of the nomination committee. For filling a casual vacancy on the Board, the nomination committee will conduct the relevant selection process and apply the relevant selection criteria, and make recommendations to the Board for consideration. The Board will then make a decision as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.

- A similar process is applied in the re-appointment of director(s) of the Company, except that if the director proposed to be re-appointed or re-elected due to retirement by rotation under the Articles is an independent non-executive director of the Company who has served the Board for more than nine years, the nomination committee shall assess whether the director has remained independent in the context of the Listing Rules and should be re-elected at the next general meeting of the Company and make recommendations to the Board for consideration. If the Board determines that the relevant director has remained independent in the context of the Listing Rules, the Board shall recommend the proposed re-appointment/re-election of the director to the Company's shareholders for consideration at the next general meeting of the Company. According to Paragraph B.2.3 of Part 2 of the CG Code, the Company's circular relating to the proposed re-appointment of such director shall state why each of the nomination committee and the Board believes that the director is still independent and should be re-elected, including the factors considered, the process and the discussion of the nomination committee/the Board (as the case may be) in arriving at such determination.

- For proposing a candidate to stand for election as the Company's director at a general meeting of the Company, the nomination committee will make nominations to the Board for consideration, and the Board will then make recommendations to the Company's shareholders for consideration. In accordance with Rule 13.70 of the Listing Rules, the Company shall publish an announcement or issue a supplementary circular setting out the information required by the Listing Rules (including without limitation the relevant particulars of the candidate) upon receipt of the written notice from the Company's shareholder(s) where such notice is received by the Company after publication of the notice of meeting; the Company must give its shareholder(s) at least seven days to consider the relevant information disclosed in such an announcement or supplementary circular prior to the date of the meeting of the election. In this respect, the Company will assess whether to adjourn the general meeting to give the Company's shareholders a longer period of at least ten business days to consider the relevant information disclosed in the announcement or supplementary circular. For details about the procedures for the Company's shareholders to propose candidates for election as a director of the Company, please see such procedures (as amended and supplemented from time to time) accessible on the website of the Company.

Board Diversity Policy and Diversified Board Composition

On 12 August 2013, the Company adopted the Board Diversity Policy, as amended and supplemented from time to time. The Company recognises the benefits from its Board constituted from time to time having a balance of skills, knowledge, ability, experience and diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The Company regards the achievement and maintenance of the appropriate diversity of perspectives within the Board as a critical factor in supporting its competitive strengths and achieving its strategic goals and sustainable development in the long run. The Board Diversity Policy aims at setting out the framework that the Company has put in place to implement the above objectives. The Board Diversity Policy supplements the terms of reference of the nomination committee. On the basis of the joint views and recommendations from the nomination committee and the corporate governance committee, the Board will annually review the Board Diversity Policy to ensure its implementation and effectiveness. On 7 March 2024, the Board reviewed the Board Diversity Policy and considered that the same has been implemented and remained effective and that the Board Diversity Policy has remained relevant to the Company's needs and reflected both the then current regulatory requirements and good corporate governance practice.

In accordance with the Board Diversity Policy, when reviewing the Board's structure and composition and/or Board member appointment or re-appointment, the nomination committee shall take into account a number of factors (with reference to the diversity of perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates) as measurable objectives (which factors include without limitation gender, age, ethnicity, cultural and educational background, and professional skills, experience and knowledge as well as length of service). The nomination committee will continue to monitor and review the progress towards achieving the said measurable objectives by considering candidates on merits as well as against the said measurable objectives with due regard for the benefits of the appropriate diversity of perspectives within the Board and the candidates' potential contributions thereto.

As at the date of this report, the Board comprised seven directors, including three executive directors, namely Mr. CHIH Yu Yang, Dr. KUO Wen-Yi and Mr. LIN Chia-Yi (also known as Charles LIN); one non-executive director, namely Mr. CHANG Chuan-Wang; and three independent non-executive directors, namely Mr. LAU Siu Ki, Ms. CHEN Shu Chuan (also known as Nadia CHEN) and Mr. CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis). Details of the directors are set out in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2023 annual report incorporating this report. In this respect, please see the Company's announcements dated 10 March 2023, 19 May 2023 and 29 June 2023 respectively regarding the changes in the Company's directors and also the section headed "The Board" above of this report.

The Board was diversified in terms of age, ethnicity, length of service, professions, background, etc. Among the seven directors, five of them held master's or doctoral degrees, and their cultural, educational and technical backgrounds span across Taiwan, Hong Kong and the U.S., with experiences in communication industries and engineering, product and technology, research and development, corporate governance, corporate finance, financial advisory and management, accounting and auditing, banking advisory, project finance, sustainability strategies and management, professional developments and risk management. The diversified composition of the Board, coupled with alignment with the Company's strategy and objectives, bring a broad vision to the Board in making decisions on the Group's material issues, which has effectively enhanced the decision-making competencies, strategic management and overall performance of the Board.

The Company has always recognised gender diversity as one important aspect of diversity, and the Board had previously comprised of female directors (Ms. GOU Hsiao Ling from December 2004 to January 2012, and Ms. LEE Kuo Yu from May 2013 to May 2016). The directorship candidate nomination and selection process (coupled with criteria) of the nomination committee is without gender bias, being based principally on merits and assessment of candidates against the said measurable objectives (comprising gender as only one of the factors) with due regard for the benefits of the appropriate diversity of perspectives within the Board and also the candidates' potential contributions thereto. It follows that the nomination committee's selection and (if thought fit) nomination of female directorship candidates would mainly depend on the then available pool of female directorship candidates possessing the requisite professional, cultural and educational background as well as professional skills, experience and knowledge that are commensurate with the needs of the Company, etc. when being assessed on merits as well as against the said measurable objectives.

Whilst the Company sees gender diversity at the Board level as an essential element in attaining its strategic objectives and achieving sustainable and balanced developments for the Group, the Company recognises that further to efforts to end its single-gender Board with effect from 19 May 2023 on which Ms. Chen was appointed as the Company's independent non-executive director, it has been facing the following circumstances which have made achieving gender diversity more challenging:

- the Information Technology industry under the Hang Seng Industry Classification System (to which the Company belongs) remains a field of comparatively, traditional male-dominated management upon the basis of the data and statistics published by the Stock Exchange on its website (its repository headed "Board Diversity & Inclusion in Focus") as at 7 March 2024. In essence, the Information Technology industry had the fifth lowest female representation at board level (16.2%) amongst all the 13 industries, when compared with the proportion of female directorship in (among others) the Healthcare industry (20.1%) and the Financials industry (18.8%); and

- upon the basis of a peer benchmarking as at 7 March 2024 with the Group's major industry peer companies whose shares are listed on stock exchanges, according to the information then publicly available, the female representation at their respective boards of directors basically ranged from 0% to 20% except for the U.S.-based peer company having 30%, and as to those peer companies whose shares are listed on the Stock Exchange, 0% to 10%.

