HG Semiconductor Limited
宏光半導體有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 6908

ANNUAL REPORT 2022

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. ZHAO Yi Wen (趙奕文)
(Chairman)
(Resigned as Chief Executive Officer on 6 February 2023)
Dr. XU Zhihong (徐志宏)
(Vice Chairman)
(Appointed on 6 February 2023)
Dr. CAO Yu (曹雨)
(Chief Executive Officer)
(Appointed on 6 February 2023)
Mr. LYU Xiangrong (呂向榮)
(Appointed on 19 April 2022)
Mr. LEUNG Kin Pang (梁健鵬)
(Appointed on 22 June 2022)
Dr. CHEN Zhen (陳振)
(Appointed on 6 February 2023)
Mr. LIN Qi Jian (林啟建)
(Resigned on 22 June 2022)
Mr. CHAN Wing Kin (陳永健)
(Resigned on 22 June 2022)
Ms. LIU Yang (劉洋)
(Appointed on 22 June 2022 and resigned on 6 February 2023)

Non-executive Director

Dr. Wang David Nin-kou (王寧國)
Mr. CHIU Kwai San (趙桂生)
(Resigned on 27 January 2022)
Mr. WANG Jie Chuan (王潔川)
(Appointed on 19 April 2022 and resigned on 6 February 2023)

Independent Non-executive Directors

Professor CHOW Wai Shing, Tommy (周偉誠)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Mr. CHAN Chung Kik, Lewis (陳仲戟)
Mr. LI Yang (李陽)
(Appointed on 19 April 2022)

AUDIT COMMITTEE

Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Chairman)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Professor CHOW Wai Shing, Tommy (周偉誠)
Mr. LI Yang (李陽)
(Appointed as member on 19 April 2022)

NOMINATION COMMITTEE

Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Chairman)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Professor CHOW Wai Shing, Tommy (周偉誠)
Mr. LI Yang (李陽)
(Appointed as member on 19 April 2022)

REMUNERATION COMMITTEE

Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Chairman)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
Professor CHOW Wai Shing, Tommy (周偉誠)
Mr. LI Yang (李陽)
(Appointed as member on 19 April 2022)

COMPANY SECRETARY

Mr. CHAN Wing Kin (陳永健)

AUTHORISED REPRESENTATIVES

Mr. CHAN Wing Kin (陳永健)
Mr. ZHAO Yi Wen (趙奕文)

REGISTERED OFFICE

Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

The North Side
2nd Floor
No. 8 Pinggong Er Road
Nanping Technology Industrial Park
Zhuhai
PRC

PLACE OF BUSINESS IN HONG KONG

Unit B, 26/F, One Island South,
2 Heung Yip Road, Wong Chuk Hang,
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL BANKERS

Bank of China
Zhuhai Xiangzhou Sub-branch
1st Floor
Anping Building
274 Cuixiang Road
Xiangzhou, Zhuhai
PRC

Industrial and Commercial Bank of China
Zhuhai Gongbei Sub-branch
ICBC Tower
36 Guihuanan Road
Gongbei, Zhuhai
PRC

COMPLIANCE ADVISER

Lego Corporate Finance Limited
Room 1601
16th Floor
China Building
29 Queen's Road Central
Central, Hong Kong

LEGAL ADVISER

TC & Co., Solicitors
Units 2201–3
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

STOCK CODE

6908

COMPANY'S WEBSITE

www.hg-semiconductor.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I am pleased to present the annual report of HG Semiconductor Limited (the "**Company**") together with its subsidiaries (the "**Group**" or "**us**") for the year ended 31 December 2022 (the "**2022**" or "**Year**").

In 2022, the global economic recovery was hampered by multiple factors, such as hefty inflation rate increases in major economies and growing geopolitical tensions. Nevertheless, the demand for chip manufacturing, packaging and package testing grew despite the economic uncertainty, serving as a growth driver for the semiconductor equipment industry. At the same time, the expansion of the PRC wafer fabs also added to the strong domestic demand for semiconductor equipment. According to a report released by the Semiconductor Industry Association (SIA), global semiconductor wafer shipments reached record highs in 2022. Despite the challenges of the international environment, the Group remains optimistic about the development potential of the third-generation gallium nitride ("**GaN**") technology and will continue to focus on developing new GaN business during the Year, aiming to establish an independent, responsive and fully-integrated industry chain to contribute to PRC component substitution.

Since the third-generation semiconductor business is still in the stage of research and development ("**R&D**") and market launch, the Group's revenue for the Year mainly generated from the LED bead business. In 2022, the Group's revenue for the Year was approximately RMB87.5 million, representing a decrease of approximately 30.6% as compared to that for last year. The decrease in revenue was mainly due to the recurrence of the COVID-19 pandemic (the "**Pandemic**") in China and the lockdown measures in various PRC cities, which led to suspension in the production capacity of our factories. The Group's fulfilment of production orders has been adversely affected by the extended delivery time and soaring transportation costs. Nonetheless, it is worth mentioning that the strong scientific research capabilities and the diligent efforts in R&D and production of the Group's team of scientists, the epitaxial wafer and fast-charging products in the third-generation GaN business have begun to generate revenue for the Group in 2022. Despite the increase in expenditure for the promotion and development of the third-generation semiconductor business during the Year, the Group did not record any non-cash flow items such as loss on acquisition of intangible assets. Moreover, the loss for the Year attributable to the owners of the Company has significantly reduced to approximately RMB101.3 million.

During the Year, the Group has upgraded its semiconductor factory in the Xuzhou Economic and Technological Development Zone, Jiangsu Province, PRC, and installed two production lines for the production of GaN-related products. The factory has also been equipped with core machinery imported from Europe and Japan. These sophisticated hardware are expected to produce high-quality third-generation semiconductor products for the Group. In addition, the Group has been granted 13 utility model patents and appearance patents, out of which four are LED-related patents during the Year, with a number of invention patents pending for approval. With the successive commencement of the production of the third-generation semiconductor products as well as the prolonged enhancement of our research and development capabilities in terms of both software and hardware, the GaN production capacity of the Group has gradually been realised, in which it is expected to be a new driving force for our business.

In addition to investing efforts in developing the third-generation semiconductor industry chain, we also witnessed breakthroughs in product development. During the Year, the Group has successfully produced its own 6-inch GaN power device epitaxial wafers. The entire commissioning process took only three months, but these wafers have attained the high-yield standards of the major international manufacturers. Moreover, Xuzhou GSR Semiconductor Co., Ltd., the Group's subsidiary, conducted its first public industry trial of the GaN in the power infrastructure of an internet data centre, in collaboration with GaN Systems, a leading Canadian GaN power semiconductor company, demonstrating that the potential for large-scale use of the GaN in data centre power infrastructure. This major milestone will continue to enhance the overall profitability in the industry while saving energy and reducing carbon emissions, ultimately contributing to China's strategy of pursuing a "carbon peak" and "carbon neutrality". Innovative ideas give rise to technological advances, and our achievements in R&D have testified the Group's continued efforts to strengthen the operational and technological capabilities of its third-generation GaN business. We are confident that our investment in our new business will gradually pay off.

During the Year, envisaging the development of the new-energy fast-charging segment, the Group continued to develop fast-charging pile products, and has successfully launched home-charging pile products in Hong Kong. In addition, we have entered into strategic cooperation agreements with a number of well-known PRC and overseas enterprises. Notable among those agreements is the strategic cooperations with Ingdan Inc. (Stock Code: 400.HK) and China Titans Energy Technology Group Co., Limited (Stock Code: 2188.HK) involving chip application and development, and research on fast-charging pile technology and product sales. Turning to international cooperation, we have entered into a non-legally binding memorandum of understanding with Malaysia-based GUH Holdings Berhad (Stock Code: 3247.KL) to expand to overseas market our sales of fast-charging batteries and GaN devices.

To accelerate exploration of the new-energy sector, the Group has entered into an investment agreement with a potential strategic shareholder Mr. Zhu Gongshan, the founder, chairman and executive director of GCL Technology Holdings Limited (Stock Code: 3800.HK; "**GCL Technology**"), we have subsequently entered into a strategic cooperation framework agreement with Golden Concord Group Limited ("**Golden Concord Group**") to jointly promote innovation in technological and business models involving applications of GaN products in the new-energy industry. Golden Concord Group's abundant resources will certainly boost our joint development of products based on silicon-based power chips and products that use third-generation semiconductors to expand rapidly into the supply chains of the new-energy industry. Accordingly, we aim to achieve positive innovation and mutual benefits for both parties.

The Chinese Government has adopted favourable policies and measures to promote the development of the semiconductor industry. A number of policies under the 14th Five-Year Plan have featured integrated circuits as key development projects. China's Ministry of Science and Technology has also identified "New Display and Strategic Electronic Materials" (「新型顯示與戰略性電子材料」) as a key focus for 2023, reflecting the country's determination to vigorously develop the semiconductor industry. In line with various national policies, the Group has appointed a number of renowned experts from the third-generation semiconductor industry to the Board subsequent to the end of the Year. With their extensive experience in high-technology and industry knowledge, we believe that they will accelerate the Group's design and manufacture of quality domestic third-generation semiconductor products.

CHAIRMAN'S STATEMENT

In light of the growth of the global GaN power component market, we believe that the development of GaN in China's third-generation semiconductor industry is promising. Amid the rapid rise of the new-energy sector, GaN is used in electric vehicles, wireless charging, 5G infrastructure and other applications, unleashing great potential for its future development. Since the end of 2022, the supply chain disruptions caused by the Pandemic have begun to subside as the Pandemic has stabilised. Looking ahead, while consolidating its existing LED bead business, the Group will make full use of its existing production facilities and continue to acquire advanced production equipment to speed up the research, development and production of GaN-related products and further improve the third-generation GaN semiconductor industry chain. Thanks to the penetration of GaN in fast-charging piles, the Group will continue to develop and commercialise next-generation charging piles in both Hong Kong and China. Meanwhile, the Group will gradually expand its product range to generate increased revenue. The Group will also continue to bring in expertise from the third-generation semiconductor industry to build on the strength of its research and technology team, and enhance its research and development capabilities, with a view to upgrading its product applications and technologies. Additionally, the Group will actively seek strategic cooperation agreements with an increased number of leading enterprises with which complementarities will produce mutual benefits, boosting the continued rapid development of the industry chain.

Last but not least, I would like to express my sincere gratitude to our shareholders, business partners and employees for their continuous support during this challenging year. The Group will continue to propel its overall business development and accelerate the realisation of chip manufacturing and production capacity, with the aim to become a semiconductor integrated device manufacturing ("**IDM**") enterprise that spans the whole industry chain, including R&D, manufacturing, packaging and package testing, and sales, with a particular focus on semiconductor design and manufacturing, to create the best returns for its shareholders.

On behalf of the Board,
Mr. Zhao Yi Wen
Chairman

Hong Kong, 31 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

HG Semiconductor Limited (the "**Company**" or "**HG Semiconductor**"; together with its subsidiaries referred to here as the "**Group**") is engaged principally in the design, development, manufacturing, subcontracting and sales of semiconductor products, which include light-emitting diode ("**LED**") beads, next-generation semiconductor gallium nitride ("**GaN**") chips, GaN devices and their related applications, as well as fast charging products in China. With our expertise in LED manufacturing, strong scientific research team and research and development ("**R&D**") capability, the Group has in recent years devoted itself to the application of GaN-related products in the third-generation of semiconductors and has gradually achieved business transformation.

In 2022, we focused on developing our third-generation semiconductor business, aiming to provide customers with more efficient and competitive solutions in terms of energy efficiency. By further accelerating the development and application of GaN technology, the Group is moving towards its goal of becoming an integrated device manufacturer ("**IDM**") of semiconductor to serve the whole industrial chain with a core focus on semiconductor design and manufacturing, integrating R&D, manufacturing, packaging and package testing and sales. The Group will continue to implement its established business strategies to capture market opportunities and to strive to become a leading third-generation semiconductor supplier in the Greater China region.

INDUSTRY REVIEW

In 2022, the continued adverse impact of the COVID-19 pandemic ("**COVID-19**" or "**Pandemic**"), coupled with a significant slowdown in China's economic growth, undermined consumer confidence. As the demand and the promotion of semiconductor products have decreased, the overall development of the industry has slowed down. Repeated waves of the COVID-19 infections also impacted the overall demand of our products. The output value of China's LED lighting industry declined 13.2% year on year in 2022 due to the volatility of the situation.

In the semiconductor industry, international political and economic turmoils added to the negative impact of the Pandemic, making it more difficult to stabilise the semiconductor supply chain. Higher logistics costs and transportation delays became a feature of the market. Yet despite the macroeconomic uncertainties, the global semiconductor demand remains robust. According to the data released by Gartner Consulting, the semiconductor market was worth US$601.7 billion globally in 2022, showing continued growth from 2021. According to Semiconductor Equipment and Materials International, an industry association, shipments and sales of silicon wafers for semiconductor substrates reached record high for the second consecutive year in 2022, with shipments up 4% to 14.7 billion square inches and sales up 10% to US$13.8 billion.

As a key member of the third-generation of semiconductors, GaN can operate at high frequencies and maintain high performance and efficiency with lower loss than previously used silicon transistors. As the development of the third-generation semiconductor enters the window period, the demand for third-generation semiconductor materials in different fields is surging, semiconductor products are becoming more diversified and the speed of iteration and innovation continues to accelerate. New energy vehicles are one of the most core key application markets for third-generation semiconductor materials, which contributes strong demand continuously for third-generation semiconductor power devices. In 2022, China's new energy vehicle market expanded in full swing, with production and sales of 7.058 million units and 6.887 million units respectively, representing year-on-year growth of 96.9% and 93.4%. With the large-scale popularisation of new energy vehicles and strong national policy support, the scale of China's fast-charging market also showed rapid growth in 2022 — the unit of China's charging facilities increased by 2.593 million, and the cumulative number of charging facilities nationwide amounted to 5.21 million units, representing an increase of 99.1% year-on-year, indicating that the development of charging facilities among PRC cities have kept up with pace as the large-scale development of electric vehicles.

In recent years, China has been giving great support and encouragement to innovative high-tech enterprises, in particular the new energy and third-generation semiconductors as the representatives of the technological innovation enterprises are gradually becoming a vital driving force for economic development. In the Outline of the Fourteenth Five-Year Plan and Long-Range Objectives Through the Year 2035 (《十四五規劃和2035年遠景目標綱要》), China advocates accelerating the industrialisation process of new materials and technologies for third-generation semiconductors, so as to create a new batch of fast-growing new material enterprises. In 2022, the Ministry of Science and Technology of China also released the "New Display and Strategic Electronic Materials" (「新型顯示與戰略性電子材料」), a key specialised annual project which supports the R&D of seven projects in respect of third-generation semiconductor materials and devices, promotes industrial development and lays a cornerstone for the development of third-generation semiconductors.

In addition to being in line with the national policy, the Hong Kong SAR Government has promulgated the "Hong Kong Innovation and Technology Development Blueprint" (《香港創新科技發展藍圖》), which for the first time clearly states that the Hong Kong SAR Government will strengthen its support for the development of industries of new energy vehicles and semiconductor chips, and points out that new energy vehicles and semiconductor chips are both important industrial directions for the country. With the Hong Kong SAR Government's favourable policies, extensive downstream application markets and domestic substitution opportunities, coupled with the goal of achieving "Carbon Peak and Carbon Neutrality", HG Semiconductor is accelerating its business development of third-generation GaN semiconductors, together with its aim in achieving breakthrough in the domestic substitution technologies in the future.

BUSINESS REVIEW

In 2022, HG Semiconductor continued to operate its initial LED bead business on a solid foundation, while at the same time fully deploying the third-generation semiconductor industry chain. Through the expansion of our GaN business and the building of core competencies, the Group is committed to accelerating the pace of GaN production and achieving a number of important milestones, with the hope to gradually move towards the fruitful period of our investment.

As the third-generation semiconductor business is still in the investment and R&D stage, the Group's revenue for the Year was mainly derived from the LED bead business. During the Year, the recurring Pandemic had a severe negative impact on China's economy. The temporary closure of factories due to lockdown measures among cities halted the industrial chain of the Group's LED bead business for certain period of time and adversely impacted our production capacity accordingly. Disruption in the supply chain, surge in transportation costs, and delay in delivery time had also caused delay or suspension in some orders and production components, have weighed some pressures on the Group's performance, the revenue for the Year is approximately RMB87.5 million, representing a decrease of approximately 30.6% when compared to approximately RMB126.1 million for the Previous Year. Gross profit also decreased by 35.7% to RMB16.4 million for the Year. Nevertheless, the epitaxial wafer and fast-charging products of the Group's third-generation GaN business began to record revenue contribution during the Year. As the Group did not record any non-cash flow items such as loss on acquisition of intangible assets, the loss for the Year attributable to the owners of the Company narrowed significantly to approximately RMB101.3 million despite the increase in expenditure on the promotion and R&D of the third-generation semiconductor business.

GaN epitaxial wafer R&D and production breakthrough turbo-charges development of third-generation semiconductor industry chain

In the past year, HG Semiconductor's team has devoted its efforts to developing the new GaN business in the third-generation semiconductor industry by enhancing its core equipment and various R&D and production facilities, which include the upgrade of its semiconductor factory in the Xuzhou Economic and Technological Development Zone (徐州經濟技術開發區), Jiangsu Province, PRC ("**Xuzhou Factory**"), covering an area of over 7,000 square meters. Currently, the Group has installed two production lines in the Xuzhou Factory for the production of GaN-related products, and core machines imported from Europe and Japan have been delivered to the Xuzhou Factory and are ready for chips manufacturing to meet the market needs. The Group will continue to expand its production capacity and upgrade its technologies, and actively improve its factory efficiency and quality control.

Moreover, with the efforts of our scientists team and strong R&D capabilities, the Group has achieved a major breakthrough during the Year by successfully commencing the production of its own 6-inch GaN power device epitaxial wafer in October 2022. The manufacturing process of GaN chips is complex and involves different stages. Our success in manufacturing the epitaxial wafers is well ahead of the expected schedule, representing an important achievement in our transformation into a third-generation GaN semiconductor supplier, and paving the way for mass production of GaN chips. As the Group's aim of R&D, manufacturing and implementation of GaN third-generation semiconductors have been realised, and quickly channelled into the production of epitaxial wafer, we are confident that our hard work will pay off in the foreseeable future.