Despite the limited availability of female directorship candidates possessing the requisite industry experience in the business fields in which the Company is principally engaged and/or the requisite skills, experience and knowledge that are commensurate with the needs of the Company and/or the requisite ethics, integrity and reputation that would be important to the overall business culture that the Company needs to maintain in the development and operation of its business, the Company will continue to give due regard to the different aspects of diversity (including gender diversity) when considering potential candidates for directorship in accordance with the Board Diversity Policy.

In addition, as to a pipeline of potential successors to the Board to achieve gender diversity, on 6 March 2024, the nomination committee adopted the measure to identify potential candidates out of a pool consisting of a male/female ratio of at least 80:20. Upon this basis, the Board has set its objective to appoint at least one more female member to the Board by the end of 2026, and to achieve the Board's objective, the nomination committee will use its best efforts to identify and recommend female candidates to the Board for its consideration for appointment as director(s), subject to the Nomination Policy and the Board Diversity Policy respectively.

2023 Meetings and Resolutions

The nomination committee shall meet at least once a year (as necessary). During the year under review, two nomination committee meetings were held and the meeting attendance of each member of the nomination committee is set out in the section headed "Board, Committees and General Meeting" below of this report. In particular, the committee meetings served (among other things) to consider the proposed re-election of one director, to assess the independence of the independent non-executive directors, to review the structure, size and composition of the Board, to assess the sufficiency of the directors' time commitment and contributions to the Company, to consider the proposed appointment of three directors, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the nomination committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the nomination committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

Work Highlights for Changes in Directors and Directors' Proposed Re-election

During the year under review and up to the date of this report: (a) Mr. LIN Chia-Yi (also known as Charles Lin) ("Mr. Lin") was appointed as an executive director of the Company with effect from 10 March 2023, and was re-elected in such capacity at the Company's annual general meeting held on 19 May 2023 ("2023 AGM"); (b) Mr. Meng Hsiao-Yi ("Mr. Meng") resigned as an executive director of the Company and the chief operating officer of the Company with effect from 10 March 2023; (c) Mr. TAO Yun Chih ("Mr. Tao") retired as an independent non-executive director of the Company with effect from 19 May 2023 upon the conclusion of the 2023 AGM, and accordingly ceased to act as a member of each of the audit committee, remuneration committee and nomination committee of the Company; (d) with the approval of the Company's shareholders, Ms. Chen was appointed as an independent non-executive director of the Company and a member of each of the audit committee, remuneration committee and nomination committee of the Company with effect from 19 May 2023 upon the conclusion of the 2023 AGM to fill up the vacancy arising from the retirement of Mr. Tao; (e) Dr. Daniel Joseph MEHAN ("Dr. Mehan") resigned as an independent non-executive director of the Company with effect from 29 June 2023 and accordingly ceased to act as a member of each of the audit committee, remuneration committee and nomination committee of the Company; (f) Mr. CHANG Chuan-Wang ("Mr. Chang") and Mr. CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) ("Mr. Chiu") were appointed as a non-executive director and an independent non-executive director respectively of the Company with effect from 29 June 2023 and are both proposed to be re-elected in such capacities at the 2024 AGM; and (g) Mr. Lau is proposed to be re-elected as an independent non-executive director of the Company at the 2024 AGM.

With reference to the Nomination Policy and the Board Diversity Policy, the nomination committee held a meeting on 9 March 2023 to consider the proposed appointment of Mr. Lin as an executive director of the Company and his proposed re-election at the 2023 AGM and the proposed appointment of Ms. Chen as an independent non-executive director of the Company at the 2023 AGM, and also a meeting on 29 June 2023 to consider the proposed appointment of Mr. Chang as a non-executive director of the Company and Mr. Chiu as an independent non-executive director of the Company respectively. In this respect, the work performed by the nomination committee is summarised as follows:

- In anticipation of the resignation of Mr. Meng as an executive director of the Company as a matter of an orderly succession planning at the Board level, Mr. Lin was nominated to be appointed as an executive director of the Company in place of Mr. Meng with effect from 10 March 2023. Mr. Lin was nominated to be appointed to fill a casual vacancy on the Board in accordance with article 95 of the Articles. When considering the nomination of Mr. Lin as an executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents relating to Mr. Lin (including without limitation his curriculum vitae showing (among other things) his skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Mr. Lin's professional background, extensive and in-depth skills, knowledge, ability and experience (particularly more than 26 years of extensive experience in the communication and computer industries); (ii) his time commitment and attention and contributions to the Company; (iii) his diversity of perspectives appropriate to the requirements of the Company's business; and (iv) aspects such as personal ethics, integrity and reputation of Mr. Lin which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Mr. Lin for appointment and re-appointment as an executive director of the Company. In essence, Mr. Lin possesses the required character, competence, integrity, experience and diversity of perspectives to be appointed and to be re-elected as an executive director, and his appointment and continued tenure will bring valuable insights, advices, expertise and better diversity of perspectives to the Board.

- In anticipation of the retirement of Mr. Tao as an independent non-executive director of the Company as a matter of an orderly succession planning at the Board level, it was proposed to appoint Ms. Chen as an independent non-executive director of the Company with effect from the conclusion of the 2023 AGM, subject to the approval of the Company's shareholders. When considering the nomination of Ms. Chen as an independent non-executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents relating to Ms. Chen (including without limitation her curriculum vitae showing (among other things) her skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Ms. Chen's professional background, extensive and in-depth skills, knowledge, ability and experience (particularly more than 34 years of extensive experience in the financial industry); (ii) her diversity of perspectives appropriate to the requirements of the Company's business, particularly to achieve gender diversity as one of the said measurable objectives; and (iii) aspects such as personal ethics, integrity and reputation of Ms. Chen which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Ms. Chen for appointment as an independent non-executive director of the Company, subject to the approval of the Company's shareholders at the 2023 AGM. In essence, Ms. Chen possesses the required character, competence, integrity, experience and diversity of perspectives to be appointed as an independent non-executive director, and her appointment will bring valuable insights, advices, expertise, better diversity of perspectives as well as independent judgements and objective views to the Board. The nomination committee also assessed the independence of Ms. Chen, and was satisfied that Ms. Chen has met the guidelines on independence set out in Rule 3.13 of the Listing Rules and would be independent for the purposes of the Listing Rules.

- It was proposed to appoint Mr. Chang as a non-executive director of the Company with effect from 29 June 2023. When considering the nomination of Mr. Chang as a non-executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents relating to Mr. Chang (including without limitation his curriculum vitae showing (among other things) his skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Mr. Chang's professional background, extensive and in-depth skills, knowledge, ability and experience (particularly about 30 years' experience in the information and communication technology industry); (ii) his time commitment and attention and contributions to the Company; (iii) his diversity of perspectives appropriate to the requirements of the Company's business; and (iv) aspects such as personal ethics, integrity and reputation of Mr. Chang which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Mr. Chang for appointment as a non-executive director of the Company. In essence, Mr. Chang possesses the required character, competence, integrity, experience and diversity of perspectives to be appointed as a non-executive director, and his appointment will bring valuable insights, advices, expertise and better diversity of perspectives to the Board.

- In anticipation of the resignation of Dr. Mehan as an independent non-executive director of the Company as a matter of an orderly succession planning at the Board level, it was proposed to appoint Mr. Chiu as an independent non-executive director of the Company with effect from 29 June 2023. When considering the nomination of Mr. Chiu as an independent non-executive director of the Company, the nomination committee obtained and reviewed the relevant information and documents relating to Mr. Chiu (including without limitation his curriculum vitae showing (among other things) his skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Mr. Chiu's professional background, extensive and in-depth skills, knowledge, ability and experience (particularly over 30 years' experience in leading foreign banks, large corporate, consulting firm and academy); (ii) his diversity of perspectives appropriate to the requirements of the Company's business; (iii) aspects such as personal ethics, integrity and reputation of Mr. Chiu which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business; (iv) Mr. Chiu's confirmation that he has no relationship with any directors, senior management members, or substantial or controlling shareholders of the Company, has not held any executive or management role or position within the Group, and has not been involved in the daily operations and management of the Group. In view of the foregoing, Mr. Chiu has clearly demonstrated to the Company his willingness and ability to continue to exercise independent judgement and to provide objective views and contributions to the Company; and (v) the fact that the nomination committee is not aware or is not made aware of: (a) the occurrence of any event or circumstance which would cause it to believe that the independence of Mr. Chiu has been or would be impaired; and (b) any circumstance that might influence Mr. Chiu in effectively exercising his judgement independently. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Mr. Chiu for appointment as an independent non-executive director of the Company. In essence, Mr. Chiu possesses the required character, competence, integrity, experience and diversity of perspectives to be appointed as an independent non- executive director, and his appointment will bring valuable insights, advices, expertise, better diversity of perspectives as well as independent judgements and objective views to the Board. The nomination committee also assessed the independence of Mr. Chiu, and was satisfied that Mr. Chiu has met the guidelines on independence set out in Rule 3.13 of the Listing Rules and would be independent for the purposes of the Listing Rules.

In accordance with the Board Diversity Policy, in the process of assessing candidates for the appointment/re-appointment as directors of the Company in the context of the diversity of perspectives appropriate to the requirements of the Company's business, the nomination committee had taken into account (among other things) the key factors in favour of diversity against the said measurable objectives. In this respect, the work performed by the nomination committee is summarised as follows:

- In making a recommendation to the Board proposing Mr. Lin for appointment/re-appointment as an executive director of the Company, the nomination committee had taken into account (among other things):

  - Taiwan background, qualifications and experience;

  - expertise in smartphone manufacturing, R&D engineering and business development as well as active participation in core technologies and new business operations in the AI (artificial intelligence) and robotics segments;

  - key roles and functions within the Group for over 18 years;

  - accumulated extensive and in-depth knowledge, experience and network in both the Company and the industry, particularly development of strategic relationships with the Group's customers;

  - over 26 years of experience in communication and computer industries;

  - the foregoing could sync up with those of Mr. Chih and Dr. Kuo respectively, thereby giving rise to greater strengths at the Board level in support of the Group's business strategies and plans during the current challenging times and conditions; and

  - age of 52 being the youngest member of the Board (when compared with half of the Board members aging from 64 to 78) who could bring younger-generation thoughts and perspectives to the Board for better refreshment.

- In making a recommendation to the Board proposing Ms. Chen for appointment as an independent non-executive director of the Company, the nomination committee had taken into account (among other things):

  - the first female director of the Company since May 2016 (i.e. a gap of almost 7 years);

  - recognition and promotion of female leader and professional with reference to her leadership and senior managerial positions;

  - Taiwan background, qualifications and experience, particularly sharing of overseas knowledge and experience acquired through her independent directorships with Taiwan-listed companies;

  - accumulated extensive and in-depth knowledge, experience and network through her leadership and senior managerial positions in the financial industry (a highly and strictly-regulated industry), which are new and peculiar to the Board, particularly beneficial to the Board in terms of integrity and ongoing compliance with applicable laws and regulations and hence enhancement of the Company's corporate culture of acting lawfully, ethically and responsibly;

    - good personal reputation and high profile with reference to her leading and key roles and functions with certain organisations and Taiwan-listed companies belonging to different industry sectors, thereby enhancing the public image of the Board; and

    - age of 55 being the second youngest member of the Board (when compared with half of the Board members aging from 64 to 78) who could bring younger-generation thoughts and perspectives to the Board for better refreshment.

- In making a recommendation to the Board proposing Mr. Chang for appointment as a non-executive director of the Company, the nomination committee had taken into account (among other things):

    - Taiwan background, qualifications and experience, particularly his sharing of overseas knowledge and experience acquired through his current executive directorship with a Taiwan-listed company as well as his previous roles with certain Taiwan-listed companies;

    - employee of the Hon Hai Technology Group for more than 14 years, aligning with the overall business culture that FIH needs to maintain in the development and operation of its business;

    - knowledge, skills and experience through acting as the chairman and non-executive director of CircuTech (another subsidiary of Hon Hai listed on the Stock Exchange's GEM) could enable him to accumulate knowledge, familiarity and experience on matters such as the latest developments and trends in directors' duties, the Listing Rules requirements, regulatory focuses and common risks and limitations in management and compliance, thereby discharging his duties as the Company's non-executive director more effectively;

    - more than 14 years' expertise and experience in business strategy, operation control and performance analysis management, which are new and peculiar to the Board, particularly beneficial to the Board when the Group has been diversifying its customers, businesses and products, entering into new industry sectors as well as adopting and enhancing its measures to control overall costs and operating expenses during the current challenging times and conditions;

    - about 30 years' experience in the information and communication technology industry, which could sync up with those of the Company's executive directors, thereby giving rise to greater strengths at the Board level in support of the Group's business strategies and plans during the current challenging times and conditions; and

    - age of 54 being the second youngest member of the Board (when compared with four Board members aging from 57 to 64) who could bring younger-generation thoughts and perspectives to the Board for better refreshment.

- In making a recommendation to the Board proposing Mr. Chiu for appointment as an independent non-executive director of the Company, the nomination committee had taken into account (among other things):

  - Taiwan background, qualifications and experience; U.S. higher education; and Hong Kong working experience;

  - accumulated knowledge, skills, experience and network in the ESG/sustainability-related context (particularly his pro-active engagement in the sustainable finance, offshore wind and solar power project finance and advisory business as well as his continuous focus on the development of sustainability strategy and management), which are new and peculiar to the Board, particularly beneficial to the Board in light of the Stock Exchange's continuing main focus on its ESG framework and enhancement of its ESG-related regulatory requirements (such as climate-related disclosures) as well as the Group's top priority for environmental sustainability and ongoing efforts to make more positive impacts on ESG and its ESG-related achievements;

  - accumulated extensive and in-depth knowledge, experience and network through his leadership and senior managerial positions in the financial industry (a highly and strictly-regulated industry) and currently the academy, which could complement those of Ms. Chen, particularly beneficial to the Board in terms of integrity and ongoing compliance with applicable laws and regulations and hence enhancement of the Company's corporate culture of acting lawfully, ethically and responsibly;

  - similar to Ms. Chen who has held certain leadership and senior managerial positions in the financial industry, Mr. Chiu has focused more on the frontline businesses and operations such as loan syndication, trust and custodian, sustainable finance and project finance, which could be particularly beneficial to the financial operations and new businesses of the Company at the Board level when the Group has been diversifying its customers, businesses and products, and entering into new industry sectors. On top of that, he has possessed knowledge and experience in the Hong Kong financial industry; and

  - as an orderly successor to Mr. Mehan who has acted as the Company's independent non-executive director and as a member of each of the Company's audit committee, remuneration committee and nomination committee for more than 15 years, Mr. Chiu could provide fresh views and perspectives to the Company at the Board level.