HG Semiconductor continues to strengthen its R&D capacities, after obtaining the six patents for fast-charging battery systems, charging conversion systems and charging modules for charging stations and fast-charging equipment for electric vehicle charging stations in the Previous Year. The Group has further obtained nine utility model and appearance patents during the Year, including GaN-based inverters and power supply modules, while the registration of other invention patents are currently under processing.

While focusing on its core business, the Group also conducts other GaN-related research and development with its strategic partners, in order to make great contribution to the industry. Xuzhou GSR Semiconductor Co., Ltd. ("**Xuzhou GSR**"), a subsidiary of the Group, conducted the first publicised industry field trial of GaN with GaN Systems in the power infrastructure of an internet data centre ("**IDC**") in March 2022. The test results showed that the total energy consumption of IDCs could be reduced by 10%. Compared to the traditional silicon-based power supplies, GaN is expected to yield power savings of up to 20%, in which it is expected to reduce the carbon footprint of the data centre. This energy-saving result potentially increases the profit margins of IDCs and reduces operating costs and lowers energy consumption, which shows that GaN can be widely used in the power infrastructure of data centers, contributing to green and sustainable development.

Multi-party strategic cooperation achievements continue to drive GaN business

During the Year, HG Semiconductor has entered into strategic framework agreements with a number of industry-leading companies, leveraging their operating scale, extensive experience, resources and expertise to establish mutually beneficial strategic partnerships and to enhance the Group's capabilities in innovation and manufacturing. In May 2022, the Group reached a strategic cooperation agreement with China Titans Energy Technology Group Co., Limited (Stock Code: 2188.HK) in respect of technology R&D and exchange, to cooperate in the R&D of the new generation of fast-charging piles using the Group's third-generation semiconductor technology in the next three years. This agreement will also facilitate cooperation in the promotion and product sales of fast-charging pile technology in China and Hong Kong. Such cooperation will serve to create synergy for both parties in their respective fields.

Furthermore, the Group has entered into a strategic cooperation agreement with Ingdan, Inc. (Stock Code: 400.HK) in March 2022, which will assist the Group in the sale of its manufactured chips in the PRC, and establish a long-term strategic cooperation between the two parties in the application and development of chips. The Group has also entered into a non-legally binding memorandum of understanding with GUH Holdings Berhad ("**GUH**"; stock code: 3247.KL) to expand the sales of fast-charging batteries and GaN devices to Malaysia and Southeast Asia, aiming to expand our revenue streams. At the same time, the Group will provide GUH with plans for the construction of a battery factory and the procurement of related equipment, as well as the provision of a complete set of module equipment for a 100 MWh energy storage station. The above-mentioned strategic cooperation will assist the Group in developing its fast-charge application business to expand its own sales channels and enhance sales performance.

The Group will also leverage its advantageous connection with Hong Kong's statutory bodies, wherein both sides will jointly (i) research and promote "smart city" development in Hong Kong, as well as study the upgrade of Hong Kong electric vehicle and charging facilities, to achieve 400-kilowatt direct current charging, in compliance with international standards, and (ii) adopt smart management systems such as cloud-based data and security monitoring, to assist in the widespread implementation of new energy-related concept facilities, thereby contributing to the sustainable development of the community.

Introduction of major strategic shareholders to accelerate the pace of entering the new energy field

The global shortage of semiconductor supply has put the industry under the international spotlight, whereas GaN, as an emerging new technology, its broad prospects are favoured by investors. During the Year, the Group has successfully introduced a number of strategic shareholders to raise more capital for the development of key technologies and to further enlarge its shareholder base. Among them, the Group has entered into an investment agreement with Profit Act Limited ("**Strategic Investor**") in August 2022, a company that is indirectly wholly-owned by Mr. Zhu Gongshan ("**Mr. Zhu**"), the founder, Chairman and Executive Director of GCL Technology Holdings Limited (Stock Code: 3800.HK). The potential Strategic Investor agreed to subscribe for 60 million subscription shares and 60 million subscription warrants.

In addition, the Group has also entered into a strategic cooperation framework agreement with Golden Concord Group Limited ("**Golden Concord Group**"), a company ultimately held under a discretionary trust with Mr. Zhu and his family members as beneficiaries, for a long-term strategic cooperation in the application of GaN power chips in the new energy sector. Leveraging Golden Concord Group's leading position and comprehensive deployment in the new energy industry, this partnership will assist HG Semiconductor in entering the supply chain market in the new energy industry and help the Group in expanding its upstream and downstream business, thereby constituting a successful business partnership. The Group intends to establish a joint venture company with Golden Concord Group to (i) commence in-depth cooperation and (ii) purchase high quality silicon wafers from the Golden Concord Group. In return, the Group will supply the Golden Concord Group with GaN chips manufactured by its newly developed Xuzhou Factory with advanced technology which will be used as infrastructure components by the Golden Concord Group in its energy engineering business, solar inverters and energy storage technology.

With Mr. Zhu's and Golden Concord Group's abundant resources and leading technologies in the field of new energy, HG Semiconductor will be able to strengthen its development in talents, operations, technology and R&D, and gradually expand its business blueprint. The Group will continue to pursue innovation and strive to create synergy with the Golden Concord Group in the respective industries and invest more resources in the development of GaN-related products.

Focusing on scientific research, striving to build a world-class research and management team

"Innovation" is the core value of HG Semiconductor, and innovative talents are crucial to the development of the Group's third-generation semiconductor business. Therefore, the Group has been actively recruiting talents and semiconductor experts to assist the management and R&D to produce high-quality semiconductor products. During the Year, the Group continued to build up a magnificent team in professional R&D and management and to construct a stable team of third-generation semiconductor talents in order to provide strong support for the production and R&D of GaN products. The research team members comprise talents in the GaN semiconductor business, GaN device design and fabrication, as well as technology and management for both semiconductor industry and wafer foundry, thereby optimising the Group's scientific research capabilities significantly.

In February 2023, the Group announced the appointment of new management to the Board, including the appointment of Dr. Cao Yu ("**Dr. Cao**"), a core expert in the compound semiconductor business, as the Chief Executive Officer and Executive Director of the Group, and the appointment of Dr. Chen Zhen ("**Dr. Chen**"), a core expert in the GaN semiconductor business, as the Executive Director of the Group. Dr. Cao and Dr. Chen have joined the Group since 2021 and took up managerial positions in the Xuzhou Factory. With their extensive expertise and experience in the semiconductor industry, coupled with their profound understanding in the Group's overall operations and strategies, the Board believes that they are able to lead the Group in the design and production of top-tier third-generation semiconductor products and empower the rapid development of GaN business. Leveraging their strong research capabilities to expand the depth, breadth and scope of the Group's chip product development and upgrade, the Group is exploring greater scope for innovation and development of third-generation semiconductors.

PROSPECTS

Although the economies of many countries have gradually rebounded from the Pandemic and the demand for our products is strong in the U.S. and Europe, interest rate increases by central banks to counter inflation and the conflict between Russia and Ukraine may impair economic activity. The International Monetary Fund (IMF) expects the global economy to grow by 2.9% in 2023, down from 3.4% in 2022, before rising to 3.1% in 2024. The reopening of China at the beginning of 2023 is expected to pave the way for a smooth economic recovery following the negative economic effects of the Pandemic last year.

At present, China's economy is in a critical period of industrial transformation, and semiconductors are widely used in integrated circuits, consumer electronics, communication systems, photovoltaic power generation and other fields. With the rise of technologies such as 5G and artificial intelligence, the R&D and application of third-generation semiconductors represented by GaN are also included in the national strategic planning. According to the forecast made by Yole Développment, a market analysis firm, the market for GaN power device is expected to grow from US$46 million in 2020 to US$1.1 billion in 2026, with an average compound annual growth rate of 70%, in view of the increasing demand for electricity from green power, electric vehicles, charging piles and energy storage.

Thanks to the rapid rise in demand for fast-charging consumer products and the strong demand for GaN power products in the consumer market, the GaN power market has become the fastest-growing segment of the third-generation semiconductor industry in terms of output value, Among these products, new-energy vehicles represent the main driver of growth, with brands in China accounting for more than 80% of PRC's electric vehicle market and increasingly expanding their exports. This trend offers huge business opportunities across the whole supply chain, and has spurred PRC electric vehicle manufacturers to accelerate the development of third-generation semiconductor devices in the automotive field. With national policy support and solid market demand, the further development of GaN power products is expected to be rapid.

The Group will continue to make increased efforts to develop the third-generation semiconductor GaN industry chain in order to accelerate the pace of R&D, and to expand the applications of GaN-related products. Following the successful development of GaN epitaxial wafers at the end of 2022, along with the upgrade of the Xuzhou Factory and the production lines and machines are well in place, the Group's R&D team and experts will continue to focus on production research, aiming to accelerate the realisation of production capacity.

In addition, the Group expects that the GaN technology will play a key role in great energy systems in the future and will serve to connect photovoltaics and great energy systems. The cooperation between the Group and the Golden Concord Group is expected to assist HG Semiconductor in the deployment of GaN chips for new-energy applications. HG Semiconductor will establish a new-energy joint venture with the Golden Concord Group in China and provide technical support to the joint venture for the purpose of co-developing silicon-based power chips and products that use third-generation semiconductors. In this way, the Group can further accelerate the pace of R&D of technologies and applications of GaN in the new-energy field.

As market penetration of electric vehicles in Mainland China and Hong Kong increases, the Group will continue to develop and commercialise new-generation charging piles in both China and Hong Kong, and to actively explore the establishment of a stronghold for fast-charging battery solutions in Hong Kong. The Group has been in discussions with shopping malls in Hong Kong to gradually expand the network of electric vehicle charging piles from residential building parking garages to shopping malls. We are preparing and developing application software and devices for electric vehicle charging piles to increase penetration in the Hong Kong market.

The Group will also actively seek strategic partners and upgrade its industrial chain while upholding the principle of achieving synergy in the use of resources and dual-win cooperation. The Group will continue to strengthen its R&D capabilities and bring in outstanding experts and talents in the field of semiconductor to enhance its production and R&D, striving to become an IDM enterprise integrating R&D, manufacturing, packaging and package testing, and sales in the whole GaN industry chain. In addition, the Group will steadily develop its initial LED bead business. As the adverse impact of the Pandemic gradually subsides, the LED bead business is expected to stabilise progressively. The Group will continue to identify more licensed patents in the market in order to expand its product scope.

Securing independent control of the chip sector has been elevated by the Chinese Government to the level of national key strategy so that PRC can accelerate the pace of replacing imported components with domestic substitute products and independent innovation, providing strong, long-term support for the semiconductor segment. Buoyed by three factors — the PRC Government's favourable policies, the extensive downstream application market, and the opportunities for component replacement using domestic substitute products — the Group will benefit from tailwinds in further exploring and developing third-generation semiconductor products and applications with GaN at their core, and continue its enhancement of production capacity and the progress of product R&D to boost quality and efficiency, maximising value for our shareholders.

FINANCIAL REVIEW

Revenue

For the Year, total revenue was approximately RMB87.5 million, representing a decrease of approximately 30.6% as compared with that for the Previous Year (2021: approximately RMB126.1 million). The decrease was mainly attributable to the decrease in revenue from the sales of LED products.

The following table sets forth the breakdown of the Group's revenue by segment:

	2022 RMB'000	2022 %	2021 RMB'000	2021 %
LED products	87,185	99.6	126,137	100.0
GaN and other semiconductor products	333	0.4	—	—
Total	87,518	100.0	126,137	100.0

For the Year, revenue from LED products amounted to approximately RMB87.2 million (2021: approximately RMB126.1 million), accounting for approximately 99.6% of the total revenue (2021: 100.0%). The decrease in revenue was mainly due to the decrease in the average selling price of LED beads during the Year, as the demand for high-end LED products in the PRC has substantially decreased as a result of the recurrences of the COVID-19 outbreaks and the emergence of mutated variants of the virus, which adversely impacted the Chinese economy.

Revenue from GaN and other semiconductor products during the Year was approximately RMB0.3 million (2021: nil), accounting for approximately 0.4% of the total revenue (2021: nil).

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It decreased by approximately 29.3% from approximately RMB100.6 million for the Previous Year to approximately RMB71.1 million for the Year, reflecting a decrease in the average purchase price of raw materials used, which mainly led to the decrease in the cost of materials used.

Gross Profit and Gross Profit Margin

The gross profit decreased from approximately RMB25.5 million for the Previous Year to approximately RMB16.4 million for the Year. The gross profit margin decreased from approximately 20.2% for the Previous Year to approximately 18.8% for the Year. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

	2022 Gross profit RMB'000	2022 Gross profit margin %	2021 Gross profit RMB'000	2021 Gross profit margin %
LED products	16,434	18.8	25,507	20.2
GaN and other semiconductor products	(3)	(0.9)	—	—
Total gross profit/gross profit margin	16,431	18.8	25,507	20.2

The gross profit margin of LED products decreased from approximately 20.2% for the Previous Year to approximately 18.8% for the Year. Such decrease was mainly attributable to the decrease in the average selling price of the LED beads.

Other Income and Gains

Other income and gains of the Group increased by approximately 200.0% from approximately RMB0.4 million for the Previous Year to approximately RMB1.2 million for the Year, which was mainly due to the increase in government grants from the PRC Government during the Year.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 30.4% from approximately RMB2.3 million for the Previous Year to approximately RMB3.0 million for the Year. The selling and distribution expenses mainly comprised staff costs, traveling expenses and entertainment expenses. The increase in selling and distribution expenses was mainly attributable to the increase in traveling expenses and entertainment expenses as a result of increased marketing activities.

Administrative and Other Expenses

The Group's administrative and other expenses increased by approximately 14.3% from approximately RMB98.6 million for the Previous Year to approximately RMB112.7 million for the Year. The administrative and other expenses mainly included administrative staff costs, research and development costs and professional services expenses and equity-settled share-based payment expenses. The increase in administrative and other expenses was mainly due to the increase in (i) research and development costs and (ii) administrative staff costs. The research and development costs were approximately RMB28.5 million for the Year (Previous Year: approximately RMB16.5 million). The increase in research and development costs during the Year was mainly due to the extended efforts on research and development of semiconductor-related products. The administrative staff costs were approximately RMB30.3 million for the Year (Previous Year: approximately RMB14.1 million). The increase in administrative staff costs during the Year was mainly due to the increase in the number of professional staff at the Group's Xuzhou Factory and the Shenzhen R&D centre.

The equity-settled share-based payment expenses were approximately RMB11.0 million for the Year (Previous Year: approximately RMB54.0 million).

Finance Costs

The Group's finance costs were approximately RMB2.0 million for the Year (Previous Year: approximately RMB1.1 million). The increase in finance costs was mainly attributable to the increase in interest on lease liabilities for the Year, as compared to that for the Previous Year.

Income Tax Credit

Income tax credit of the Group for the Year was approximately RMB0.4 million (Previous Year: approximately RMB0.8 million).

Loss for the Year

The loss for the Year was approximately RMB101.3 million, as compared to a loss of approximately RMB446.8 million for the Previous Year. The reduction in loss for the Year was mainly attributable to the absence of the loss arising on acquisition of intangible assets during the Year. The loss arising on acquisition of intangible assets was approximately RMB374.4 million for the Previous Year.

Net Margin

The Group recorded a net margin of approximately –115.7% for the Year, compared to that of a net margin of approximately –354.2% for the Previous Year. The improved net margin for the Year was mainly attributable to the absence of the loss arising on acquisition of intangible assets during the Year.

Dividend

The Directors do not recommend the payment of a final dividend for the Year (Previous Year: nil), in order to cope with the future business development of the Group.

Liquidity, Financial Resources and Capital Structure

For the Year, the amount of net cash used by the Group in its operating activities was approximately RMB94.8 million as compared to that of approximately RMB59.9 million for the Previous Year, primarily due to the increase in operating loss before working capital changes.

As at 31 December 2022, the Group had net current assets of approximately RMB189.2 million (31 December 2021: approximately RMB275.8 million). The Group's current ratio (i.e. the current assets at the end of the year divided by the current liabilities at the end of the year) as at 31 December 2022 was approximately 2.9 times (31 December 2021: approximately 8.1 times).

As at 31 December 2022, the Group had total cash and bank balances of approximately RMB43.8 million (31 December 2021: approximately RMB113.6 million). The decrease in total cash and bank balances was mainly due to a decrease in net cash flows generated from financing activities and an increase in net cash flows used in operating activities during the Year.

As at 31 December 2022, the total available bank facilities of the Group were approximately RMB10.0 million (31 December 2021: RMB7.0 million). The total drawn down of the bank facilities as at 31 December 2022 was approximately RMB10.0 million (31 December 2021: RMB7.0 million).

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 30 December 2016 and the listing of the Company's shares has been transferred from the GEM to the Main Board of the Stock Exchange since 13 November 2019. The share capital of the Company comprises only ordinary shares. As at 31 December 2022, the equity attributable to owners of the Company amounted to approximately RMB609.9 million (2021: approximately RMB609.3 million).

Return on Equity

Return on equity (i.e. net loss/profit for the year divided by total equity of the year and multiplied by 100%) increased from approximately –73.3% for the Previous Year to approximately –16.6% for the Year. Such increase was mainly attributable to the absence of the loss arising on acquisition of intangible assets during the Year.

Return on Assets

Return on assets (i.e. net loss/profit for the year divided by total assets of the year and multiplied by 100%) increased from approximately –67.1% for the Previous Year to approximately –14.1% for the Year. Such increase was mainly attributable to the absence of the loss arising on acquisition of intangible assets during the Year.

Current Ratio

Current ratio (i.e. total current assets at the end of the year divided by total current liabilities at the end of the year) decreased from approximately 8.1 times as at 31 December 2021 to approximately 2.9 times as at 31 December 2022, primarily due to the decrease in cash and cash equivalents for the Year.

Gearing Ratio

The Group's gearing ratio (i.e. total debt at the end of the year divided by total equity at the end of the year and multiplied by 100%) as at 31 December 2022 was approximately 6.7% (31 December 2021: approximately 1.1%).