On 7 March 2024, the nomination committee held a meeting to consider the proposed re-election of Mr. Chang, Mr. Chiu and Mr. Lau as a non-executive director and independent non-executive directors respectively of the Company at the 2024 AGM, with reference to the Nomination Policy and the Board Diversity Policy. In this respect, the work performed by the nomination committee is summarised as follows:

- In relation to Mr. Chang and Mr. Chiu, the nomination committee had considered the factors and gone through the processes applicable to the proposed appointment of Mr. Chang and Mr. Chiu as more particularly described above.

- In relation to Mr. Lau, the nomination committee obtained and reviewed the relevant information and documents relating to Mr. Lau (including without limitation his up-to-date curriculum vitae showing (among other things) his skills, knowledge, ability and experience in the relevant areas) in accordance with the relevant provisions of the Nomination Policy and the Board Diversity Policy. Following the procedures set out in the Nomination Policy, a meeting of the nomination committee was convened, during which the nomination committee assessed and took into account (among other things): (i) Mr. Lau's professional background, extensive and in-depth skills, knowledge, ability and experience (particularly his Hong Kong background, qualifications and experience); over 40 years of Hong Kong professional skills, knowledge, ability and experience in corporate governance, corporate finance, financial advisory and management, accounting, auditing and risk management, coupled with wide-ranging knowledge and experience through acting as director/company secretary of other Hong Kong listed companies belonging to different industry/business sectors; and accumulated extensive and in-depth knowledge and experience in both the Company and the industry; (ii) his diversity of perspectives appropriate to the requirements of the Company's business; (iii) aspects such as personal ethics, integrity and reputation of Mr. Lau which would be important to the overall business culture that the Company would need to maintain in the development and operation of its business; and (iv) his time commitment and attention and contributions to the Company. Following due consideration of the aforementioned factors, the nomination committee determined at such meeting to make recommendation to the Board for proposing Mr. Lau to be re-elected as an independent non-executive director of the Company at the 2024 AGM. In essence, Mr. Lau possesses the required character, competence, integrity, experience and diversity of perspectives to be appointed as an independent non-executive director, and his re-appointment will bring valuable insights, advices, expertise, better diversity of perspectives as well as independent judgements and objective views to the Board. The nomination committee also assessed the independence of Mr. Lau, and was satisfied that Mr. Lau has met the guidelines on independence set out in Rule 3.13 of the Listing Rules and would be independent for the purposes of the Listing Rules. For details of the factors considered, the processes and the discussions at both the nomination committee and the Board levels, please see the section headed "Proposed Re-election of Mr. Lau Siu Ki as the Company's Independent Non-executive Director" above of this report.

CORPORATE GOVERNANCE COMMITTEE

The Company has established and maintained a corporate governance committee with written terms of reference by reference to the code provisions of the CG Code.

The corporate governance committee now consists of two executive directors. The members are:

CHIH Yu Yang *(chairman of the corporate governance committee)*
KUO Wen-Yi

The principal duties of the corporate governance committee are to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board. It also reviews and monitors the training and continuous professional development of the directors and senior management. In addition, it reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements. Moreover, it develops, reviews and monitors the code of conduct and compliance manual applicable to employees and the directors, and to review the Company's compliance with the CG Code.

The corporate governance committee shall meet at least once a year (as necessary). During the year under review, one corporate governance committee meeting was held and the meeting attendance of each member of the corporate governance committee is set out in the section headed "Board, Committees and General Meeting" below of this report. In addition to the committee meeting, the corporate governance committee also dealt with matters in three occasions by way of circulation and signing of written resolutions during the year under review. In particular, the committee meeting and written resolutions served (among other things) to review the revised overview on mechanisms for independent views and inputs available to the Board, the revised shareholders communication policy, the existing Board Diversity Policy, the statements regarding corporate communications, the overview on core corporate governance practices, the revised form of independence confirmation letter from each of the Company's independent non-executive directors, the global code of conduct, the responsibility standards, the chapter on employee human rights, the corporate communication and crisis reporting guideline, the up-to-date version of the corporate vision, mission and values and desired culture of the Company, the existing list of matters reserved for the Board, the current delegation of authority of the Board, the total time spent in training and continuous professional development of the directors and senior management of the Company, the preapproval policies and procedures relating to independent auditor's non-assurance services, the revised versions of the authorisation procedures of model code for securities transactions by directors and securities dealing policy, certain revised documents relating to the Existing Share Option Scheme and the Existing Share Scheme, the overview and action plans in relation to the Stock Exchange's expanded paperless regime and the updates on the relevant rules and ordinances published by the Stock Exchange and the Securities and Futures Commission, as well as to make recommendations to the Board on the relevant matters.

Full minutes of the meetings of the corporate governance committee are kept by the company secretary. Draft and final versions of minutes of the meetings of the corporate governance committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

BOARD, COMMITTEES AND GENERAL MEETING

The individual attendance records of each director (represented in the following manner: number of meeting(s) attended by each director/total number of the corresponding meeting(s) held during such director's appointment term) at the meetings of the Board, audit committee, remuneration committee, nomination committee, corporate governance committee and general meeting of the Company during the year under review are set out below:

Name of Director	Board Meeting *(Note 1)*	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Annual General Meeting *(Note 2)*
Executive Directors						
CHIH Yu Yang	7/7	N/A	N/A	N/A	1/1	1/1
KUO Wen-Yi	6/7	N/A	N/A	N/A	1/1	1/1
LIN Chia-Yi (also known as Charles LIN) (appointed with effect from 10 March 2023)	6/6	N/A	N/A	N/A	N/A	1/1
MENG Hsiao-Yi (resigned with effect from 10 March 2023)	1/2	N/A	N/A	N/A	N/A	N/A
Non-executive Director						
CHANG Chuan-Wang (appointed with effect from 29 June 2023)	4/4 *(Note 4)*	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
LAU Siu Ki	7/7	6/6	3/3	2/2	N/A	1/1
CHEN Shu Chuan (also known as Nadia CHEN) (appointed with effect from 19 May 2023)	4/4	3/3	2/2	1/1	N/A	1/1 *(Note 3)*
CHIU Yen-Tsen (also known as CHIU Yen-Chen, Dennis) (appointed with effect from 29 June 2023)	4/4 *(Note 4)*	3/3	1/1	N/A	N/A	N/A
Daniel Joseph MEHAN (resigned with effect from 29 June 2023)	3/4	3/3	1/2	1/2	N/A	1/1
TAO Yun Chih (retired with effect from 19 May 2023)	3/3	3/3	1/1	1/1	N/A	1/1

Note 1: The directors participated in the Board meetings (other than the two Board meetings held on 2 November 2023 and 20 December 2023 respectively) by means of telephone conference facility, and participated in the Board meetings held on 2 November 2023 and 20 December 2023 by way of video conference facility.