Significant Investments

VisIC Technologies Limited ("**VisIC**")

On 24 June 2021, the Company's wholly-owned subsidiary, FastSemi Holding Limited ("**FastSemi**"), acquired 349,992 series E preferred shares of VisIC, an unlisted company in Israel principally engaged in the development of GaN-related products, which include high-power transistors and modules, at the consideration of approximately USD5 million. On 23 August 2021, FastSemi further acquired 1,399,969 series E preferred shares of VisIC, at the consideration of approximately USD20 million. During the Previous Year, the total number of shares acquired was 1,749,961 with an investment cost of approximately USD25 million. The total number of shares acquired represented approximately 18.8% of the enlarged issued share capital of VisIC as at 31 December 2022. Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to approximately RMB172.2 million as at 31 December 2022, representing approximately 23.8% of the Group's consolidated total assets as at 31 December 2022. Fair value gain of approximately RMB13.3 million was recognised through other comprehensive income during the Year. There was no dividends received from this investment for the Year. As VisIC is one of the largest players in the third-generation field of GaN devices, the Group plans to hold VisIC as a long-term investment.

Beijing Hongzhi Electric Technology Co., Ltd.* ("**Beijing Hongzhi**")

On 6 August 2021, the then Company's wholly-owned subsidiary, Xuzhou GSR Semiconductor Co., Ltd.* ("**Xuzhou GSR**"), invested 10% of the ordinary shares of Beijing Hongzhi with a consideration of RMB15 million. Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to approximately RMB16.3 million as at 31 December 2022. Fair value gain of approximately RMB29,000 was recognised through other comprehensive income during the Year. There was no dividends received from this investment for the Year. Beijing Hongzhi has more than 20 years of experience in chip design and technology, and holds numerous registered patents and technology-related intellectual property rights which helps the company to maintain high potential for future growth.

GaN Systems Inc. ("**GaN Systems**")

On 30 November 2021, FastSemi acquired 206,367 series F-2 preferred shares of GaN Systems, a Canadian company principally engaged in the development of a broad range of GaN-related products, which include high current GaN power semiconductors, at a consideration of approximately USD1.75 million, representing approximately 0.37% of the total issued share capital of GaN Systems as at 31 December 2022. Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to approximately RMB10.3 million as at 31 December 2022. Fair value loss of approximately RMB0.8 million was recognised through other comprehensive income during the Year. There was no dividends received from this investment for the Year. GaN Systems has in-depth knowledge of GaN technology and a management team with decades of GaN product experience. GaN System is also a GaN power transistor company currently shipping to automotive, consumer, industrial, and data centre customers globally.

HighTec SP2 Fund (the "**Fund**")

In December 2021, FastSemi subscribed 4,000 shares of the Fund at a consideration of USD4 million. The Fund's investment strategies are principally to invest directly or through other investment vehicles in the equity securities of the world's leading semiconductor design and production companies, which include technology companies focusing on providing fast-charging solutions, R&D companies with technical knowledge and product experience, R&D companies focusing on power devices in electric vehicle applications, and technology companies focusing on high-power automotive solutions.

In January 2022, FastSemi further subscribed 1,002.466 shares of the Fund at a consideration of approximately USD1 million.

Such investment was classified as an equity instrument at fair value through profit or loss amounting to approximately RMB33.9 million as at 31 December 2022, representing approximately 4.7% of the Group's consolidated total assets as at 31 December 2022. Fair value loss of approximately RMB468,000 was recognised through profit or loss during the Year. As the Fund's main focus is on investing in the semiconductor industry and semiconductors have a wide range of applications in a huge and growing market, the outlook for the Fund remains positive.

Material Acquisitions and Disposals

On 23 December 2022, the Group has disposed 13.99% of Xuzhou GSR to an independent third party, at the consideration of USD3.5472 million.

Save as disclosed above, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the Year.

Capital Commitments

As at 31 December 2022, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to approximately RMB64.5 million (31 December 2021: approximately RMB76.7 million).

Charge on the Group's assets

As at 31 December 2022, the Group has the following share charges subject to the loan agreement entered by the Company on 26 December 2022:

(i) the entire portfolio of issued shares in FastPower Holding Limited, a wholly-owned subsidiary of the Company;

(ii) the entire portfolio of issued shares in FastSemi; and

(iii) the entire portfolio of issued shares in Swift Power Limited, an indirect wholly-owned subsidiary of the Company.

As at 31 December 2021, the Group did not have any charge on its assets.

Contingent Liabilities

As at 31 December 2022, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the Year, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 31 December 2022, the Group employed 237 employees (31 December 2021: 179 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB41.2 million for the Year (Previous Year: approximately RMB68.1 million). Apart from basic remuneration, share options may be granted under the share option scheme of the Company to eligible employees by reference to the Group's performance as well as the individual's contribution. The employee costs for the Year have included the share-based payment expenses of approximately RMB11.0 million (Previous Year: approximately RMB54.0 million), in relation to the share options granted by the Company on 17 June 2021. The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that the employees' overall remuneration is determined based on the performance of the Company and the employees.

Use of Proceeds

Placing of New Shares under General Mandate

(1) Placing on 22 July 2021

In order to expand the production capacity of the Group, strengthen the Group's research and development capabilities and provide general working capital to meet the needs of its business development plan, on 13 June 2021, the Company entered into a placing agreement with VC Brokerage Limited in relation to the placing of a maximum of 96,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a price of HK$5.8 per share (the "**July 2021 Placing**"). The closing price for the Company's shares on 11 June 2021 (being the last trading day prior to the date of signing the placing agreement) was HK$7.10 per share. On 22 July 2021, the July 2021 Placing was completed and the Company issued and allotted an aggregate of 69,245,000 new ordinary shares to not less than six independent third parties. The net price for such shares was approximately HK$5.63 per share and the aggregate nominal value of such shares was HK$692,450. The July 2021 Placing generated net proceeds of approximately HK$389.6 million (the "**July 2021 Placing Proceeds**"). Details of the July 2021 Placing were set out in the Company's announcements dated 15 June 2021 and 22 July 2021.

As at 31 December 2022, the Group's planned application and the actual utilisation of the July 2021 Placing Proceeds are set out below:

	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million
Expansion of production capacity	144.9	144.9	—
Strengthening research and development capabilities	74.8	74.8	—
Repayment of borrowings	11.3	11.3	—
Provision of general working capital	158.6	158.6	—
	389.6	389.6	—

(2) Placing on 1 December 2021

In order to strengthen the Group's research and development capabilities, and provide general working capital to meet the needs of its business development plan, on 4 November 2021, the Company entered into a placing agreement with VC Brokerage Limited in relation to the placing of a maximum of 26,755,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a price of HK$6.2 per share (the "**December 2021 Placing**"). The closing price for the Company's shares on 3 November 2021 (being the last trading day prior to the date of signing the placing agreement) was HK$6.8 per share. On 1 December 2021, the December 2021 Placing was completed and the Company issued and allotted an aggregate of 14,346,000 new ordinary shares to not less than six independent third parties. The net price for such shares was approximately HK$6.01 per share and the aggregate nominal value of such shares was HK$143,460. The December 2021 Placing generated net proceeds of approximately HK$86.2 million (the "**December 2021 Placing Proceeds**"). Details of the December 2021 Placing were set out in the Company's announcements dated 4 November 2021 and 1 December 2021.

As at 31 December 2022, the Group's planned application and the actual utilisation of the December 2021 Placing Proceeds are set out below:

	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million
Strengthening research and development capabilities	64.3	64.3	—
Provision of general working capital	21.9	21.9	—
	86.2	86.2	—

(3) Placing on 2 September 2022

In order to strengthen the Group's research and development capabilities, and provide general working capital to meet the needs of its business development plan, on 4 August 2022, the Company entered into a placing agreement with VC Brokerage Limited in relation to the placing of a maximum of 30,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a price of HK$3.2 per share (the "**September 2022 Placing**"). The closing price for the Company's shares on 3 August 2022 (being the last trading day prior to the date of signing the placing agreement) was HK$3.59 per share. On 2 September 2022, the September 2022 Placing was completed and the Company issued and allotted an aggregate of 9,428,000 new ordinary shares to not less than six independent third parties. The net price for such shares was approximately HK$3.12 per share and the aggregate nominal value of such shares was HK$94,280. The September 2022 Placing generated net proceeds of approximately HK$29.4 million (the "**September 2022 Placing Proceeds**"). Details of the September 2022 Placing were set out in the Company's announcements dated 5 August 2022 and 2 September 2022.

As at 31 December 2022, the Group's planned application and the actual utilisation of the September 2022 Placing Proceeds are set out below:

	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million
Strengthening research and development capabilities	24.5	24.5	—
Provision of general working capital	4.9	4.9	—
	29.4	29.4	—

(4) Placing on 13 October 2022

In order to strengthen the Group's research and development capabilities, and provide general working capital to meet the needs of its business development plan, on 13 September 2022, the Company entered into a placing agreement with VC Brokerage Limited in relation to the placing of a maximum of 20,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a price of HK$3.2 per share (the "**October 2022 Placing**"). The closing price for the Company's shares on 9 September 2022 (being the last trading day prior to the date of signing the placing agreement) was HK$4.09 per share. On 13 October 2022, the October 2022 Placing was completed and the Company issued and allotted an aggregate of 8,582,000 new ordinary shares to not less than six independent third parties. The net price for such shares was approximately HK$3.12 per share and the aggregate nominal value of such shares was HK$85,820. The October 2022 Placing generated net proceeds of approximately HK$26.8 million (the "**October 2022 Placing Proceeds**"). Details of the October 2022 Placing were set out in the Company's announcements dated 13 September 2022 and 13 October 2022.

As at 31 December 2022, the Group's planned application and the actual utilisation of the October 2022 Placing Proceeds are set out below:

	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million
Strengthening research and development capabilities	22.3	22.3	—
Provision of general working capital	4.5	4.5	—
	26.8	26.8	—

The July 2021 Placing Proceeds, December 2021 Placing Proceeds, September 2022 Placing Proceeds and October 2022 Placing Proceeds have been fully utilised as at 31 December 2022.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details in respect of the directors (the "**Directors**") and the senior management of HG Semiconductor Limited (the "**Company**", together with its subsidiaries, the "**Group**") as at the date of this annual report are as follows:

EXECUTIVE DIRECTORS

Mr. ZHAO Yi Wen (趙奕文) ("Mr. Zhao"), aged 53, is the Chairman of the Board. He was appointed as a Director on 27 May 2015 and was subsequently re-designated as an Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for formulating the overall corporate strategies and handling the day-to-day management of the Group. Mr. Zhao is also a director of each of HongGuang Lighting Group Company Limited ("**HongGuang Lighting**") and HongGuang Lighting (International) Limited ("**HongGuang International**") and the chairman and legal representative of Zhuhai HongGuang Semiconductor Co. Ltd.* ("**Zhuhai HongGuang**").

Prior to establishing the Group in May 2010, Mr. Zhao had years of management experience of electronic parts business. During the period between January 2004 and May 2010, Mr. Zhao was employed by Zhuhai Kedie Digital Technology Co., Ltd.* (珠海市科碟數碼科技有限公司) which mainly manufactures and sells compact disks in the PRC, as a general manager and was responsible for the overall management of its business operation.

Since 2012, Mr. Zhao has been a director of Zhuhai Ridong Weiye Technology Company Limited* (珠海日東偉業科技有限公司), a limited liability company incorporated in the PRC which mainly manufactures and trades Indium Tin Oxide films, where Mr. Zhao is responsible for the overall management of the company. Mr. Zhao attended secondary school education up to year 3 in the PRC.

Dr. Xu Zhihong (徐志宏) ("Dr. Xu"), aged 60, was appointed as an Executive Director and Vice Chairman of the Company on 6 February 2023. Dr. Xu graduated from the Anhui Finance and Trade Vocational College with a Bachelor of Economics Degree, and then obtained a Master of Business Administration Degree from the Oklahoma City University and a Doctorate Degree in Economics from the Renmin University of China.

Dr. Xu was the managing director of CMB Wing Lung Bank Limited (formerly known as Wing Lung Bank Limited) and general manager of the Financial Markets Department of Industrial and Commercial Bank of China ("**ICBC**"), and has extensive experience in corporate financial planning. From 2 December 2019 to 3 June 2020, Dr. Xu was a director and deputy general manager of China Dive Company Limited, a company listed on the Shenzhen Stock Exchange (stock code: 300526). From 1 September 2020 to 31 August 2021, Dr. Xu was an executive director and a chief executive officer of DTXS Silk Road Investment Holdings Company Limited (大唐西市絲路投資控股有限公司) ("**DTXS Silk Road**"), a company listed on the Main Board of the Stock Exchange (stock code: 620); and from 1 April 2022 to 31 January 2023, Dr. Xu was an executive director, an executive vice-chairman and the chairman of the investment committee of DTXS Silk Road.

Dr. Xu has received the honour of Special Government Allowances of the State Council as a National Expert (國務院特殊津貼專家), and he has also served as a committee member of the Financial Products Committee of the People's Bank of China and a council member of the China Urban Financial Society.

Dr. Cao Yu (曹雨) ("Dr. Cao"), aged 43, was appointed as an Executive Director and Chief Executive Officer of the Company on 6 February 2023. Dr. Cao joined the Group in 2021 and is a core expert in the compound semiconductor business and the Vice President of Engineering of Xuzhou GSR Semiconductor Co., Ltd.* ("**Xuzhou GSR**") and FastPower Inc. ("**FastPower**"). In 2002, he graduated from the Nanjing University, Jiangsu, China, with a Bachelor's Degree in Physics and obtained a Master's Degree in Advanced Materials for Micro and Nano-Systems from Singapore-MIT Alliance in 2003. After working in the Institute of Materials Research and Engineering (Singapore) as a research fellow for two years, he joined the University of Notre Dame and received a Master of Science Degree in Electrical Engineering in 2008, and Ph.D. Degree in Electrical Engineering and a Master of Science Degree in Applied Mathematics in 2010.

After graduation, he joined Kopin as a staff scientist focusing on III-V epitaxy by MOCVD, and later a staff scientist of IQE when Kopin's III-V business was acquired. In 2014, he joined HRL Laboratories as a technical staff, focusing on GaN-based power electronics. Between 2017 and 2021, he served as a senior program manager at Qorvo Inc., managing multiple research programs focusing on RF electronics. In November 2021, he joined Xuzhou GSR and FastPower as Vice President of Engineering. Dr. Cao has over 20 years of proven semiconductor research, development and production experience in epitaxial growth, characterisation, device design and processing of electronic and optoelectronic devices based on GaN, InN, AlN, GaAs, InP, and related ternary and quaternary alloys. He has authored/co-authored 4 book/book chapters, 12 filed patents, and over 170 journal and conference papers. As a Senior Member of the Institute of Electrical and Electronics Engineers ("**IEEE**"), he has also served as a committee member for the IEEE EDS Compound Semiconductor Devices & Circuits Committee (2019–present) and the IEEE Senior Member Application Review Panel (2021–present), as well as a Electrochemical Society (ECS) Member at large, Electronics and Photonics Division: EPD, EPD executive committee member (2021–present). He was a technical committee member and session chair for the Device Research Conference (2016–2018), the International Workshop on Nitride Semiconductors (2018), the Lester Eastman Conference (2018, 2020, 2021), the IEEE Electron Devices Technology and Manufacturing (2021, 2022), ECS Meetings (2019–2021). He also served as an editor for ECS Transactions in 2019 and a guest editor for IEEE Transactions on Electron Devices in 2020. He received the IEEE George E. Smith Award in 2016 and is an invited reviewer for 15 prestigious research journals.

Mr. Lyu Xiangrong (呂向榮) ("Mr. Lyu"), aged 43, was appointed as an Executive Director of the Company on 19 April 2022. Mr. Lyu graduated from the Tsinghua University with a Master's Degree of Management in 2010, and from the Peking University with a Bachelor of Economics. Mr. Lyu has extensive experience in financial market, asset management and investment banking. From 2000 to 2014, Mr. Lyu worked at ICBC where he was the head of several divisions in the Financial Market Department and the Asset Management Department of the ICBC headquarters. He was one of the first batch of domestic bank asset management practitioners in the PRC. In 2011, he was stationed in Hong Kong and was responsible for the investment banking business and financial institution business of ICBC Asia. From 2015 to 2018, Mr. Lyu worked in BOCOM International Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3329), where he served as Chief Investment Officer, General Manager of Asset Management Company and head of Asset Management Head Office in Hong Kong, and was mainly responsible for overseas investment and asset management business. From 2018 to 2021, Mr. Lyu was the Chief Executive Officer of CNCBI International Investment Holdings Co., Ltd., where he was mainly responsible for its investment, asset management, investment banking and other businesses. Since 2022, Mr. Lyu was the Chief Executive Officer of PIH Capital Co. Limited, which is principally engaged in investment and asset management.

Mr. Leung Kin Pang (梁健鵬) ("Mr. Leung"), aged 41, was appointed as an Executive Director of the Company on 22 June 2022. Mr. Leung obtained his Bachelor's Degree in Economics and Finance from the University of Hong Kong, a Master's Degree in Economics from the University of Hong Kong, a Master's Degree in Global History from the London School of Economics and Political Science, and a Master's Degree in Politics of the World Economy from the London School of Economics and Political Science. Mr. Leung has over 15 years of experience in merger and acquisition, investment and fund management. Mr. Leung is the founder and president of LT Capital Management Limited and LT International Limited Partnership Fund. Mr. Leung is also the cofounder and executive director of Feder Capital Management Limited and Feder Capital Limited.

Dr. Chen Zhen (陳振) ("Dr. Chen"), aged 50, was appointed as an Executive Director of the Company on 6 February 2023. Dr. Chen joined the Group in 2021 and is a core expert in the GaN semiconductor business and the general manager of Xuzhou GSR. Dr. Chen is also a director of FastPower. He graduated from the Sichuan University, Sichuan, China, with a Bachelor's Degree in Semiconductor Physics and Devices and a Master's Degree in Condensed State Physics. Thereafter, he received his Ph.D. Degree from the Institute of Semiconductor, Chinese Academy of Sciences, Beijing, China, in 2002.