Note 2: The directors participated in the 2023 AGM by means of telephone conference facility, except that Mr. LAU Siu Ki attended the 2023 AGM in person.

Note 3: Ms. Nadia CHEN attended the 2023 AGM, as an intending director, at which her appointment was considered and approved.

Note 4: Each of Mr. CHANG Chuan-Wang and Mr. Dennis CHIU attended the Board meeting on 29 June 2023, as an intending director, at which his appointment was considered and approved.

GENDER DIVERSITY IN WORKFORCE

The Company recognises the importance of gender diversity at the workforce level, in addition to the Board level. As at the end of the year under review, the female representation in the Group's total workforce (full-time employees only, exclusive of part-time/temporary employees) with reference to employee categories is set out below:

Employee Category	Approximate Male/Female Ratio As at 31 December 2023	Approximate Male/Female Ratio As at 31 December 2022
Senior Management (Note 1)	83 (male)/17 (female) (Note 2)	84 (male)/16 (female)
Middle Management	70 (male)/30 (female)	70 (male)/30 (female)
General Staff	47 (male)/53 (female)	47 (male)/53 (female)

Note 1: Including the three senior management members listed in the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2023 annual report incorporating this report).

Note 2: The year-on-year change in the male/female ratio is mainly due to the Group's organisational restructuring at the daily operational senior management level during the year under review, including the routine retirement of certain male members of the Group's Global Leadership Team (consisting of global members who directly report to the Company's Chief Executive Officer or Chief Operating Officer (if any)) which currently comprises a total of 17 members, two of which remain female members.

The above female representation in the Group's total workforce exemplifies a level of diversification that is in line with other leading companies in the Information Technology industry which remains a field of comparatively, traditional male-dominated management as mentioned in the section headed "Board Diversity Policy and Diversified Board Composition" above of this report. Notwithstanding the foregoing, during the year under review, at the Group's daily operational middle management level, the Group's DMS (design manufacturing solutions) business unit appointed a female manager from Taiwan to act as its manufacturing deputy head in India.

The Company will continue to strive to enhance female representation in the workforce and achieve an appropriate balance of gender distribution/ratio which corresponds with the Group's business needs and future developments. In this respect, the Group has been following its employment policies that recruitment, promotion, performance evaluation, wages assessment, training opportunities and retirement must be people-oriented, lawful, fair and without discrimination based on (among other things) gender, to the effect that female applicants and employees should be provided with equal employment and career development opportunities, giving rise to a pipeline of potential female candidates as successors to the Group's middle to senior management and ultimately the Board.

With an aim to achieving more female representation in the Group's daily operational middle management, the Board has set its objective in March 2023 to adjust the male/female ratio of the Group's daily operational middle management as at 31 December 2022 (i.e. 70 (male)/30 (female)) to increase the female ratio by at least 1% on or before 31 December 2024.

As to the Company's senior management (who currently comprises three male members referred to in the section headed "Profile of Directors and Senior Management" forming part of the Company's 2023 annual report incorporating this report), the Board has set its objective in March 2024 to appoint the first female senior management member by the end of 2025.

AUDITOR'S REMUNERATION AND AUDITOR-RELATED MATTERS

The responsibility of the auditor is to form an independent opinion, based on its audit, on those consolidated financial statements and to report its opinion solely to the Company, as a body, and for no other purpose.

During the year under review, the auditor's remuneration incurred by the Company was US$663,000, and US$1,524,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services. In addition, US$153,000 for non-audit services relating to tax and advisory services was incurred by the Company's auditor during the year under review.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and ensuring that the consolidated financial statements are in accordance with applicable statutory requirements and accounting standards.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the Group's consolidated financial statements and the Company's financial statements for each financial period, which give a true and fair view of the financial position and operating results of the Group or the Company (as the case may be) for such financial period. In preparing the financial statements for the year under review, the directors have selected and adopted suitable accounting policies and have applied them in a consistent manner, have made reasonable judgements and estimates, and have prepared the financial statements on a going-concern basis.

The Board has overall responsibility for the Group's system of internal controls and enterprise risk management ("ERM") and reviewing its effectiveness and (as to the ESG aspect) the Group's ESG-related strategy and reporting, and in particular, evaluating and determining the nature and extent of the risks (including ESG-related risks) it is willing to take in achieving the Group's business and strategic objectives (including, as to the ESG aspect, implementing the Group's ESG-related strategy and reporting), ensuring that an adequate and effective system of internal controls and ERM is in place within the Group.

In particular, the Board oversees the Group's management in the context of the Group's ERM and internal controls (comprising the Company's chairman/acting chairman, chief executive officer, chief financial officer and chief operating officer (if any), and the Group's operation heads of its major factories in the PRC, India, Vietnam and the U.S., who collectively as a body is designated for the purpose of assisting the Board with the Group's overall policies on ERM and internal controls (the "Management")) in (among other things) the design, implementation and monitoring of the internal control and ERM system on an on-going basis, so that (among other things) the business and strategic objectives of the Group (including, as to the ESG aspect, implementing the Group's ESG-related strategy and reporting) can be achieved and risks (including ESG-related risks) associated can be identified, evaluated, managed and mitigated (but not eliminated) at an acceptable level, and reasonable (but not absolute) assurance can be provided against material misstatement or loss and also assurance can be provided on the effectiveness and adequacy of operations, reliability of financial reporting and operational information, safeguarding of the Group's assets and compliance with the Group's policies, plans and procedures as well as applicable laws and regulations.