Dr. Chen has over 20 years of experience in research, development, production and management in the field of GaN-based optoelectronic devices. He has mastered the core technologies of GaN electronic devices and full-band solid-state light-emitting devices as well as the proprietary technology of 8-inch silicon-based GaN epitaxial growth. He had been a Research Fellow with Singapore-MIT Alliance, a Postdoctoral Fellow with the University of South Carolina, and an Associate Project Scientist with the University of California at Santa Barbara, where he had also worked with Professor Shuji Nakamura (a Nobel Prize winner) and Professor Umesh Mishra, a member of the American Academy of Engineering, in relation to the performance of GaN high electron mobility transistor developed by the University of California, and researched GaN-based ultraviolet to visible LED design, growth and characterisation, applications in high-power, high-frequency electronics.

Between 2009 and 2012, he worked at Bridgelux Inc., a leading developer and manufacturer of LED lighting technologies and solutions. He initiated the LED/Silicon (Si) research and development in the company and demonstrated the first working high-power LED-on-Si with light output power as 50% bright as the best LED-on sapphire. He also led the epitaxy (Epi) development in project "Flipchip LED development" and achieved LED with wall plug efficiency (WPE) higher than DA1000, the best commercial flip-chip LED from Cree, a market-leading innovator of lighting-class LEDs, LED lighting, and semiconductor solutions for wireless and power applications. Dr. Chen also held a core management and technical position in Nanchang Lattice Power Corporation where he was involved in the production of silicon-based GaN whereby the company won the first prize of China's National Science and Technology Innovation Award in 2015.

Dr. Chen has been the vice president of a well-known semiconductor company in the United States of America, where he is engaged in the research, development and production of GaN-based external devices. He has authored/co-authored 3 book chapters, over 50 peer-reviewed papers and 20 conference proceedings. He has applied for more than 30 domestic and foreign patents, and more than 10 patents have been granted. He has served as a reviewer for more than 10 international journals. He is also a senior member of the IEEE Photonics Society, and a senior member of the IEEE Electronic Devices Association. His current research interests include III-nitride-based electronic devices and optical devices with wavelength from red to deep ultraviolet.

NON-EXECUTIVE DIRECTOR

Dr. WANG David Nin-kou (王寧國) ("Dr. Wang"), aged 76, was appointed as a Non-executive Director on 17 June 2021. Dr. Wang is primarily responsible for monitoring the executive activities and providing strategic advice to the Group.

Dr. Wang received his Doctoral Degree in Materials Science and Engineering from the University of California, Berkeley.

He is a well-known executive and innovator with over 40 years of experience in the global semiconductor industry with more than 100 patents under his name. Dr. Wang began his semiconductor career at Bell Laboratories, where he conducted research and made a number of breakthroughs in semiconductor technology. In 1980, Dr. Wang joined Applied Materials, Inc. (a company listed on NASDAQ, stock code: AMAT), one of the world's largest semiconductor equipment & solution provider, where he led a number of key strategic technology initiatives and revolutionary breakthroughs in semiconductor manufacturing equipment technology. The Precision 5000 Workstation that he co-developed became the industry's successful product, which was inducted into the permanent collection of the Smithsonian Institution in Washington, D.C in 1993. In recognition of his outstanding contributions to the semiconductor industry, Dr. Wang was honored with the first ever lifetime achievement award from Semiconductor Equipment and Materials International ("**SEMI**").

Dr. Wang was the chief executive officer of Huahong (Group) Co., Ltd. ("**Huahong Group**") and the chairman of Huahong NEC, a subsidiary of the Huahong Group between September 2005 and June 2007. Between November 2009 and June 2011, Dr. Wang served as the executive director, president and chief executive officer of Semiconductor Manufacturing International Corporation (中芯國際集成電路製造有限公司*) (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 0981). In 2017, Dr. Wang was inducted into the Silicon Valley Engineering Council Hall of Fame. Dr. Wang served as the chief executive director of Innotron Memory Co., Ltd.* (睿力集成電路有限公司) and chairman of the board of directors of ChangXin Memory Technologies, Inc.* (合肥長鑫存儲有限公司) from June 2016 to July 2018. Dr. Wang was a board member of the Global Semiconductor Alliance. He has served in numerous industry organizations and advisory roles, including as a board member of SEMI, chairman of SEMI's China Regional Advisory Board, overseas advisor to the Ministry of Science and Technology of the People's Republic of China, and chairman of the board of Monte Jade Science and Technology Association (West Coast).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHOW Wai Shing, Tommy (周偉誠) ("Professor Chow"), aged 63, was appointed as an Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Professor Chow is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Professor Chow obtained his Bachelor's Degree of Science in Electrical and Electronic Engineering with first-class honours from the Sunderland Polytechnic (currently known as the University of Sunderland) in the United Kingdom in June 1984 and a Doctoral Degree of Philosophy for his research in the electrical engineering field from the same university in April 1988. Since 2000, Professor Chow has been a professor of the Department of Electronic Engineering of the City University of Hong Kong.

Professor Chow had served over the years as (i) the chairman and member of a number of committees of the Hong Kong Institution of Engineers (the "**HKIE**"); (ii) a member of the CAI Discipline Advisory Panel of the HKIE; and (iii) a professional assessment assessor for the HKIE. During the period between 1998 and 2004, Professor Chow served as a member of the Electronics & Communication Industry Safety & Health Committee of the Occupational Safety & Health Council. Professor Chow was also a member of the Public Affairs Forum of the Hong Kong Government.

Professor Chow is a fellow of the Institute of Electrical and Electronics Engineering since January 2019.

Mr. WU Wing Kuen, ***B.B.S.*** **(胡永權) ("Mr. Wu")**, aged 66, was appointed as an Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Mr. Wu is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Wu has over 29 years of experience in real estate investment. He has been a director of Jet View Investment Limited since December 1991 and a director of Jade Mind Investment Limited since October 2004. Both companies mainly invest in real estate.

Mr. Wu was awarded a Bronze Bauhinia Star from the HKSAR Government in July 2012. Mr. Wu is also currently a voting member of the Hong Kong Jockey Club and the president of the Sha Tin District Community Fund. Mr. Wu had also served the community under various other positions in the past. He was a member of the Sha Tin District Fight Crime Committee, a member of the Appeal Tribunals Panel of the Planning and Lands Branch of the Development Bureau of the HKSAR Government.

Mr. Wu has also been/is an independent non-executive director of (i) Million Cities Holdings Limited between June 2018 and December 2021, a company listed on the Main Board of the Stock Exchange (Stock Code: 2892); (ii) Nanfang Communication Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1617) since November 2016; (iii) Palinda Group Holdings Limited (formerly known as "Food Idea Holdings Limited"), between January 2019 and December 2022, a company listed on the GEM of the Stock Exchange (Stock Code: 8179); and (iv) EFT Solutions Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8062) since March 2019.

Mr. CHAN Chung Kik, Lewis (陳仲戟) ("Mr. Chan"), aged 50, was appointed as an Independent Non-executive Director on 2 December 2016 and is responsible for providing independent advice to the Board. Mr. Chan is also the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Chan obtained a Bachelor's Degree of Commerce in Accounting from the University of Canberra in Australia in September 1997. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan has more than 25 years of experience in auditing, accounting and corporate finance.

Mr. Chan has also been/is an independent non-executive director of (i) Kwan On Holdings Limited between March 2015 and September 2016, a company which was previously listed on GEM (Stock Code: 8305) and was subsequently transferred to the Main Board (Stock Code: 1559) on 15 August 2016; (ii) Shandong Xinhua Pharmaceutical Company Limited between May 2014 and June 2018, a company listed on the Main Board of the Stock Exchange (Stock Code: 719) and the Shenzhen Stock Exchange (Stock Code: 000756); (iii) Hong Kong Aerospace Technology Group Limited (formerly known as "Eternity Technology Holdings Limited") between July 2018 and July 2021, a company listed on the Main Board of the Stock Exchange (Stock Code: 1725); (iv) Peking University Resources (Holdings) Company Limited between March 2017 and September 2021, a company listed on the Main Board of the Stock Exchange (Stock Code: 618); (v) Founder Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 418) since March 2017; and (vi) Wing Chi Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6080) since September 2017.

Mr. Li Yang (李陽) ("Mr. Li"), aged 51, was appointed as an Independent Non-executive Director on 19 April 2022 and is responsible for providing independent advice to the Board. Mr. Li is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Li obtained a diploma from the Shenzhen University (深圳大學) in 1992 and a Master of Business Administration from Shenzhen Economic and Management Institute (深圳經濟管理學院) in 2000. Mr. Li also completed a Master's Degree programme in 2001 at the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院), majoring in World Economics.

Mr. Li has over 20 years of experience in investment activities and business management. He has held directorships in several companies listed on the Main Board of the Stock Exchange and a public company listed on the stock market of the People's Republic of China. From September 2014 to June 2018, Mr. Li acted as the deputy chairman and an executive director of China Best Group Holding Limited (stock code: 370). From July 2015 to September 2016, he acted as the chairman and a director of Guanghe Landscape Culture Communication Co., Ltd., Shanxi* (山西廣和山水文化傳播股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600234). From February 2017 to December 2018, he also served as an independent non-executive director of Sino Haijing Holdings Limited (stock code: 1106). From November 2018 to December 2020, he acted as the deputy chairman and an executive director of Leyou Technologies Holdings Limited (stock code: 1089). Such company was privatized by way of a scheme of arrangement under the Companies Act of its place of incorporation and its listing was withdrawn on 24 December 2020. From August 2020 to February 2021, he also acted as an executive director of CT Environmental Group Limited (stock code: 1363), the listing of which was cancelled under Rule 6.01A of the Listing Rules. On 19 January 2022, Mr. Li was appointed as the chairman of the board and the executive director of Virtual Mind Holding Company Limited (formerly known as CEFC Hong Kong Financial Investment Company Limited) (stock code: 1520).

SENIOR MANAGEMENT

Ms. QI Xiang Ling (綦香玲) ("Ms. Qi"), aged 52, is the financial controller of Zhuhai HongGuang. Ms. Qi joined the Group in August 2010. She is mainly responsible for supervising financial reporting, corporate finance, treasury, tax and other financial related matters of the Group. Ms. Qi obtained a Certificate of Accounting Profession issued by the Ministry of Finance of the PRC in August 2002.

Prior to joining the Group, Ms. Qi worked as an accountant at Zhuhai Yuntian Dianqi Co., Ltd.* (珠海雲田電器有限公司) from January 2005 to December 2005. From June 2006 to August 2010, she worked as the finance manager of Zhuhai City Jiajule Zhuangshi Cailiao Company Limited* (珠海市家居樂裝飾材料有限公司).

Mr. XU Jian Hui (許建輝) ("Mr. Xu"), aged 66, is a director of Zhuhai HongGuang. Mr. Xu joined the Group as a general manager of Zhuhai HongGuang in March 2011 and was subsequently appointed as a director of the same company in November 2014. Mr. Xu is primarily responsible for the daily operation, administrative and productions management of Zhuhai HongGuang. Mr. Xu obtained an Assistant Engineer Practising Certificate from the Engineering Technology Professional Title Committee of Shantou Electronic Industry Corporation* (汕頭市電子工業總公司工程技術初級職務評審委員會) in December 1995.

Prior to joining the Group, during the period between May 1987 and June 1997, Mr. Xu was the business plan coordinator at Shantou Metallic Material Corporation* (汕頭市金屬材料總公司), where he was responsible for the resources coordination and management in the company. From June 1997 to July 2002, he worked as a clerk at Shantou Kexin Development Corporation* (汕頭市科信發展總公司), where he was responsible for the daily administration of the company. From June 2003 to July 2008, Mr. Xu worked as the deputy general manager at Jieyang Dong Huang Culture Development Limited* (揭陽東煌文化發展有限公司), where he was primarily responsible for the administration and production management of the company. From October 2008 to April 2010, he worked as the deputy general manager at Zhuhai Special Economic Zone Hai Na Laser Manufacture Limited* (珠海經濟特區海納激光製作有限公司), where he was primarily responsible for the production management of the company.

* For identification purpose only

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the Chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to shareholders and creditors. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. Save for Code Provision C.2.1 of the CG Code, the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual (Please refer to the paragraph entitled "Chairman and Chief Executive" on page 31), the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2022 (the "**Year**").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "**Required Standard of Dealings**"). The Company had also made specific enquiry of all the Directors and the Company is not aware of any non-compliance with the Required Standard of Dealings regarding securities transactions by the Directors for the Year.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2022, the Board comprised of four Executive Directors, two Non-executive Directors and four Independent Non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer) (Resigned as Chief Executive Officer on 6 February 2023)*
Mr. Lyu Xiangrong *(Appointed on 19 April 2022)*
Mr. Leung Kin Pang *(Appointed on 22 June 2022)*
Ms. Liu Yang *(Appointed on 22 June 2022 and resigned on 6 February 2023)*

Non-executive Directors

Dr. Wang David Nin-kou
Mr. Wang Jie Chuan *(Appointed on 19 April 2022 and resigned on 6 February 2023)*

Independent Non-executive Directors

Professor Chow Wai Shing, Tommy
Mr. Wu Wing Kuen, *B.B.S.*
Mr. Chan Chung Kik, Lewis
Mr. Li Yang *(Appointed on 19 April 2022)*

FUNCTIONS, ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the Chief Executive Officer and senior management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group. The abovementioned personnel should report back and obtain prior approval from the Board before making any significant decisions or entering into any significant commitments on the Company's behalf, and they may not exceed any authority given to them by resolutions of the Board or the Company.

The Non-executive Directors do not involve in the general management and day-to-day operation of the Group. However, they will provide advice on strategic direction for the Group.

The Independent Non-executive Directors bring to the Board a wide range of business and financial expertise, experience and independent judgement, on issues of strategic direction, policies, development, performance and risk management. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, they scrutinise the Company's performance in achieving corporate goals and objectives and monitor performance reporting. By doing so, they are able to contribute positively to the Company's strategy and policies through independent, constructive and informed comments at Board and committee meetings.

Each Director has confirmed that he can give sufficient time and attention to the Company's affairs, and has regularly provided information on the number and nature of offices held in public companies or organisations and other significant commitments, including the identity of such companies or organisations and an indication of the time involved.

The Company has arranged appropriate insurance cover for Directors' liabilities in respect of legal actions against them for corporate activities.

BOARD/BOARD COMMITTEE MEETINGS

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year to, among other matters, review past financial and operating performance and discuss the Group's direction and strategy. An agenda and accompanying papers together with all appropriate information will be sent to all Directors at least 3 days before each Board or committee meeting so as to ensure timely access to relevant information. Appropriate notice of at least 14 days for regular Board meetings and reasonable notice for other Board committee meetings will be given to all Directors, who will all be given an opportunity to attend and include matters in the agenda for discussion. Senior management will be invited to join Board meetings to enhance communication between the Board and management; the Board and each Director will also have separate and independent access to senior management whenever necessary. The Company Secretary will take detailed minutes of the meetings and keep records of matters discussed and decisions resolved at the meetings, including any concerns raised or dissenting views expressed by Directors, and the voting results of Board meetings fairly reflect Board consensus. Both draft and final versions of the minutes will be sent to all Directors for their comments and records respectively, within a reasonable time after each meeting, and such minutes will be open for inspection with reasonable advance notice by any Director. Directors are entitled to have access to board papers and related materials, and any queries will be responded to fully.

Upon reasonable request to the Board, the Directors can seek independent professional advice in performing their duties at the Company's expense, if necessary. According to the current Board's practice, should a potential conflict of interest involving a substantial shareholder or Director of the Company arise, the matter will be discussed in a Board meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no conflict of interest will be present at such meetings. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director concerned will declare his/her interest and abstain from voting.

Meetings Held and Attendance

The composition of the Board and the committees, and the individual attendance records of each Director at the Board and committees' meeting during the Year are set out below:

Name of Directors	Meetings attended/Meetings held Board meetings	Audit committee meetings	Remuneration committee meetings	Nomination committee meetings	Annual general meetings	Extraordinary general meetings
Executive Directors						
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer) (Resigned as Chief Executive Officer on 6 February 2023)*	27/27	N/A	N/A	N/A	1/1	1/1
Mr. Lin Qi Jian *(Resigned on 22 June 2022)*	11/11	N/A	N/A	N/A	1/1	N/A
Mr. Chan Wing Kin *(Resigned on 22 June 2022)*	11/11	N/A	N/A	N/A	1/1	N/A
Mr. Lyu Xiangrong *(Appointed on 19 April 2022)*	19/20	N/A	N/A	N/A	0/1	1/1
Mr. Leung Kin Pang *(Appointed on 22 June 2022)*	16/16	N/A	N/A	N/A	N/A	1/1
Ms. Liu Yang *(Appointed on 22 June 2022 and resigned on 6 February 2023)*	15/16	N/A	N/A	N/A	N/A	1/1
Non-executive Directors						
Mr. Chiu Kwai San *(Resigned on 27 January 2022)*	2/2	N/A	N/A	N/A	N/A	N/A
Dr. Wang David Nin-kou	27/27	N/A	N/A	N/A	1/1	1/1
Mr. Wang Jie Chuan *(Appointed on 19 April 2022 and resigned on 6 February 2023)*	19/20	N/A	N/A	N/A	1/1	1/1
Independent Non-executive Directors						
Professor Chow Wai Shing, Tommy	27/27	2/2	3/3	3/3	1/1	1/1
Mr. Wu Wing Kuen, *B.B.S*	27/27	2/2	3/3	3/3	1/1	1/1
Mr. Chan Chung Kik, Lewis	27/27	2/2	3/3	3/3	1/1	1/1
Mr. Li Yang *(Appointed on 19 April 2022)*	20/20	1/1	2/2	2/2	1/1	1/1

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee of the Company has been established. In compliance with Code Provision A.2 of the CG Code, the Board as a whole is responsible for performing corporate governance duties which include: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Zhao Yi Wen ("**Mr. Zhao**") is the Chairman of the Board who is primarily responsible for formulating overall corporate strategies. During the Year, Mr. Zhao was also the Chief Executive Officer of the Company who was primarily responsible for day-to-day management of the Group. In accordance with Code Provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. In view of the fact that Mr. Zhao, being one of the founders of the Group and has been operating and managing Zhuhai HongGuang, the operating subsidiary of the Company, since 2010, the Board believes that it was in the best interest of the Group to have Mr. Zhao taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from Code Provision C.2.1 during the Year was appropriate in such circumstance.

On 6 February 2023, Mr. Zhao resigned as the Chief Executive Officer of the Company but remained as the Chairman of the Board.

Code Provision C.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the Independent Non-executive Directors without the presence of other Directors. During the Year, one meeting between the chairman of the Board and the Independent Non-executive Directors was held.

CONTINUING PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision C.1.4 under Appendix 14 of the Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses.

During the Year, all Directors have participated in continuing professional development by attending training course organised by the Company and reading relevant materials on topics related to corporate governance and regulatory matters. The Directors have confirmed that they have received the trainings as follows:

Name of Directors	Type of trainings
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)* *(Resigned as Chief Executive Officer on 6 February 2023)*	A, B
Mr. Lin Qi Jian *(Resigned on 22 June 2022)*	A, B
Mr. Chan Wing Kin *(Resigned on 22 June 2022)*	A, B
Mr. Lyu Xiangrong *(Appointed on 19 April 2022)*	A, B
Mr. Leung Kin Pang *(Appointed on 22 June 2022)*	A, B
Ms. Liu Yang *(Appointed on 22 June 2022 and resigned on 6 February 2023)*	A, B
Mr. Chiu Kwai San *(Resigned on 27 January 2022)*	A, B
Dr. Wang David Nin-kou	A, B
Mr. Wang Jie Chuan *(Appointed on 19 April 2022 and resigned on 6 February 2023)*	A, B
Professor Chow Wai Shing, Tommy	A, B
Mr. Wu Wing Kuen, *B.B.S*	A, B
Mr. Chan Chung Kik, Lewis	A, B
Mr. Li Yang *(Appointed on 19 April 2022)*	A, B

A: attending seminars/conferences/forums

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees are established with written terms of reference, which have complied with the CG Code and are available on the Stock Exchange website at www.hkexnews.hk and the Company's website at www.hg-semiconductor.com and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board committees will report back to the Board on their decisions or recommendations.

Audit Committee

The Company established the Audit Committee on 2 December 2016 with written terms of reference in compliance with the Listing Rules. The Audit Committee consists of all the Independent Non-executive Directors, namely, Mr. Chan Chung Kik, Lewis, Mr. Wu Wing Kuen, Professor Chow Wai Shing, Tommy and Mr. Li Yang. Mr. Chan Chung Kik, Lewis is the chairman of the Audit Committee. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process and the internal control and risk management systems of the Group.

The Audit Committee held two meetings during the Year. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 30 for the individual attendance records of each member of the Audit Committee.

Remuneration Committee

The Company established the Remuneration Committee on 2 December 2016 with written terms of reference in compliance with the Listing Rules. The Remuneration Committee consists of four members, namely, Mr. Chan Chung Kik, Lewis, Mr. Wu Wing Kuen, Professor Chow Wai Shing, Tommy and Mr. Li Yang. Mr. Chan Chung Kik, Lewis is the chairman of the Remuneration Committee. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration of the Directors and senior management of the Company, determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors and senior management of the Company, and to assess the performance of the Directors and senior management of the Company.

The Remuneration Committee held three meetings during the Year. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 30 for the individual attendance records of each member of the Remuneration Committee.

Nomination Committee

The Company established the Nomination Committee on 2 December 2016 with written terms of reference in compliance with the Listing Rules. The Nomination Committee consists of four members, namely, Mr. Chan Chung Kik, Lewis, Mr. Wu Wing Kuen, Professor Chow Wai Shing, Tommy and Mr. Li Yang. Mr. Chan Chung Kik, Lewis is the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment, re-election and succession planning of Directors.

The Nomination Committee had three meetings during the Year to recommend the re-appointment of Directors standing for re-election at the annual general meeting, to review the size, structure, composition as well as diversity of the Board and to assess the independence of Independent Non-executive Directors. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 30 for the individual attendance records of each member of the Nomination Committee.

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, industry experience, technical and professional skills and/or qualifications, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

1. At least one-third of the members of the Board shall be Independent Non–executive Directors; and

2. Enhance gender diversity (female representation) on the Board.

As at 31 December 2022, representation of Independent Non-executive Directors on the Board was 40%.

As at 31 December 2022, female representation on the Board was 10%.

The Board will take the opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and report to the Board annually.

As at the date of this annual report, the Board comprises eleven Directors. The following tables illustrate the diversity of the Board Members as of the date of this annual report:

	Age Group			
Name of Directors	41–50	51–60	61–70	71 and above
Mr. Zhao Yi Wen *(Chairman)*		✓		
Dr. Xu Zhihong *(Vice Chairman)*		✓		
Dr. Cao Yu *(Chief Executive Officer)*	✓			
Mr. Lyu Xiangrong	✓			
Mr. Leung Kin Pang	✓			
Dr. Chen Zhen	✓			
Dr. Wang David Nin-kou				✓
Professor Chow Wai Shing, Tommy			✓	
Mr. Wu Wing Kuen, *B.B.S*			✓	
Mr. Chan Chung Kik, Lewis	✓			
Mr. Li Yang		✓		

Name of Directors	Professional Experience Accounting and Finance	Business Management	Investments and Assets Management	Production, Research and Development	Public Services	Real Estate Investment
Mr. Zhao Yi Wen *(Chairman)*		✓				
Dr. Xu Zhihong *(Vice Chairman)*		✓	✓			
Dr. Cao Yu *(Chief Executive Officer)*				✓		
Mr. Lyu Xiangrong			✓			
Mr. Leung Kin Pang			✓			
Dr. Chen Zhen				✓		
Dr. Wang David Nin-kou		✓		✓		
Professor Chow Wai Shing, Tommy					✓	
Mr. Wu Wing Kuen, *B.B.S*					✓	✓
Mr. Chan Chung Kik, Lewis	✓					
Mr. Li Yang		✓				

NOMINATION POLICY

The Company has adopted a Nomination Policy which sets out the selection criteria for Board members and the appointment process. In assessing the suitability of a candidate for directorship, the Nomination Committee shall consider the following criteria:

(a) Accomplishment, experience, reputation in the manufacturing industry and qualifications which include professional and academic qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(b) The number of existing directorships and other commitments that may demand the attention of the candidate;

(c) The ability to assist and support the management and make significant contributions to the Company's success;

(d) Willingness to devote sufficient time to discharge his/her duties as a Board member and other directorships and commitment in respect of time, interest and attention to the Company's business;

(e) Requirement for the Board to have Independent Non-executive Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in Rule 3.13 of the Listing Rules;

(f) Board Diversity Policy of the Company and any measurable objectives adopted by the Board for achieving diversity on the Board;

(g) Any other relevant factors as may be determined by the Board from time to time.

DIRECTOR NOMINATION PROCEDURE

Subject to the provisions in the Articles of Association of the Company and the Listing Rules, if the Board recognizes the need for an additional Director or a member of senior management, the following procedure will be followed:

(1) The Nomination Committee and/or the Board will identify potential candidate(s) based on the criteria as set out in the selection criteria, possibly with assistance from external agencies and/or advisors;

(2) The Nomination Committee and/or the Company Secretary of the Company will then provide the Board with the biographical details of the candidate(s) and details of his/her/their relationship with the Company and/or Directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the Listing Rules, the Companies Law of the Cayman Islands and other regulatory requirements for any candidate(s) for appointment to the Board;

(3) The Nomination Committee would then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointment;

(4) The Nomination Committee should ensure that the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;

(5) In the case of the appointment of an Independent Non-executive Director, the Nomination Committee should obtain all information in relation to the proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and

(6) The Board will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business.

Accordingly, the Board has prepared the financial statements of the Company on a going concern basis. The Board also acknowledges its responsibility to present a balanced, clear and comprehensible assessment in the Company's annual and half-yearly reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to statutory requirements.

The above statements, which should be read in conjunction with the independent auditor's report, are made with a view to distinguishing for Shareholders how the responsibilities of the Directors differ from those of the auditor in relation to the financial statements.

Having made appropriate enquiries and examined major areas which could give rise to significant financial exposures, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the Year, the Directors considered the Group has applied appropriate accounting policies consistently, made judgments and estimates that are reasonable in accordance with applicable accounting standards.

The responsibility of the Company's auditor, BDO Limited, is set out in the section headed "Independent Auditor's Report" on page 71 to 75 of this annual report.

For the Year, the fees in respect of the audit services provided to the Group by BDO Limited, are set out as follows:

Nature of services	For the year ended 31 December 2022 RMB'000
Audit services	1,237
Non-audit services	86

INTEGRITY AND CODE OF CONDUCT

The Group strives to maintain high standards of business ethics and corporate governance across all its activities and operations. The Directors, management and staff are all required to act lawfully, ethically and responsibly, and the required standards and norms are explicitly set out in the training materials for all new staff and embedded in various policies such as the Group's Employee Handbook (including therein the Group's code of conduct), the Anti-corruption Policy and the Whistleblowing Policy of the Group. Trainings are conducted from time to time to reinforce the required standards in respect of ethics and integrity.

COMMITMENT

The Group believes that the culture of commitment to workforce development, workplace safety and health, diversity, and sustainability is one where people have a feeling of commitment and emotional engagement with the Group's mission. This sets the tone for a strong, productive workforce that attracts, develops, and retains the best talent and produces the highest quality work. Moreover, the Company's strategy in the business development and management are to achieve long-term, steady and sustainable growth, while having due considerations from environment, social and governance aspects.

INDEPENDENT NON-EXECUTIVE DIRECTOR

In order to ensure that independent views and input of the Independent Non-executive Directors are made available to the Board, the Nomination Committee and the Board are committed to assessing the Directors' independence annually with regards to all relevant factors related to the Independent Non-executive Directors including the following:

- required character, integrity, expertise, experience and stability to fulfill their roles;
- time commitment and attention to the Company's affairs;
- firm commitment to their independent roles and to the Board;
- declaration of conflict of interest in their roles as Independent Non-executive Directors;
- no involvement in the daily management of the Company nor in any relationship or circumstances which would affect the exercise of their independent judgement; and
- the Chairman meets with the Independent Non-executive Directors regularly without the presence of the Executive Directors.

WHISTLEBLOWING POLICY

In compliance with code provision D.2.6 in Part 2 of the CG Code, the Board adopted a whistleblowing policy (the "**Whistleblowing Policy**") on 31 March 2023 which provides formal channels and guidance to facilitate the raising of matters of concern by employees of the Group (the "**Employee**") and those who deal with the Group (e.g. customers, suppliers, creditors and debtors) (the "**Third Parties**", each a "**Whistleblower**"), in confidence, without fear of reprisals. Procedures have been formulated to enable the Whistleblower to report to the Group directly (addressed to the Chairman of the Audit Committee of the Group) suspected improprieties.

ANTI-CORRUPTION POLICY

In compliance with code provision D.2.7 in Part 2 of the CG Code, the Board adopted an anti-corruption policy (the "**Anti-corruption Policy**") on 31 March 2023 which sets out the guidelines and responsibilities of the Employees, the Third Parties and those acting in an agency or fiduciary capacity on behalf of the Group. The Group Is committed to maintaining a high standard of integrity, openness and discipline in its business operations. The Anti-corruption Policy forms an integral part of the framework, including the CG Code and Whistleblowing Policy, outlining the Group's expectations and requirement of business ethics, as well as the investigation and reporting mechanism of suspected corruption practices.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems. The Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems. These systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group has established an on-going process for identifying, evaluating and managing the significant risks of the Group. Business units are responsible for identifying, assessing and monitoring risks associated with their respective units. The results of evaluation will be reported to the management through regular internal meetings. Each year, the management prepares a risk assessment report which lists the risks identified and the management's assessment of the impact on the Group. The Board discusses findings in the risk assessment report and evaluates the effectiveness of the risk management and internal control systems in a Board meeting.

The Company has established and maintained procedures and internal controls for the handling and dissemination of inside information. The Company has adopted a code of conduct for dealing in the securities of the Company by the Directors in accordance with Appendix 10 of the Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules will be announced on the respective websites of the Stock Exchange and the Company.

Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with and reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

The Group does not have an internal audit function due to the size of the Group and for cost effectiveness consideration. Instead, a review on the internal control and risk management systems is done annually by an independent consultancy company. During the year, an independent consultancy company with staff in possession of the relevant expertise conducted an annual review to assess the effectiveness of the Group's risk management and internal control systems. The review covered major financial, operational and compliance controls on a rotation basis and also the risk management functions. No significant deficiency has been identified during the course of review and the systems were found to be operated effectively and adequately. The Audit Committee has reviewed the internal control review report issued by the independent consultancy company and the Company's risk management and internal control systems in respect of the Year and considered that they are effective and adequate. The Board has assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the Audit Committee and concurred the views.

The Group has yet to establish its internal audit function during the Year as required under code provision D.2.5 of the CG Code. The Audit Committee and the Board have considered the internal control review report prepared by the independent consultancy company and communications with the Company's external auditors in respect of any material control deficiencies identified during the course of the financial statement audit to form the basis to review the adequacy and effectiveness of the Group's risk management and internal control systems. The Audit Committee and the Board will continue to review the need for an internal audit function on an annual basis.

COMPANY SECRETARY

Mr. Chan Wing Kin ("**Mr. Chan**"), aged 42, is the Company Secretary of the Company. He joined the Company in 2015 and was an Executive Director of the Company between May 2016 and June 2022.

Mr. Chan obtained his Bachelor's Degree of Economics and Finance and Master's Degree of Economics from The University of Hong Kong. Mr. Chan is currently a fellow of the Hong Kong Institute of Certified Public Accountants, a certified internal auditor of the Institute of Internal Auditors, and a certified fraud examiner of the Association of Certified Fraud Examiners.

For the Year, Mr. Chan has undertaken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting ("**AGM**") of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Right to Convene EGMs and Procedures

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. Any one or more member(s) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong at Unit B, 26/F., One Island South, 2 Heung Yip Road, Wong Chuk Hang, Hong Kong for the attention of the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within 21 days of such deposit, the Board fails to proceed duly to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All such enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Right to Put forward Proposals at General Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Companies Law (as revised) of the Cayman Islands, as amended, modified and supplemental from time to time.

However, pursuant to the Company's articles of association, Shareholders who wish to move a resolution may by means of requisitions for convening an EGM following the procedures set out above.

Right to Propose a Person for Election as a Director

If a shareholder of the Company (the "**Shareholder**") wishes to propose a person other than a Director, for election as a new Director of the Company, the Shareholder must deposit a written notice (the "**Notice**") to the Company's principal place of business in Hong Kong at Unit B, 26/F., One Island South, 2 Heung Yip Road, Wong Chuk Hang, Hong Kong for the attention of the Company Secretary of the Company.

The Notice must state clearly the name, the contact information of the Shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the "**Letter**") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

The period for lodgment of the Notice and the Letter will commence no earlier than the day after the dispatch of the notice by the Company of the general meeting appointed for election of Directors and end no later than seven (7) days prior to the date of such general meeting.

The Notice will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Nomination Committee of the Company and the Board of Directors of the Company to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the AGM, the annual and interim reports, notices, announcements and circulars and the Company's website at www.hg-semiconductor.com.

DIVIDEND POLICY

The Company has adopted a Dividend Policy in order to allow shareholders of the Company to participate in the Company's profits whilst preserving the Company's profits and liquidity to capture future growth opportunities.

Factors to Consider for a Dividend Proposal

Subject to the memorandum and articles of association of the Company and all applicable laws and regulations, the Board shall consider the following factors before declaring or recommending dividends:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and each of the members of the Group;

(c) the Group's working capital requirements, capital expenditure requirements and future expansion plans;

(d) the Group's liquidity position;

(e) prevailing economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group;

(f) the restrictions on payment of dividends that may be imposed by the Group's lenders;

(g) dividends received/receivable from the Company's subsidiaries; and

(h) other factors that the Board may consider relevant.

Types of Dividends and Dividend Payment Ratio

Depending on the financial conditions of the Company and the Group and the conditions and factors set out in the preceding paragraph, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

The Company does not have any predetermined dividend payment ratio.

CONSTITUTIONAL DOCUMENTS

During the Year, the Memorandum and Articles of Association has been amended to conform with the core shareholder protection standards. The amended memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

We are pleased to present our seventh Environmental Social and Governance ("**ESG**") Report of HG Semiconductor Limited for the year ended 31 December 2022 ("**Reporting Period**"), in accordance with the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules and based on the material aspects of the Group and stakeholders.

SCOPE OF REPORT

For the purpose of this ESG report, the Board identifies the reporting scope based on the materiality principle and considers the core business, main revenue source and the relationship between business and environment, social and governance. This ESG Report serves to provide details of the Company's ESG policies and initiatives of its major operating segment in the People's Republic of China (the "**PRC**"), which is principally engaged in the design, development, manufacturing, subcontracting service and sales of semiconductor products, including LED beads, GaN chips, GaN components and related application products, and fast charging products in the PRC.

REPORTING PRINCIPLES

- Materiality principle. In this ESG Report, important ESG issues affecting the sustainable development of the Company are identified and addressed, through online surveys of stakeholders, information analysis, etc. For details of the process and results of the materiality analysis, see *Stakeholders Engagement and Materiality Analysis* in this ESG Report.

- Quantitative principle. This ESG Report discloses the results of calculating the quantitative ESG KPIs and emission of the Company. For details of the calculating method, see *Appendix 2: Reporting Guidance on Environmental KPIs of How to Prepare an ESG Report* guideline by the Stock Exchange of Hong Kong.

- Consistency principle. In this ESG Report, the indicators used in different reporting periods are consistent as far as possible, and the changed indicators are explained, as far as reflect the trend of performance level.

- Balance principle. This ESG Report reflects the objective faces and discloses positive and negative indicators.

Stakeholders Engagement and Materiality Analysis

The Group also pays attention to the major issues of interest to shareholders, investors, staff, students, parents, governments, regulatory authorities, and communities ("**Stakeholders**"). The Group strives to maintain open and smooth communication channels for both internal and external stakeholders. Through the communication channels, it is able to develop thorough understanding of the needs of different Stakeholders and provide appropriate solutions.