The Board (through its audit committee comprising, for the time being, all the independent non-executive directors) oversees and evaluates the Group's internal control and ERM system on an on-going basis. In particular, the audit committee, in discharging the aforesaid responsibility as delegated by the Board, semi-annually reviews the design and operational adequacy and continuing effectiveness of the Group's internal control and ERM system. In respect of the year under review, semi-annual review of the Group's internal control and ERM system was conducted in August 2023 and March 2024 by the audit committee, and the audit committee confirmed in both occasions that the Group's internal control and ERM system continued to be effective and adequate throughout the year under review. For details, please refer to the penultimate paragraph below of this "Accountability and Audit" section. Moreover, the audit committee, in discharging the Board's responsibility of overseeing and evaluating the effectiveness and adequacy of the Group's system of internal controls and ERM as delegated by the Board, reviews the effectiveness of the Group's internal audit function. Pursuant to a risk-based approach, the Group's internal audit function independently reviews the risks (including ESG-related risks) associated with and internal controls of the Group over various operations and activities, and evaluates their overall adequacy, effectiveness and compliance, including compliance with the Group's policies, plans and procedures. The Group's internal audit function (as designated by the Board) has unrestricted access to all information, books, people and physical properties, thereby allowing it to review all aspects of the internal controls, ERM and governance processes within the Group. This includes audit of financial and operational controls of all legal entities, business and functional units as well as all other material controls (including financial, operational and compliance controls). The audit committee reviews and approves the internal audit plan which is prepared by the Group's internal audit function in the first quarter of every year based on a risk assessment of each operating and functional unit as well as its materiality in the context of the Group. Audit findings, enhancements and recommendations are communicated to the management of the responsible unit after each internal audit. The management of the responsible unit is responsible for evaluating such audit findings, enhancements and recommendations and then implementing the appropriate ones and rectifying the deficiencies with corrective actions, and the progress on such implementation and rectification is followed up by the Group's internal audit function on a regular basis and monitored by the Management in order that corrective actions can be taken by the management of the responsible unit in a timely manner. Escalation to the senior management or even the executive directors for material deficiencies will be made by the Group's internal audit function, when necessary. A summary of major activities and findings is reported semi-annually by the Group's internal audit function to the executive directors and the audit committee. Being a learning organisation, lessons learned and best practices are disseminated and promoted within the Group.

In relation to the audit of the Group's financial statements for the years ended 31 December 2022 and 31 December 2023 respectively, the audit committee's specific work is summarised as follows:

(a) As to the audit of the Group's financial statements for the years ended 31 December 2022 and 31 December 2023 respectively:

- Prior to the commencement of the relevant audit, an email platform was set up where the team representing the Company's auditor, the Company's chief financial officer and financial controller as well as the Group's headquarters accounting team (collectively, the "Audit Working Group") presented the audit planning report to the audit committee, and where the audit committee could raise any query or provide any comment to the Audit Working Group in connection with the audit;

- The aforesaid audit planning report provided for (among other things): (i) the scope of the audit; (ii) a refresher on the monitoring and reporting obligations and other responsibilities of the audit committee in the audit context; (iii) determination of the materiality level for the purposes of the audit; (iv) identification of the key changes in the Group's business which might impact the audit approach; (v) description of the audit procedures (including identification of significant risks, key audit matters and other focus matters, assessment of those so identified and report on the related findings and conclusions); and (vi) the planned timeline of the audit procedures with continuous communications and reporting;

- The audit committee considered and approved the engagement letters provided by the Company's auditor in respect of the audit, particularly the audit fees proposed thereunder;

- The audit committee also considered and completed the audit-related questionnaire provided by the Company's auditor, and in particular, expressed its views on the adequacy of the Company's internal control system in place to prevent and detect fraud and the risk of fraud within the Company;

- The audit committee further considered the information and documents provided by the Audit Working Group as circulated by the Company Secretary, including (among other things) the audited, consolidated financial statements of the Company and the related auditor's report and management representation letters, together with the presentation report from the Company's auditor covering (among other things) results of the procedures of the Company's auditor for the significant risks and key audit matters, impact of the new and revised accounting policies and any significant changes in accounting judgement and estimation as well as internal control environment relevant to audit and audit observations (collectively, the "Principal Financial Documents");

- The audit committee further convened and conducted (through the Company Secretary) a meeting with (among others) the Audit Working Group to discuss (among other things) the Principal Financial Documents, and then passed resolutions to recommend the Board to consider and (if thought fit) approve the Principal Financial Documents; and

- In addition to the aforesaid meeting, the audit committee convened and conducted (through the Company Secretary) another meeting with the team representing the Company's auditor without the presence of the Company's management to discuss issues from the audit and other related matters; and

(b) As to the audit of the Group's financial statements for the year ended 31 December 2023, the audit committee completed additional work as follows:

- Prior to the commencement of the audit, the audit committee held a meeting with the Audit Working Group to discuss (among other things) the initiatives for enhancement of audit quality and communications (including better communications to understand any audit issues and address the same in a timely manner) as well as updates on the latest regulatory environment and approach, the relevant Listing Rules requirements and the new and revised accounting policies and auditing standards which were relevant to the 2023 audit; and

- As an interim escalation from the Audit Working Group, on 3 February 2024 prior to the convening of the meeting of the audit committee with the Audit Working Group on 6 March 2024, the audit committee considered the audit progress report from the Audit Working Group, reporting on (among other things): (i) revision of the materiality level for the purposes of the audit; (ii) an overview on the audit progress with description of the work done, work in progress and also planning on the work to be done; (iii) observations of the significant risks and key audit matters so far identified and continuance of the audit procedures as planned (in particular, no sign of fraud nor irregularity so far); (iv) review of the relevant valuation reports prepared by independent professional valuer; and (v) expected completion timeline of the remaining audit work. In essence, the audit progress was going well with no material audit issues as at the date of such report.

During its semi-annual review, the audit committee also considers, in particular: (a) the adequacy of resources, qualifications and experiences of the Group's staff performing accounting, internal audit and financial reporting functions as well as those relating to the Group's ESG performance and reporting and their training programs and budget; (b) the changes, since the last review, in the nature and extent of significant risks (including ESG-related risks), and the Group's ability to respond to changes in its business and the external environment; (c) the scope and quality of the Management's on-going monitoring of risks (including ESG-related risks) and of the internal control and ERM system, and the work of the Group's internal audit function and (if any) other assurance providers; (d) the extent and frequency of communication of monitoring results to the audit committee which enables it to assess control of the Group and the effectiveness of risk management; (e) significant control failings or weaknesses that have been identified during the period under review and also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and (f) the effectiveness of the Group's processes for financial reporting and compliance with the Listing Rules.

The code of conduct and the code of ethics administering appropriate and prohibited individual behaviours within the Group are implemented and apply to employees by way of policies, rules and principles. For details, please refer to the "Overview on Mechanisms for Independent Views and Inputs" section above of this report as well as the Company's separate 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report.

In particular, the Group has established and maintained its whistle-blowing policies and the related procedures which apply to the Group's key stakeholders (including all current and former directors, officers and other employees (both permanent and temporary); customers; suppliers; joint venture partners; and other business partners). Issues/concerns and complaints concerning fraudulent acts, unethical acts or improper business conduct can be raised through established hotlines and other channels. Whistle-blower identities are protected without fear of reprisal, victimisation, subsequent discrimination or any other unfavourable prejudice. All issues/concerns and complaints will be handled confidentially, timely, fairly and professionally by the Group's chief internal auditor for further investigation and appropriate follow-up actions, including escalation to the Company's audit committee (for the time being, comprising all the independent non-executive directors). The whistle-blowing policies and the related procedures will be reviewed regularly according to changes to the business and/or regulatory environments and requirements.