Throughout the year, the Group engaged with the following stakeholders and identified their main concerns:

Major Stakeholder Engaged		Major Communication Channels	Major Concerns
Internal Stakeholder	Employees	• Employee Activities • Meetings and Briefings • Performance Appraisals and Evaluation • Staff Trainings • Employee Handbook	• Health & Safety Work Environment • Career Development and Training Opportunities • Compensation and Benefits • Personal Data Protection and Security
	Shareholders and Investors	• Annual General Meetings and Extraordinary General Meetings • Announcements and Circulars • Investor information session • Annual, Interim and Other published reports • Email and telephone enquiries	• Protection of Shareholders' rights and interests • Risk Management • Economic Performance and Financial Stability • Disclosure of Interest and Information Transparency
External Stakeholder	Government and Supervisory Institutions	• Policy Consultation • Onsite Visits and Face to Face Meetings	• Corporate Governance • Compliance with law and regulations • Anti-Corruption Measures
	Suppliers	• Tender Meetings • Onsite Visits • Phone Calls and Emails • Annual Supplier Evaluation System • Industry Seminars	• Transparent and Fair Supplier Selection Procedure • Long term partnership
	Public Community	• Community Events • Voluntary activities	• Environmental Impact • Corporate Social Responsibilities • Community Involvements
	Customers	• Customer Service Hotlines • Customer Satisfaction Surveys • Emails • Marketing Seminars	• Product Quality • Privacy Measures

In order to better understand and follow up the issues most concerned by our stakeholders, the Group identifies the materiality of the issue to the Group through considering the strategic objectives and policies of the businesses of the Group, industry standards, legal and regulatory responsibilities, environmental protection, resource utilisation, quality control and employee protection, etc. The Group has identified the following material ESG issues for inclusion in this ESG Report:

ESG Aspects		Material ESG issues
A.	**Environmental**	
	Emissions	Air emission, waste management, greenhouse gas emission
	Use of resources*	Use of energy, use of packaging materials
	The environment and natural resources	Noise pollution
	Climate Change	Physical risks and Transition risks
B.	**Social**	
	Employment	Employment practices and equal opportunity
	Health & safety	Workplace health and safety
	Development and training	Staff development and training
	Labor standards	Anti-child and forced labor
	Supply chain management	Sustainable supply chain
	Product responsibility	Products and services quality assurance, data privacy
	Anti-corruption	Anti-corruption
	Community investment	Supporting the community

* Since water is not a primary input by the Group in our production process, hence disclosure on the water usage is not appliable.

Statement of the Board of Directors

The Board of Directors has the overall responsibility for the Company's ESG strategy and reporting, monitoring and managing the ESG-related risks. The management is responsible for the effectiveness of the ESG risk management and internal control systems and the management confirms that these systems are effective to mitigate our ESG-related risks. The Board organizes annual meetings to discuss the progress related to ESG goals and targets. The goal is to plan to switch 10% of our office's lightbulbs to LED lights to reduce the consumption of electricity by 2023. Electricity is one of the key KPI of our environmental performance as our business relies on electricity in our production and development of semiconductor products. The Board holds regular internal and external events to communicate closely with stakeholders, to identify and to evaluate important ESG issues, and to discuss and to address such issues. Both qualitative information and quantitative data have been collected for this ESG report to demonstrate the Group's commitment to sustainability and performance.

A. ENVIRONMENTAL

Emissions

The Group's commitment to environment friendly operations is one of our core philosophies. In demonstrating our commitment to preserve the environment and to mitigate pollution, the Zhuhai HongGuang Production Plant has been accredited with ISO 14001:2015 certification, an internationally recognised standard for an environmental management system, which aims at assisting organisations in identifying, managing, monitoring and controlling its environmental issues. The Group is becoming more cautious in controlling its pollutant emissions and resource consumption, and will strictly abides by relevant environmental laws, regulations and other applicable requirements, including but not limited to the Environmental Protection Law of the PRC and 廣東省地方標準《大氣污染物排放限值》(DB44/27-2001), in its daily operation.

No material non-compliance with environmental laws and regulations in Hong Kong and the PRC during the Reporting Period is noted.

Air Emission

In our production activities, gases containing small amount of (i) benzene (ii) methylbenzene (iii) dimethylbenzene and (iv) volatile organic compounds ("**VOCs**") are generated.

During the Reporting Period, the amounts of air pollutants emitted from our production facility in the PRC were approximately:

Air Pollutant	Unit	Amount 2022	Amount 2021	Percentage Increase (+) or Decrease (–)
Benzene	Kilogram	**0.1**	0.1	—
Methylbenzene & Dimethylbenzene	Kilogram	**0.1**	0.2	–50%
VOCs	Kilogram	**11.5**	12.5	–8%

As a responsible enterprise, the Group makes every endeavor to take effective measures to reduce exhaust and greenhouse gas emissions, and fulfill its on-going commitments to emission reduction. The Group has installed a gas purifying system to control the amount of air pollutant emission from our production activities. Besides, we monitor the emission by engaging an independent test laboratory to perform regular tests on our emission concentration and emission speed of the abovementioned air pollutants to ensure that the amounts of emission are within the regulatory limits. We aim to reduce the emission of benzene in 2040 by 5% from 2020 as the base year. We plan to achieve the target by exploring other manufacturing methods of semiconductors and have begun our research and development process. This will be monitored every year by our Board.

Greenhouse Gas Emission

In view of the Group's business portfolio, the greenhouse gas ("**GHG**") emission produced by the Group is mainly due to the direct emissions (Scope 1) and indirect emissions (Scope 2) resulted from the use of stationary combustion sources and electricity for operation of the Group. As the amount of paper waste disposed at landfills and the volume of electricity used for processing fresh water and sewage by government departments are not generated primarily by the Group in our production process, hence disclosure on these usages are not applicable.

Greenhouse Gas Emission	Unit	Amount		Percentage Increase (+) or Decrease (–)	Intensity per Employee		Percentage Increase (+) or Decrease (–)
		2022	2021		2022	2021	
Scope 1[1] (Direct Emissions)	tCO_2e	2	4,254	–99%	0.01	23.77	–99%
Scope 2[2] (Other Indirect Emissions)	tCO_2e	1,823	1,345	36%	7.69	7.51	+2%
Total Greenhouse Gas Emissions	tCO_2e	1,825	5,599	–67%	7.70	31.28	–75%

1 Scope 1 comprises of GHG emissions from stationary combustion sources.
2 Scope 2 includes GHG emissions from electricity.

Due to the switch from the consumption of LPG to methane and the infrequent use of cooking stove, the GHG emissions from Scope 1 has dropped significantly. The Group will continue to record and monitor the GHG emissions and other relevant environmental data from time to time. Where appropriate, the management will set a target of reducing the methane consumption, in order to achieve zero carbon dioxide emissions. We plan to achieve the target by exploring other manufacturing methods of semiconductors and have begun our research and development process. This will be monitored every year by our Board.

Hazardous and non-hazardous waste management

During the Reporting Period, hazardous waste such as waste organic solvent is generated. Non-hazardous waste from our production is considered immaterial by management personnel, hence disclosure on non-hazardous waste is not applicable.

During the Reporting Period, the amount of hazardous waste generated from our production facility in the PRC was approximately:

Waste	Unit	Amount		Percentage Increase (+) or Decrease (–)	Intensity per Employee		Percentage Increase (+) or Decrease (–)
		2022	2021		2022	2021	
Waste organic solvent	Tonne	1.30	1.60	–19%	0.005	0.009	–44%
Organic solvent waste solution	Tonne	1.90	2.00	–5%	0.008	0.011	–27%
Cleaning chemicals	Tonne	0.14	—	—	0.001	—	—
Obsolete mineral oil	Tonne	0.06	0.05	+20%	—	—	—
Obsolete light tubes	Tonne	0.01	0.01	—	—	—	—

* The intensity of obsolete mineral oil and obsolete light tubes are of a very low amount (lower than 0.001) and are considered to be immaterial.

The Group attaches great importance to the management of solid waste, and we implement waste management guidelines to reduce the adverse impact from disposal and generation of hazardous waste on the environment. For example, a secure storage area has been established for hazardous waste. Furthermore, a licensed chemical waste collector has been engaged to handle our hazardous waste, resulting in minimal contamination and negative impact to the environment. By 2035, we plan to upgrade our production facility with more advanced machinery to reduce our waste production.

Use of Resources

The Group is dedicated to making every effort to improve energy efficiency and recycling of resources. We strive to improve environmental performance continuously, which is achieved by setting objectives on enhancing the efficiency of our production. The major resources used by the Group are electricity and packaging materials. The efficient uses on these resources are essential for enhancing the sustainability of the community.

In our production activities, the major type of energy consumed is electricity. The major types of packaging material used for finished products are cartoon boxes and antistatic bags.

During the Reporting Period, the amount of electricity consumed by our production facility in the PRC was approximately:

Type of Energy	Unit	Amount		Percentage Increase (+) or Decrease (–)	Intensity per Employee		Percentage Increase (+) or Decrease (–)
		2022	2021		2022	2021	
Electricity	Megawatt hour ("mWh")	**2,990**	2,204	+36%	**12.62**	12.31	+3%
Gas	Megawatt hour ("mWh")	**14**	—	—	**0.06**	—	—
Petrol	Megawatt hour ("mWh")	**2**	—	—	**0.01**	—	—
Total	Megawatt hour ("mWh")	**3,006**	2,204	+36%	**12.68**	12.31	+3%

During the Reporting Period, the amounts of packaging material used for finished product by our production facility in the PRC were approximately:

Type of Packaging Material	Unit	Amount		Percentage Increase (+) or Decrease (–)	Intensity per Employee		Percentage Increase (+) or Decrease (–)
		2022	2021		2022	2021	
Cartoon box	Tonne	**6.34**	6.77	–6%	**0.03**	0.04	–25%
Antistatic bag	Tonne	**5.02**	5.11	–2%	**0.02**	0.03	–33%

In order to achieve the goal of effective energy conservation, We have established the《資源能源節約管理程序》to define the responsible departments/personnel and the relevant energy saving initiatives. Measures adopted by the Group include:

- High energy efficiency lighting equipment such as LED lighting has been installed to replace traditional light bulbs
- Proper behavioral measures are also communicated to the employees for the effective implementation of resources saving initiatives
- Records of electricity consumption have been maintained for evaluation of efficiency
- When procuring electrical appliances, the Group takes into consideration of their energy efficiency

We plan to switch 10% of our office's lightbulbs to LED lights to reduce the consumption of electricity by 2023.

The Environment and Natural Resources

The Company is committed to minimizing the adverse environmental impacts arising from the production activities. To demonstrate our responsibility towards environmental conservation, we continuously monitor our impacts in accordance to our ISO 14001:2015 requirements. Significant risks are assessed and reviewed based on our established《環境因素識別評價控制程序》. We respond to these risks promptly with appropriate mitigating actions. We are committed to providing adequate and appropriate resources in reducing the adverse impacts to the environment. In case of any accident of pollution, emergency plans will be formulated immediately and the case will be reported to the relevant authorities to reduce the environmental impacts to the minimal.

During the production process, mild noise is generated by our machineries. The noise may cause undesired nuisance to the surrounding neighborhood. To mitigate the noise nuisance, we maintain our machineries regularly to ensure they function properly and noisy machineries are sited as far as possible from sensitive receivers.

Climate Change

Global climate change leads to ocean acidification, melting of snow and ice, continuous temperature rise, and increases the frequency of extreme weather, which in turn has a long-term negative impact on the socio-economic system. The Group recognises the importance of the identification and mitigation of significant climate-related issues, therefore, the Group is committed to managing the potential climate-related risks which may adversely impact the Group's business activities.

Physical Risk

Acute physical risks, which arise from particular events, especially weather-related events such as storms, floods, fires or heatwaves that may damage production facilities and disrupt value chains. This may affect our ability to meet our customer's demand and our business operations and ultimately affecting the Group's relationship with the customers. The Group has established contingency measures that encompasses a variety of weather related events to reduce the resilient risk. We will make reasonable adjustments to the production plan to secure normal transportation of raw materials and supplementary materials, as well as normal operation of our facilities, thereby mitigating the adverse impacts arising from climate change.

Chronic physical risks, which arise from longer-term changes in the climate, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity. These factors will also have negative impact on the storage and manufactory environment. The Group has adopted measures to ensure that the changes in weather related patterns have minimal adverse impact on the storage environment.

Transition Risk

Policy and legal risk: Even though the business environment may be affected by policy changes, the Group's business operations are flexible and able to adapt to policy changes. As the Group is principally engaged in the design, development, manufacturing, subcontracting service and sales of LED, the potential policy and legal risk are relatively low. In this Reporting Period, the Group is not aware of any third party litigations on climate change or incompliance with climate-related laws.

Technology Risk: In response to technological risks, we have allocated resources to refurbish and enhance LED production, with the aim of reducing the damaging impact on the climate. In the future, the Group will further consider other technological enhancements to streamline business operations.

Market Risk: Consumer preferences have shifted to renewable and sustainable energy sources, thus the LED business may be affected by climate-related changes. The Group will strive to reduce its negative impact on the climate and will continue to monitor any market-related risks.

Reputational risk: In order to align with the public's sentiment on climate change, the Group has integrated environmental measures within the business operations. The Group will closely monitor the carbon footprints of the business operations and further explore other ways to reduce our impact on the environment.

B. SOCIAL COMMITMENT

Employment

The Group believes that the employees are valuable assets and the foundation for success and development of the Group. It is our policy to maintain a work environment that complies with the Labour Law of the PRC, the Labour Contract Law of the PRC, the PRC Social Insurance Law and Regulations on Management of Housing Provident Fund. As at 31 December 2022, the Group has a workforce of 224 full time employees and 13 part-time employees in the PRC and Hong Kong.

Key Performance Indicator	Category	Number of Employees 2022	2021	Percentage Increase (+) or Decrease (–)
Gender	Male	167	116	+44%
	Female	70	63	+11%
Employment type	Full time	224	165	+36%
	Part time	13	14	–7%
Age group	Below 30	94	55	+71%
	Between 31 and 40	93	72	+29%
	Between 41 and 50	32	32	—
	Above 51	18	20	–10%
Geographical region	Mainland China	216	168	+29%
	Hong Kong	21	11	+91%

We aim to provide a harmonious work environment for our employees through competitive remuneration packages that are comparable to the market standard and structured to commensurate with individual responsibilities, qualifications, experiences and performance. Annual review on staff performance is conducted and the appraisal result provides basis for salary review. We treasure staff who share the same values and aspirations with the Company, and provide adequate development opportunities accordingly.

The Company also believes that a good work-life balance can help reduce the stress that staff are bearing, thereby increasing overall productivity. Working hours and leaves are determined in consideration of both operation needs and statutory requirements to ensure our staff have sufficient rest and personal life.

Opportunities should be fairly given based on the performance of employees. This belief is further enhanced by our equal opportunity statement, in which diversity of employee is respected on their personal characteristics, which include age, sex, nationality, disability and religion. No discrimination is tolerated, and employees should report discrimination cases to the management.

Employee recruitment, dismissal, movement, compensation, working hours, rest periods, welfare, and other employment practices are clearly documented in the Human Resources Policy and Employee Handbook of the Company.

No material non-compliance with employment laws and regulations in Hong Kong and the PRC during the Reporting Period is noted.

Employee Turnover

During the Reporting Period, the Group's overall employee turnover rate was approximately 9%. The employee turnover rate by (i) gender, (ii) age group, (iii) geographical region are presented in the table below:

	Category	Percentage of Turnover Rate 2022	2021	Percentage Increase (+) or Decrease (–)
By gender	Male	8%	12%	–33%
	Female	12%	14%	–14%
By age group	Below 30	8%	19%	–58%
	Between 31 and 40	8%	12%	–33%
	Between 41 and 50	15%	7%	+114%
	Above 51	8%	—	—
By geographical region	Mainland China	10%	13%	–23%
	Hong Kong	—	—	—

Health and Safety

The Company realises that the health and safety of employees are of paramount importance and therefore, we make every effort to build and maintain a work environment which is free of workplace health and safety incidents and to comply fully with Production Safety Law of the PRC and Fire Control Law of the PRC.

We have published booklets with occupational health and safety for circulation to our employees to raise their awareness of occupational health and safety. We have also established a series of safety guidelines, rules and procedures for different aspects of our production activities, which include fire safety, warehouse safety, work-related injuries and emergency and evacuation procedures.

During the Year, the Group adopted a series of prevention and control measures in response to the COVID-19 pandemic. We have provided anti-pandemic supplies for the employees, set up access control and assigned special personnel to provide training on disinfection operation procedures and pandemic prevention and control measures, so as to improve the capacity of pandemic prevention and control and emergency response.

During the Reporting Period, no material non-compliance with health and safety laws and regulations in Hong Kong and the PRC is noted. There is no work-related fatalities and the Group did not record any lost days during its manufacturing process due to work injury in the past three reporting periods.

Development and Training

The Group highly emphasises the employees' professional skill improvement, training and learning and allows the employees to fully utilise their specialty and potentials at different positions. The Group encourages our employees to combine their own specialty and habits with the Group's business development and proactively strive for opportunities.

The Company has provided trainings across different operational functions, including induction training for new employees, technical training, and training to enhance the employees' knowledge in safety measures when performing their duties. Safety training is crucial to enhance the employees' safety awareness in order to mitigate the risk of work-related injury. The Group reminds the employees the importance of safe operation by posting safety warning signs and safety banners in the workplace, setting up safety knowledge column and distributing safety leaflets. The percentage of total employee who take part in these trainings is 71% and the average training hours per employee is 25.05 hours.

Category	Key Performance Indicators	Percentage 2022	Percentage 2021	Percentage Increase (+) or Decrease (–)	Average Training Hours 2022	Average Training Hours 2021	Percentage Increase (+) or Decrease (–)
Gender Category	Male	**74%**	52%	+42%	**25.6**	23.2	+10%
	Female	**26%**	48%	–46%	**23.9**	40.0	–40%
Employment category	Senior management	**6%**	6%	—	**16.1**	22.0	–27%
	Middle management	**27%**	29%	–7%	**25.4**	27.4	–7%
	Frontline and other employees	**67%**	65%	+3%	**25.9**	29.0	–11%

Labour Standards

The Company believes children should enjoy their childhood and be free from the pressure of work. Furthermore, no one should be forced to work by any means, such as abuse and physical punishment. No child and forced labour is acceptable under our human resources practices. We ensure our employment practices are in compliance with the Labour Law of the PRC and the Labour Contract Law of the PRC. For example, our recruiters check identity cards of job applicants to ensure that under-aged applicant will not be accepted.

No material non-compliance with child and forced labour laws and regulations in Hong Kong and the PRC during the Reporting Period is noted.

Supply Chain Management

Suppliers have a direct impact on the Company's sustainability performance. To oversee the suppliers' environmental and social performances, we strive to incorporate green practices in our procurement activities.

Suppliers' environmental and social performances, such as their choice of raw materials, use of natural resources, product health and safety, employment practices and occupational safety measures, are taken into account in our supplier selection process. On-going monitoring is also performed on their performance through our annual supplier appraisal. All the suppliers must comply with all the applicable laws and regulations. If any contravention is found, the supplier relationship will be terminated. The Group's supplier base is diversified across the PRC. During the Reporting Period, the Group has a total of 97 suppliers.

Product Responsibility

Products and Services Quality Assurance

Continuous customer satisfaction and support are essential for our growth and profitability. We are committed to providing products and services that meet customers' requirements and comply with regulations such as the Product Quality Law of the PRC and the Law of the PRC on the Protection of Consumer Rights and Interests. We consistently deliver high quality products by adopting internationally recognised standard on quality control practices, including the ISO 9001:2015, ISO 14001:2015 and IATF 16949:2016.

We have a team of quality control personnel, which is responsible to examine products at each key stage of production to ensure that the quality of the products can meet our internal standards and customers' requirements.

During the Reporting Period, none of our products has been recalled and the Group received 22 complaints related to the Group's products and services. The Company values feedbacks from our customers for continuous improvement. The staff members of our Sales and Marketing Team regularly pay visits to and communicate with our customers to collect their feedback on the quality, preferences, improvements and market demands of our products. Our Sales and Marketing Team share this information with our Production Team and the Research and Development Team in order to improve our products and/or services.

Intellectual property

In order to safeguard intellectual property, the Group has established an intellectual property management procedure. This procedure covers all our business operations and include relevant external stakeholders that may disclose sensitive information relating to intellectual property. From the top level, different departments are required to amend, review and enhance their intellectual property protection measures. They should also host regular training sessions for all the employees to raise awareness and to provide a guiding principle of intellectual property rights. The contracts which are entered into between the Group and employees, distributors and relevant parties, should contain a confidentiality clause to prevent disclosure of sensitive information. In order to detect any breaches in the confidentiality clause, the Group has established a whistle-blowing platform for the employees to report any incident of sensitive information disclosure.

Currently, the Group complies with the following relevant laws and regulations:

1. Patent Law of the People's Republic of China (中華人民共和國專利法)

2. Trademark Law of the People's Republic of China (中華人民共和國商標法)

3. Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法)

Data Privacy

The Company has implemented certain internal control measures in ensuring the confidentiality of our operation data so as to protect our suppliers, business partners, customers and ourselves. The Company's employment contract and Code of Conduct section in the Employee Handbook, clearly define the requirements in protecting Company data. For example general staff is not allowed to photocopy Company documents without prior management approval. Staff are required to strictly adhere to the Company's Data Privacy Policy, and any acts which will breach data confidentiality are prohibited.

No material non-compliance with product and service quality laws and regulations in Hong Kong and the PRC during the Reporting Period is noted.

Anti-Corruption

Corruption, bribery, money-laundering, and any other kinds of business fraud are strictly prohibited in the Group. We closely observe the relevant laws and regulations which include the Prevention of Bribery Ordinance in Hong Kong. Employees and the management must demonstrate integrity in every business operation, with reference to the Code of Conduct section in the Employee Handbook established by the Company. No tolerance is given to fraud.

To enhance the governance of the Group, internal controls have been established to mitigate the risk of frauds. An Anti-fraud Policy has been established to govern the investigation and follow-up procedures of reported fraud incidents. The management is responsible for developing and ensuring the effectiveness of internal controls. Any abnormality should be reported to the management for investigation. Whistle-blowing channels have also been established for the reporting of violations of professional conducts. The Group advocates a confidentiality mechanism to protect the whistle-blowers against unfair dismissal or victimisation. During the Reporting Period, 4 directors and 164 employees have undergone two hours of anti-corruption training to strength our corporate governance. The percentage of total employee who took part in training is 71%.

During the Reporting Period, no material non-compliance with business fraud laws and regulations in Hong Kong and the PRC is noted.

Community Investment

We care for the community, and are willing to give our helping hands to the needy in order to promote the harmony and stability of the society. The management is aware of the needs of the society, and seek opportunity to enhance the sustainability of the community, such as regular social welfare activities.

The Company organized and participated in local community events such as home visits to elderly during the Reporting Period.

DIRECTORS' REPORT

The Directors submit herewith their annual report together with the audited financial statements for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 32 to the consolidated financial statements.

BUSINESS REVIEW

Further discussion and analysis of these activities, including a business review of the Group for the Year, can be found in the Management Discussion and Analysis as set out on pages 7 to 20 of this annual report. These discussions form part of this Directors' report.

RESULTS

The results of the Group for the Year are set out in the consolidated statements of profit or loss and other comprehensive income on page 76.

The Board does not recommend the payment of a final dividend for the Year.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 146. The summary does not form part of the audited consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year under review are set out in the consolidated statements of changes in equity on page 79 and note 27 to the consolidated financial statements, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the Year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements during the Year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

CHARITABLE DONATIONS

During the Year, no charitable and other donations was made by the Group (Previous Year: nil).

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

Save as disclosed in the announcements of the Company dated 5 August 2022, 2 September 2022, 13 September 2022 and 13 October 2022 and in this annual report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's memorandum and articles of association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and retained profits of the Company are distributable to the Shareholders. As at 31 December 2022, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB518.0 million.

TAX RELIEF

The Company is not aware of any relief on taxation to the Shareholders by reasons of their holdings of the Shares. If the Shareholders are unsure about the taxation implication of purchasing, holding, disposing of, dealing in, or exercise of any rights in relation to the Shares, they are advised to consult their professional advisers.

MAJOR CUSTOMERS AND SUPPLIERS

For the Year, the largest customer accounted for approximately 20.5% (2021: approximately 13.1%) of the total revenue. For the Year, the percentage of revenue derived from the five largest customers in aggregate was approximately 61.6% (2021: approximately 50.2%).

For the Year, the largest supplier accounted for approximately 22.6% (2021: approximately 24.6%) of the total purchases. For the Year, the five largest suppliers in aggregate accounted for approximately 73.4% (2021: approximately 67.0%) of the total purchases.

None of the Directors, their respective close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had an interest in any of the Group's five largest customers and suppliers during the Year.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group.

Research and Development ("R&D") Risk

Semiconductors involve comprehensive application of technology, and engineering disciplines and are characterised by fast process technology iteration, significant capital investment, as well as long R&D cycle. It requires a high technological level, early technical demonstration, and continuous R&D efforts for a long period of time.

Considering that the R&D process of developing new technology of third-generation semiconductor is more complicated, time-consuming and costly, considerable uncertainty may be involved for the Group's business. If the Group fails to keep up with the needs of the industry and accurately identify the direction of R&D and fails to launch third-generation semiconductor products that meets market needs on time, or cannot keep up with the latest industry trend, the Group's competitiveness and market share may be affected, which in turn negatively impact its business performance.

The R&D of new semiconductor technology requires enormous capital investment. Changes in technological design and performance specifications or other external factors may have various levels of negative impact on operations. If the Group's investment in R&D and technology is insufficient to support technological upgrade upgrades, the Group's reputation and technology may be overtaken or replaced, which may adversely affect its business performance, leading to financial loss or damage in reputation.

The Group recognises the vital role of R&D and believes its continuous investment in R&D during the Year was sufficient to support its development, upgrade the existing technology platform so as to maintain its market competitiveness.

Human Capital Risk

The semiconductor industry is a talent-intensive industry, requiring talents to possess solid professional knowledge and long-term technical precipitation. Excellent R&D, engineering, and technical personnel are essential for the Group to improve its competitiveness and enhance business performance.

In view of the fast-changing market dynamics, technological advancement and an increasingly diversified business landscape, the Group faces intense competition for skilled and experienced workers and industry talents. Failure to recruit or retain skilled and experienced workers and industry talents may hinder the Group's business development and performance.

To retain, attract and develop high-performing staff while driving ongoing business transformation, the Group provides a harmonious work environment for its employees with competitive remuneration packages that are comparable to the market standard and structured to commensurate with individual responsibilities, qualifications, experiences and performance.

Industry Policies and Compliance Risk

The semiconductor industry is a strategic industry for national economic and social development. The Chinese Government has issued a series of policies supporting semiconductor companies in taxation, investment, financing, R&D, import and export, talents, intellectual property rights, markets application, international cooperation, etc.

Any material unfavourable changes in relevant industrial policies will affect the Group's development and competitiveness.

As the rules governing competition in China and the overall market become more stringent, the Group is subject to various compliance requirements, including anti-corruption, antitrust, anticompetitive behaviour, labour, export control, trade secret protection, and privacy. Any non-compliant action may affect the Group's brand and reputation.

ENVIRONMENTAL POLICY

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure the compliance of prevailing environmental protection laws and regulations.

The Group has been accredited with ISO 14001:2015 certification, an internationally recognised standard for an environmental management system, which aims at assisting organisations on identifying, managing, monitoring and controlling their environmental issues. Please refer to the ESG Report on pages 43 to 56 of this annual report for details.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the Main Board. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the Year and up to the date of this annual report, the Group has complied with the relevant laws and regulations in the PRC and Hong Kong in all material respects.

KEY RELATIONSHIPS

Employees

The Company recognises that employees are valuable assets. Thus the Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Suppliers

The Group selects suppliers based on a number of criteria including but not limited to their product quality, pricing, supply capability and business track record with the Group. The Directors take the view that due to their experience in the LED lighting industry, they strive to safeguard the safety and quality of the Group's production materials. Hence, the Directors are capable of identifying suitable suppliers based on the aforesaid criteria. The Group regularly conducts on-site inspections of the suppliers' production facilities, reviews their background information and licences, including their business licence(s) and requisite certifications. As such, the Group has compiled and maintained a list of approved suppliers. These suppliers or any one of them will be removed from the list should they fail to satisfy the Group's quality and service requirements upon periodic review by the Group's production team and quality control team.

Customers

During the Year, the Group sold LED beads directly to its customers predominantly in the Guangdong Province, which comprise manufacturers of small-sized and medium-sized backlight LED modules/panels, LCD panels and other electronics products.

The Group stays connected with its customers and has ongoing communication with the customers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

DIRECTORS

The Directors during the Year and up to the date of this annual report were as follows:

Executive Directors
Mr. Zhao Yi Wen *(Chairman)* (Resigned as Chief Executive Officer on 6 February 2023)
Dr. Xu Zhihong *(Vice Chairman)* (Appointed on 6 February 2023)
Dr. Cao Yu *(Chief Executive Officer)* (Appointed on 6 February 2023)
Mr. Lyu Xiangrong (Appointed on 19 April 2022)
Mr. Leung Kin Pang (Appointed on 22 June 2022)
Dr. Chen Zhen (Appointed on 6 February 2023)
Mr. Lin Qi Jian (Resigned on 22 June 2022)
Mr. Chan Wing Kin (Resigned on 22 June 2022)
Ms. Liu Yang (Appointed on 22 June 2022 and resigned on 6 February 2023)

Non-executive Director
Dr. Wang David Nin-kou
Mr. Chiu Kwai San (Resigned on 27 January 2022)
Mr. Wang Jie Chuan (Appointed on 19 April 2022 and resigned on 6 February 2023)

Independent Non-executive Directors
Professor Chow Wai Shing, Tommy
Mr. Wu Wing Kuen, *B.B.S.*
Mr. Chan Chung Kik, Lewis
Mr. Li Yang (Appointed on 19 April 2022)

Pursuant to the Company's memorandum and articles of association, Dr. Xu Zhihong, Dr. Cao Yu, Mr. Leung Kin Pang, Dr. Chen Zhen, Dr. Wang David Nin-kou, Professor Chow Wai Shing, Tommy and Wu Wing Kuen, B.B.S. will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Directors' Service Contracts and Letters of Appointments

Mr. Zhao Yi Wen, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date, and will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the service agreement.

Each of Dr. Xu Zhihong, Dr. Cao Yu and Dr. Chen Zhen, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 6 February 2023, which will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the service agreement.

Mr. Lyu Xiangrong, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 19 April 2022, and will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the service agreement.

Mr. Leung Kin Pang, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 22 June 2022, and will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the service agreement.

Dr. Wang David Nin-kou, a Non-executive Director, has entered into a letter of appointment with the Company for an initial term of three years commencing from 17 June 2021, and will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the letter of appointment.

Each of Professor Chow Wai Shing, Tommy, Mr. Wu Wing Kuen and Mr. Chan Chung Kik, Lewis, an Independent Non-executive Director, has entered into a letter of appointment with the Company for a term of two years commencing from 2 December 2020, and will continue thereafter but subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the letter of appointment.

Mr. Li Yang, an Independent Non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 19 April 2022, subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the letter of appointment.

Save as disclosed above, none of the Directors has or is proposed to enter into a service agreement or letter of appointment with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Group within one year without the payment of compensation (other than statutory compensation)).

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions disclosed in note 33 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, or holding company was a party and in which a Director or an entity connected with a Director had a material interests, whether directly or indirectly, subsisted during or at the end of the Year.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

MANAGEMENT CONTRACTS

No management contracts concerning the whole or any substantial part of the business of the Company were entered into or existed during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective associates, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

EMOLUMENT POLICY FOR DIRECTORS

The Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group. The remunerations of the Directors are determined with reference to market terms, seniority, experiences, duties and responsibilities assumed by each Director as well as their individual performance.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates (as defined under the Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the period from the date of the Listing to 31 December 2022.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was conditionally approved by the Company pursuant to the written resolutions of the then all shareholders of the Company dated 2 December 2016. The Share Option Scheme remains valid and effective following the transfer of listing of the Company's shares from the GEM to the Main Board on 13 November 2019 and is implemented in full compliance with the requirements under Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the Share Option Scheme:

(1) Purpose of the Share Option Scheme

The Share Option Scheme enables the Company to grant options (the "**Options**") to any full-time or part-time employee of the Company or any member of the Group, including any Executive, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of the Company or any of its subsidiaries (the "**Eligible Persons**") as incentives or rewards for their contributions to the Group.

(2) Who may join

The Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (3) below. Upon acceptance of the Option, the Eligible Person shall pay HK$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of not less than 5 trading days from the date on which the Option is granted.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the Independent Non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(3) Price of shares of the Company (the "Share(s)")

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board and notified to a participant and 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 of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

(4) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

(5) Maximum number of Shares

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group) must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date. The Company may refresh this limit at any time, subject to the shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for such purpose, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Group) previously granted under the Share Option Scheme and any other share option schemes of the Group will not be counted. The above is subject to the condition that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group shall not exceed 30% of the Share Capital of the Company in issue from time to time.

(6) Maximum entitlement of each Eligible Person

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. In such event, the Company must send a circular to the shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(7) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(8) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

On 17 June 2021, the Company granted a total of 34,510,000 options, with exercise price of HK$7.5 per Share, to the Directors and certain eligible employees of the Group. On the date immediately before the options were granted, the closing price was HK$7.35 per Share.

The total number of Shares available for issue under the Share Option Scheme is 40,000,000 Shares, representing approximately 6.9% of the total number of issued Shares (i.e. 581,601,000 Shares) as at the date of this annual report.

As at 31 December 2022, details of the interests of the Directors, chief executive, senior management and other employees of the Group in the Share Option Scheme are set out below:

Grantee	Date of grant	Vesting period	Exercisable period	Subscription price per Share (HK$)	Number of Shares in relation to outstanding options as at 1 January 2022	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Transfer between category during the Year	Number of Shares in relation to outstanding options as at 31 December 2022
Executive Directors:											
Mr. Zhao Yi Wen	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	480,000	–	–	–	–	–	480,000
Mr. Lin Qi Jian (resigned as Executive Director on 22 June 2022)	17/6/2021	Nil (Note 2)	17/6/2021–16/6/2024	7.5	480,000	–	–	–	–	(480,000)	–
Mr. Chan Wing Kin (resigned as Executive Director on 22 June 2022)	17/6/2021	Nil (Note 2)	17/6/2021–16/6/2024	7.5	4,800,000	–	–	–	–	(4,800,000)	–
Ms. Liu Yang (appointed as Executive Director on 22 June 2022)	17/6/2021	Nil (Note 3)	17/6/2021–16/6/2029	7.5	–	–	–	–	–	2,400,000	2,400,000
Non-executive Directors:											
Dr. Wang David Nin-kou	17/6/2021	17/6/2021–16/6/2022	17/6/2022–16/6/2026	7.5	1,200,000	–	–	–	–	–	1,200,000
		17/6/2021–16/6/2023	17/6/2023–16/6/2027	7.5	1,200,000	–	–	–	–	–	1,200,000
		17/6/2021–16/6/2024	17/6/2024–16/6/2028	7.5	1,200,000	–	–	–	–	–	1,200,000
		17/6/2021–16/6/2025	17/6/2025–16/6/2029	7.5	1,200,000	–	–	–	–	–	1,200,000
Mr. Chiu Kwai San	17/6/2021	Nil (Note 2)	17/6/2021–16/6/2024	7.5	480,000	–	–	–	–	(480,000)	–
Independence Non-executive Directors:											
Professor Chow Wai Shing, Tommy	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	120,000	–	–	–	–	–	120,000
Mr. Wu Wing Kuen, *B.B.S.*	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	120,000	–	–	–	–	–	120,000
Mr. Chan Chung Kik, Lewis	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	120,000	–	–	–	–	–	120,000
Subtotal					11,400,000	–	–	–	–	(3,360,000)	8,040,000
Senior management and other employees in aggregate	17/6/2021	Nil (Note 2)	17/6/2021–16/6/2024	7.5	5,760,000	–	–	–	–	5,760,000	11,520,000
		Nil (Note 3)	17/6/2021–16/6/2029	7.5	4,050,000	–	–	–	–	(2,400,000)	1,650,000
		17/6/2021–16/6/2022	17/6/2022–16/6/2026	7.5	250,000	–	–	–	–	–	250,000
		17/6/2021–16/6/2023	17/6/2023–16/6/2027	7.5	250,000	–	–	–	–	–	250,000
		17/6/2021–16/6/2024	17/6/2024–16/6/2028	7.5	250,000	–	–	–	–	–	250,000
		17/6/2021–16/6/2025	17/6/2025–16/6/2029	7.5	250,000	–	–	–	–	–	250,000
		17/6/2021–16/6/2022 (Note 1)	17/6/2022–16/6/2026	7.5	1,450,000	–	–	–	–	–	1,450,000
		17/6/2021–16/6/2023 (Note 1)	17/6/2023–16/6/2027	7.5	1,450,000	–	–	–	–	–	1,450,000
		17/6/2021–16/6/2024 (Note 1)	17/6/2024–16/6/2028	7.5	1,450,000	–	–	–	–	–	1,450,000
		17/6/2021–16/6/2025 (Note 1)	17/6/2025–16/6/2029	7.5	1,450,000	–	–	–	–	–	1,450,000
		17/6/2021–16/6/2029 (Note 1)	From vesting date –16/6/2029	7.5	6,500,000	–	–	–	–	–	6,500,000
Subtotal					23,110,000	–	–	–	–	3,360,000	26,470,000
Total					34,510,000	–	–	–	–	–	34,510,000

Notes:

1. Vesting of the Share Options is conditional upon achievement of certain performance targets by the Grantees.

2. During the Year, two executive Directors and one non-executive Director were re-designated as senior management and other employees of the Group, and the number of share options transferred from the "Directors" category to the "Senior management and other employees" category during the Year was 5,760,000.