Further, the Group's anti-corruption code of conduct describes the types of conduct which are strictly prohibited and clearly informs all its directors, officers and employees that they are required to abide by this code. To keep its directors, officers and employees abreast of the Group's latest anti-corruption policies and measures, the Group distributes relevant refreshers and updates as well as the related information and materials to its directors, officers and employees on a regular basis, and anti-corruption training programmes are provided to directors, officers and employees which cover topics including applicable anti-corruption laws and regulations, types of misconduct, definition of bribery, individual liabilities and consequences of bribery as well as an overview of the Group's whistle-blowing policies. In addition, the Group requires (as a prerequisite to the establishment of business relationship) its suppliers and customers to strictly enforce high standards of anti-corruption. Also, please refer to the "Overview on Mechanisms for Independent Views and Inputs" section above of this report for more details about the Group's policies and systems that promote and support anti-corruption laws and regulations.

Risk management is one of the fundamental parts of the Group's strategic management, and is an on-going process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives (including, as to the ESG aspect, implementation of the Group's ESG-related strategy and reporting), and safeguarding the interests of shareholders and other key stakeholders such as customers, suppliers, creditors and employees. Existing and emerging risks are identified, evaluated and managed via the ERM system. The system is operated and monitored by the Group's ERM team (the "ERM Team") which consists of the Company's heads/leaders of human resources, supply chain services, manufacturing and corporate engineering, product safety, security and liability, quality and reliability, finance, legal, information technology, investment management, strategic planning, sales and collection management, environment and health and safety departments/divisions, collectively as a body representing key functions of the Group for monitoring and execution of the ERM processes (e.g. to establish ERM strategies and objectives, and to maintain risk assessment standards and categories) in accordance with the enterprise risk assessment and management planning operation procedures, which set out (among other things) the enterprise risk assessment and management principles and procedures, the quantifiable assessment standards and evaluations, the respective roles and responsibilities of the ERM Team and the supporting divisions and handling officers at the headquarters and business unit levels as well as the ERM system operation details. Risk assessment results generated and contributed by the underlying business unit controllers/risk owners will be collected, reviewed, assessed and consolidated twice a year by the Company's risk management division led by the Group's chief internal auditor. Risk assessment reports (as prepared on the basis of such risk assessment results and covering, among other things, review of progress on ESG-related goals and targets) will be submitted on a regular basis to the ERM Team for review to ensure the adequacy of action plans and appropriate business processes or control systems to manage these risks (in particular, the areas which were assessed as high risk, including ESG-related risks, if any). The Company's risk management division will consolidate all the risk assessment results in a Group-level risk assessment report and then submit the same to the Company's chief financial officer on an annual basis. Such Group-level risk assessment report provides for (among other things) the ERM framework and model, the annual ERM analyses (with the relevant risk scores, highlighting the major risk areas and corresponding enhancements, if any), and the planned ERM work for next year. In this respect, the Company's chief financial officer will represent the Management and report the operational adequacy and continuing effectiveness of the internal control and ERM system (including the relevant ERM matters) to the audit committee on an annual basis.

The principal risks that are covered by the ERM system are strategic planning, technical, budgetary control, performance measurement, and control over capital expenditure, investment, finance, quality, product safety, security and liability, legal, regional (including politics, culture, etc.), information technology, supply chain management (including sourcing), environmental protection, natural disasters, human resources management, customer credit risk and relationship, industrial safety as well as sales and collection management.

For details about the risk management knowledge and experience at the Board level, please see the section headed "Profile of Directors and Senior Management" (forming part of the Company's 2023 annual report incorporating this report). During the year under review, all the directors of the Company attended a training on crisis management as provided by the Company's chief internal auditor.

The Group also adopts internal control procedures to ensure that the continuing connected transactions of the Group have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms (or better) and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole. The accounting department of the Company is primarily responsible for reviewing and monitoring the continuing connected transactions, ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and semi- annually report to the chief financial officer of the Company, who in his own capacity and on behalf of the Management will report to the audit committee (for the time being, comprising all the independent non-executive directors) and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are properly implemented and operated and are adequate and effective to ensure that such transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. The audit committee will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) semi-annually to check and confirm whether such continuing connected transactions are conducted: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, and whether the internal control procedures put in place by the Company are properly implemented and operated and are adequate and effective to ensure that such continuing connected transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements. For details, please refer to the "Internal Control Measures" section of the Company's circular dated 1 December 2022. In particular, in order to assist the independent non-executive directors (for the time being, being all the members of the audit committee) in performing their corresponding duties and functions under the Listing Rules and also having an oversight over the on-going monitoring in respect of the Group's continuing connected transactions, the Company's chief financial officer and the Group's chief internal auditor jointly issue, on a semi-annual basis, a report to the independent non-executive directors (copied to the corporate governance committee) on the internal controls applicable to such continuing connected transactions, setting out (among other things) the review and findings relating to the assessment of the appropriateness and effectiveness of the relevant internal control procedures, and the recommended enhancements on the relevant internal control procedures (if any). In this respect, sufficient information regarding such continuing connected transactions and related pricing policies and internal control procedures has been provided to the independent non-executive directors, who (during the review process for the period under review) have confirmed that they have not encountered any problems nor difficulties and have been given ample opportunities to pose questions, request additional information and/or make suggestions in respect of any such continuing connected transactions and related pricing policies and internal control procedures.

The Company's chief financial officer in his own capacity and on behalf of the Management, after reviewing and discussing with the Group's internal audit function the Group's internal control and ERM system as well as the related reports and disclosures made by the Group's internal audit function and other relevant stakeholders for the year under review, has provided a confirmation to the audit committee on the adequacy and effectiveness of the system.

Based on the results of evaluations and representations for the year under review made by the Company's chief financial officer in his own capacity and on behalf of the Management and the Group's internal audit function respectively, the audit committee is satisfied with the effectiveness of the Group's internal audit function and that there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business and strategic objectives, and an effective and adequate system of internal controls and ERM has been in place throughout the year under review, for safeguarding the interests of shareholders and other key stakeholders such as customers, suppliers, creditors and employees.

The procedures for the handling and dissemination of inside information and handling enquiries from authorities (forming part of the Manual) set out the detailed internal controls, reporting and authorisation procedures in connection with:

(a) the handling and dissemination of inside information in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO, where recipients of potential inside information (subject to applicable confidentiality obligations and dealing restrictions) will notify the leader of a core team designated by the Board for assessment and (as appropriate) reporting to the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess any disclosure need in compliance with Rule 13.09 of the Listing Rules and Part XIVA of the SFO in respect of the potential inside information.

(b) the handling of enquiries from competent authorities (including the Stock Exchange and the Hong Kong Securities and Futures Commission), who may make enquiries with the Company on (among other things) unusual movements in the price or trading volume of the Company's shares under Rule 13.10 of the Listing Rules or media news or compliance with the Listing Rules, the SFO or other applicable laws and regulations, and such enquiries will be handled through the designated core team and (as appropriate) the chairman/acting chairman of the Board (or, failing whom, any executive director of the Company) for further assessment and (as appropriate and to the extent practicably feasible) escalation to the Board to finally assess proper disclosure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code, and has formulated and adopted the Authorisation Procedures of the Model Code and the Securities Dealing Policy since 2005 (each as amended and supplemented from time to time). Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code, and the requirements laid down by the aforesaid Authorisation Procedures and Securities Dealing Policy, in respect of the Company's securities throughout the year under review.

SHAREHOLDER AND OTHER KEY STAKEHOLDER COMMUNICATIONS

Communications with Shareholders

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out the framework that the Company has put in place to maintain and promote effective communication and on-going dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. To this end, the Company strives to ensure that all its shareholders have ready and timely access to all publicly available information relating to the Company.

On the basis of the views and recommendations from the corporate governance committee, the Board will annually review the shareholders communication policy to ensure its implementation and effectiveness, and that the shareholders communication policy will remain relevant to the Company's needs and reflect both the then current regulatory requirements and good corporate governance practice. During the year under review, on 20 December 2023, the Board conducted an ad-hoc review of the shareholders communication policy and adopted a revised shareholders communication policy, basically to provide for the Company's issue and publication of its statements regarding corporate communications to its shareholders under the "Investor Relations — Shareholder Services" section of the Company's website (which were uploaded to the Company's website on or about 28 December 2023) as well as update of the email address of the Company's branch share registrar in Hong Kong through which the Company's shareholders may approach such branch share registrar. The shareholders communication policy mentioned below refers to its latest version as so revised.

The shareholders communication policy provides for (among other things) the Company's updates to its shareholders on the Group's latest business developments, financial performance, etc. through its press releases, annual and interim reports, announcements, circulars and other publications where the Company's website (https://www.fihmobile.com) serves as an effective communication platform between the Company and (among others) its shareholders.

The shareholders communication policy also provides for (among other things) the procedures by which enquiries may be put forward to the Company as follows:

- The Company's shareholders may at any time send enquiries (including enquiries to the Board) and requests for publicly available information and provide comments and suggestions to the Company. Such enquiries, requests, comments and suggestions can be sent through "Contact Us" at the Company's website (https://www.fihmobile.com) or to the company secretary at the following address:

  The Company Secretary of FIH Mobile Limited
  c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
  No. 2, 2nd Donghuan Road
  Longhua District
  Shenzhen City
  Guangdong Province
  518109
  People's Republic of China

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at currently 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email to fih@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.

- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.

- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

During the year under review, the Company received enquiries brought by its shareholders through the different communication channels (including without limitation the 2023 AGM as mentioned below) contemplated by the shareholders communication policy, and responded to all such enquiries in a timely manner.

The shareholders communication policy further provides (among other things) that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board.

During the year under review, the 2023 AGM was held on 19 May 2023. All the directors of the Company attended the 2023 AGM in person or by means of telephone conference facility. The meeting attendance of each director is set out in the section headed "Board, Committees and General Meeting" above of this report.

At the 2023 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2023 AGM notice attached to the Company's circular dated 14 April 2023, and immediately after the close of the 2023 AGM, the Company responded to its shareholder's enquiries on the spot.

On 7 March 2024, the Board reviewed the implementation and effectiveness of the shareholders communication policy, and based on the foregoing and the different communication channels available to the Company's shareholders thereunder and their effectiveness, the Board has considered that during the year under review and up to 7 March 2024, such policy has been implemented and remained effective and that the shareholders communication policy has remained relevant to the Company's needs and reflected both the then current regulatory requirements and good corporate governance practice.

Moreover, the shareholders communication policy refers to the Company's statements regarding corporate communications which are accessible on the Company's website, providing for (among other things) the means of dissemination of corporate communications as well as the shareholders' election of the language and means of receipt of corporate communications.

In the ESG context, please refer to the Company's separate 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report.

Communications with Key Stakeholders

The Company proactively communicates with its key stakeholders (in addition to its shareholders, including without limitation employees, suppliers, customers and non-governmental organisations) through various communication channels to keep them abreast of the Company's strategies, objectives, latest developments, etc.

For details, please refer to the section headed "Overview on Mechanisms for Independent Views and Inputs" above of this report and, in the ESG context, the Company's separate 2023 ESG Report as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting and Add Resolutions to Meeting Agenda

The Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual). The memorandum on shareholder rights sets out (among other things) its shareholders' right to convene the Company's extraordinary general meeting ("EGM") and right to add resolutions to the meeting agenda of the EGM as follows:

- Pursuant to Article 68 of the Articles, the relevant shareholder(s) is/are entitled to convene an EGM upon written requisition in the following manner for transaction of any business or resolution specified on such written requisition:

  (a) Upon the written requisition of any one or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company. Such requisitionist(s) shall also be able to add resolutions to the meeting agenda of the EGM convened upon his/their written requisition, provided that such additional resolutions shall be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the EGM; or

  (b) Upon the written requisition of any one Shareholder who is a recognised clearing house (as defined in the Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company. Such requisitionist shall also be able to add resolutions to the meeting agenda of the EGM convened upon its written requisition, provided that such additional resolutions shall be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the EGM.

- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionist(s) himself/herself/themselves (or any of them representing more than one-half of the total voting rights of all of them) may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to him/her/them by the Company.

Procedures for Shareholders' Enquiries

The Company has formulated and maintained the shareholders communication policy (forming part of the Manual) setting out (among other things) the procedures by which enquiries may be put to the Board as more particularly described in the section headed "Shareholder and Other Key Stakeholder Communications — Communications with Shareholders" above of this report.

Shareholders' Right to put forward Proposals at General Meetings

The Company has formulated and maintained the procedures for shareholders to propose candidates for election as a director of the Company (forming part of the Manual), which is accessible on the website of the Company. In relation to other proposals which may be put forward at the Company's general meetings, the Company has formulated and maintained the memorandum on shareholder rights (forming part of the Manual). The memorandum on shareholder rights provides for (among other things) the following:

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings (including, for the avoidance of doubt, to add resolutions to the meeting agenda of any such general meetings) under the Cayman Islands Companies Act in force for the time being, the shareholder(s) can submit a written requisition (in hard copy form or in electronic form) to move a proper resolution at a general meeting of the Company if such shareholder(s) individually or collectively represent(s) as at the date of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

- The written requisition shall:

  a. state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or other business to be dealt with at the relevant general meeting;

  b. be authenticated by way of the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; and

  c. be deposited at the principal place of business of the Company in Hong Kong not less than 15 business days before the relevant general meeting. The current address of the Company's principal place of business in Hong Kong is as follows:

     8th Floor, Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan, Kowloon
Hong Kong
Attention: The Company Secretary

Constitutional Documents

During the year under review, no changes had been made to the constitutional documents of the Company, namely the Company's second amended and restated memorandum and articles of association. An up-to-date consolidated version of the Company's second amended and restated Memorandum and Articles of Association is available on the websites of the Stock Exchange and the Company respectively.

As to the proposed amendments to the Company's second amended and restated memorandum and articles of association as well as the proposed adoption of the Company's third amended and restated memorandum and articles of association, on 7 March 2024, the Board approved the same for consideration by the Company's shareholders at the 2024 AGM, and the Company published the related announcement. For details, please refer to the Company's circular as issued and published simultaneously upon the issuance and publication of the Company's 2023 annual report incorporating this report.

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