3. During the Year, Ms. Liu Yang was promoted to an executive Director, and the number of share options transferred from the "Senior management and other employees" category to the "Directors" category during the Year was 2,400,000.

DISCLOSURE OF INTERESTS

Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the group and its associated corporations

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the shares (the "**Shares**"), underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in the Shares and underlying Shares

Name	Capacity/Nature of interest	Number of Shares held/ interested (Note 1)	Approximate percentage of shareholding (Note 2)
Mr. Zhao Yi Wen	Interest in a controlled corporation (Note 3)	100,500,000 (L)	17.28%
	Beneficial owner (Note 4)	480,000 (L)	0.08%
Mr. Lyu Xiangrong	Beneficial owner	834,000 (L)	0.14%
Ms. Liu Yang	Beneficial owner (Note 5)	2,400,000 (L)	0.41%
Dr. Wang David Nin-kou	Beneficial owner (Note 6)	4,800,000 (L)	0.83%
Professor Chow Wai Shing, Tommy	Beneficial owner (Note 7)	120,000 (L)	0.02%
Mr. Wu Wing Kuen	Beneficial owner (Note 8)	120,000 (L)	0.02%
Mr. Chan Chung Kik, Lewis	Beneficial owner (Note 9)	120,000 (L)	0.02%

Notes:

1. The letter "L" denotes a long position.

2. There were 581,601,000 Shares in issue as at 31 December 2022.

3. The 100,500,000 Shares in which Mr. Zhao Yi Wen is interested consist of 100,500,000 Shares held by First Global Limited, a company wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO.

4. Mr. Zhao Yi Wen is interested in the 480,000 underlying Shares which may be allotted and issued to him upon full exercise of all the options granted to him under the Share Option Scheme.

5. Ms. Liu Yang is interested in the 2,400,000 underlying Shares which may be allotted and issued to her upon full exercise of all the options granted to her under the Share Option Scheme.

6. Dr. Wang David Nin-kou is interested in the 4,800,000 underlying Shares which may be allotted and issued to him upon full exercise of all the options granted to him under the Share Option Scheme.

7. Professor Chow Wai Shing, Tommy is interested in the 120,000 underlying Shares which may be allotted and issued to him upon full exercise of all the options granted to him under the Share Option Scheme.

8. Mr. Wu Wing Kuen is interested in the 120,000 underlying Shares which may be allotted and issued to him upon full exercise of all the options granted to him under the Share Option Scheme.

9. Mr. Chan Chung Kik, Lewis is interested in the 120,000 underlying Shares which may be allotted and issued to him upon full exercise of all the options granted to him under the Share Option Scheme.

Save as disclosed above, as at 31 December 2022, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO); (ii) entered in the register of the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

The interests of substantial shareholders and the interests and short position of other persons in the Shares and underlying Shares

As at 31 December 2022, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the Shares or underlying Shares which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Name	Capacity/Nature of interest	Number of Shares held/ interested (Note 1)	Approximate percentage of shareholding (Note 2)
Profit Act Limited	Beneficial owner (Note 3)	120,000,000 (L)	20.63%
Profit Times International Limited	Interest in a controlled corporation (Note 4)	120,000,000 (L)	20.63%
Mr. Zhu Gongshan	Interest in a controlled corporation (Note 5)	120,000,000 (L)	20.63%
First Global Limited	Beneficial owner (Note 6)	100,500,000 (L)	17.28%
Ms. Zhuang Chan Ling	Interest of spouse (Note 7)	100,980,000 (L)	17.36%
Wide Yield Investment Holding Limited	Beneficial owner (Note 8)	100,500,000 (L)	17.28%
Ms. Qin Anqi	Interest in a controlled corporation (Note 8)	100,500,000 (L)	17.28%
GSR Capital Special Opportunity Fund L.P. ("**GSR**")	Beneficial owner (Note 9)	56,000,000 (L)	9.63%
GoldenSand Capital Ltd ("**GoldenSand**")	Interest in a controlled corporation (Note 9)	56,000,000 (L)	9.63%
Wu Sonny	Interest in a controlled corporation (Note 9)	56,000,000 (L)	9.63%
Qin Xiaolu	Beneficial owner	39,085,000 (L)	6.72%

Notes:

1. The letter "L" denotes a long position.

2. There were 581,601,000 Shares in issue as at 31 December 2022.

3. On 4 August 2022, Profit Act Limited (the "**Investor**") entered into an investment agreement with the Company in relation to (a) the subscription by the Investor for 60,000,000 shares of the Company at HK$3 per share and (b) the issue to the Investor the warrants conferring the rights to subscribe for a maximum number of 60,000,000 warrant shares at HK$3.68 per share. Please refer to the announcements of the Company dated 5 August 2022, 29 September 2022, 1 December 2022, 13 December 2022 and 3 March 2023 and circular dated 28 November 2022.

4. The 120,000,000 Shares in which Profit Times International Limited is interested consist of 120,000,000 Shares in which Profit Act Limited is interested in. Profit Act Limited is a company wholly owned by Profit Times International Limited, in which Profit Times International Limited is deemed to be interested under the SFO.

5. The 120,000,000 Shares in which Mr. Zhu Gongshan is interested consist of 120,000,000 Shares in which Profit Act Limited is interested in. Profit Act Limited is a company indirect wholly owned by Mr. Zhu Gongshan, in which Mr. Zhu Gongshan is deemed to be interested under the SFO.

6. 100,500,000 Shares held by First Global Limited, a company wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO.

7. Ms. Zhuang Chan Ling is the spouse of Mr. Zhao Yi Wen and is deemed, or taken to be, interested in the Shares in which Mr. Zhao Yi Wen has interest under the SFO.

8. 100,500,000 Shares held by Wide Yield Investment Holding Limited, a company wholly owned by Ms. Qin Anqi, in which Ms. Qin Anqi is deemed to be interested under the SFO.

9. GSR is an exempted limited partnership with GoldenSand (a company which is wholly owned by Sonny Wu and being the general partner of GSR) and Sonny Wu (being the limited partner of GSR) holding 50% and 50% of the total capital contribution to GSR respectively, and therefore GoldenSand and Sonny Wu are deemed to be interested in the 56,000,000 Shares held by GSR under SFO.

Save as disclosed above, as at 31 December 2022, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

EXEMPTED CONTINUING CONNECTED TRANSACTION

During the Year, the Group has entered into certain transactions with "related parties" as defined under the applicable accounting standards and the details of the material related party transactions (the "**Transactions**") are disclosed in note 33 to the consolidated financial statements of this annual report.

The Transactions falls under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules, but are fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The Directors (including the Independent Non-executive Directors) confirmed that the Transactions have been entered into in the ordinary and usual course of business of the Group and have been based on arm's length negotiations and on normal commercial terms that are fair and reasonable, and in the interests of the Shareholders as a whole.

CORPORATE GOVERNANCE

Details of the corporate governance practice adopted by the Company are set out on pages 27 to 42 of this annual report.

AUDIT COMMITTEE

The audited financial statements of the Group for the Year have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial statements of the Group for the Year comply with applicable accounting standards, Listing Rules and that adequate disclosures have been made.

AUDITOR

The consolidated financial statements for the Year have been audited by BDO Limited, who will retire, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

By order of the Board
HG Semiconductor Limited
Zhao Yi Wen
Chairman and Executive Director

Hong Kong, 31 March 2023

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF HG SEMICONDUCTOR LIMITED
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of HG Semiconductor Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 76 to 145 which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Impairment assessment of trade and bills receivables

Refer to Note 19 and 36 to the consolidated financial statements and the accounting policies on Note 4(e)(ii).

As at 31 December 2022, the Group's gross trade and bills receivables balance amounted to approximately RMB82,409,000, of which approximately RMB21,896,000 were past due for more than 120 days. The collectability of the Group's trade and bills receivables and the valuation of the impairment of trade and bills receivables is a key audit matter due to the judgment involved.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the Directors' impairment assessment included:

— Assessing the methodologies and inputs adopted by the management of the Group in estimating the expected credit losses of trade receivables;

— Reviewing subsequent settlements of the trade and bills receivables; and

— Reviewing the repayment history and credit worthiness of the Group's debtors.

Fair value measurement of unlisted equity investments

Refer to Note 17 and 35(b) to the consolidated financial statements and the accounting policies on Note 4(e)(i).

The Group held unlisted equity investments as at 31 December 2022, the fair value of which was estimated by management to be approximately RMB198,865,000. Such unlisted equity investments were classified as a financial asset at fair value through other comprehensive income.

Management engaged an independent professional valuer to assess the fair value of the above unlisted equity investment as at 31 December 2022. The fair value of the unlisted equity investment was determined based on a number of valuation techniques and unobservable inputs, the selection of which requires the exercise of significant judgement.

We identified fair value measurement of unlisted equity investments as a key audit matter because of the significant judgement and high level of estimation uncertainty involved in the determination of fair value, and the carrying amount and fair value change during the year of such investment are significant to the Group's consolidated financial statements.

Our response:

— Evaluating the reasonableness of selection of valuation techniques, as well as those key assumptions and data used in the fair value determination of the investment, with the assistance of our valuation specialist;

— Evaluating the reasonableness of disclosures related to the fair value measurement of the unlisted equity investment in the consolidated financial statements; and

— Evaluating the competence, capabilities and objectivity of the independent professional valuer used by management and our valuation specialist.

OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information. The other information comprises the information included in the Company’s 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.

DIRECTORS’ RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

The Directors are also responsible for overseeing the Group’s financial reporting process. The Audit Committee assists the Directors in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our 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.

We communicate with the Audit Committee 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 the Audit Committee 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, related safeguards.

From the matters communicated with the Directors, we determine those 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 these matters 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.

BDO Limited
Certified Public Accountants
Chau Ka Kin
Practising Certificate Number: P07445

Hong Kong, 31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	7	87,518	126,137
Cost of sales		(71,087)	(100,630)
Gross profit		16,431	25,507
Other income and gains	7	1,224	409
Selling and distribution expenses		(2,966)	(2,259)
Administrative and other expenses		(112,732)	(98,605)
Loss arising on acquisition of intangible assets	16	—	(374,410)
(Provision)/reversal of provision on expected credit losses on trade and bills receivables		(1,595)	2,881
Finance costs	9	(2,008)	(1,147)
Loss before income tax credit	8	(101,646)	(447,624)
Income tax credit	12	359	798
Loss for the year		(101,287)	(446,826)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Exchange difference on translation to presentation currency		3,265	(4,125)
Item that may be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		12,532	1,309
Total comprehensive income for the year		(85,490)	(449,642)
Loss for the year attributable to:			
Owners of the Company		(101,287)	(446,826)
Non-controlling interests		—	—
		(101,287)	(446,826)
Total comprehensive income attributable to:			
Owners of the Company		(85,490)	(449,642)
Non-controlling interests		—	—
		(85,490)	(449,642)
Loss per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	13	(17.81)	(92.22)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	108,897	58,632
Intangible assets	16	71,169	63,951
Financial assets at fair value through OCI	17	198,865	186,333
Prepayments and deposits	20	50,946	40,843
Deferred tax assets	25	2,047	1,688
		431,924	351,447
Current assets			
Inventories	18	58,949	35,615
Trade and bills receivables	19	77,265	97,378
Prepayments, deposits and other receivables	20	72,476	42,373
Financial assets at fair value through profit or loss	17	33,900	25,383
Current tax recoverable		–	37
Cash and cash equivalents	21	43,794	113,640
		286,384	314,426
Current liabilities			
Trade payables	22	23,262	18,640
Other payables and accruals	23	25,247	6,373
Bank and other borrowings	24	41,139	7,000
Lease liabilities	28	7,520	6,651
		97,168	38,664
Net current assets		189,216	275,762

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current liabilities			
Lease liabilities	28	11,195	17,868
		11,195	17,868
Net assets		609,945	609,341
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	5,098	4,937
Reserves	27	588,656	604,404
		593,754	609,341
Non-controlling interests		16,191	—
Total equity		609,945	609,341

On behalf of the Directors

Zhao Yi Wen
Director

Leung Kin Pang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Equity attributable to owners of the Company											
	Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 27(a))	Share option reserve RMB'000 (Note 27(f))	Statutory reserve RMB'000 (Note 27(b))	Other reserve RMB'000 (Note 27(c))	Capital reserve RMB'000 (Note 27(d))	Investment revaluation reserve RMB'000 (Note 27(h))	Exchange reserve RMB'000 (Note 27(e))	Retained earnings/ (accumulated losses) RMB'000 (Note 27(g))	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2021 and 1 January 2022	4,937	877,632	53,999	15,498	580	35,972	1,309	(8,837)	(371,749)	609,341	–	609,341
Loss for the year	–	–	–	–	–	–	–	–	(101,287)	(101,287)	–	(101,287)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	3,265	–	3,265	–	3,265
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	12,532	–	–	12,532	–	12,532
Total comprehensive income for the year	–	–	–	–	–	–	12,532	3,265	(101,287)	(85,490)	–	(85,490)
Placing of new shares (Note 26)	161	50,189	–	–	–	–	–	–	–	50,350	–	50,350
Disposal of equity interests to non-controlling interests	–	–	–	–	–	–	–	–	8,599	8,599	16,191	24,790
Recognition of equity-settled share-based payment expenses (Note 29)	–	–	10,954	–	–	–	–	–	–	10,954	–	10,954
At 31 December 2022	5,098	927,821	64,953	15,498	580	35,972	13,841	(5,572)	(464,437)	593,754	16,191	609,945
At 31 December 2020 and 1 January 2021	3,580	46,162	–	14,805	580	35,972	–	(4,712)	75,770	172,157	–	172,157
Loss for the year	–	–	–	–	–	–	–	–	(446,826)	(446,826)	–	(446,826)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	(4,125)	–	(4,125)	–	(4,125)
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	1,309	–	–	1,309	–	1,309
Total comprehensive income for the year	–	–	–	–	–	–	1,309	(4,125)	(446,826)	(449,642)	–	(449,642)
Acquisition of intangible assets (Note 16)	664	437,560	–	–	–	–	–	–	–	438,224	–	438,224
Placing of new shares (Note 26)	693	393,910	–	–	–	–	–	–	–	394,603	–	394,603
Recognition of equity-settled share-based payment expenses (Note 29)	–	–	53,999	–	–	–	–	–	–	53,999	–	53,999
Transfer to statutory reserve	–	–	–	693	–	–	–	–	(693)	–	–	–
At 31 December 2021 and 1 January 2022	4,937	877,632	53,999	15,498	580	35,972	1,309	(8,837)	(371,749)	609,341	–	609,341

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Loss before income tax		**(101,646)**	(447,624)
Adjustments for:			
Depreciation of property, plant and equipment	8,15	**12,637**	8,149
Amortisation of intangible assets	8,16	**714**	681
Interest income	7	**(84)**	(61)
Finance costs	9	**2,008**	1,147
Provision/(reversal of provision) on expected credit losses on trade and bills receivables	36	**1,595**	(2,881)
Loss arising on acquisition of intangible assets	16	**—**	374,410
Change in fair value of financial assets at fair value through profit or loss	35(b)	**468**	63
Share-based payment	8, 29	**10,954**	53,999
Operating loss before working capital changes		**(73,354)**	(12,117)
(Increase)/decrease in inventories		**(23,334)**	2,798
Decrease in trade and bills receivables		**18,518**	19,924
Increase in prepayments, deposits and other receivables		**(40,206)**	(63,203)
Increase/(decrease) in trade payables, other payables and accruals		**23,533**	(3,587)
Cash used in operations		**(94,843)**	(56,185)
Income tax paid		**—**	(3,755)
Net cash flows used in operating activities		**(94,843)**	(59,940)
Cash flows from investing activities			
Purchases of property, plant and equipment (Note)		**(61,660)**	(9,280)
Purchase of financial assets at fair value through profit or loss, net		**(8,985)**	(23,216)
Purchases of financial assets at fair value through other comprehensive income		**—**	(185,024)
Acquisition of intangible assets		**(7,932)**	52
Proceed from disposal of equity interest to non-controlling interests		**24,790**	—
Interest received		**84**	61
Net cash flows used in investing activities		**(53,703)**	(217,407)

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from financing activities			
Interest paid	34(b)	(2,008)	(1,147)
Proceeds from placing of new shares		50,350	394,603
Repayments of bank borrowings	34(b)	(7,000)	(13,000)
Proceeds from bank and other borrowings	34(b)	41,139	7,000
Repayments of principal portion of the lease liabilities	34(b)	(6,937)	(1,651)
Net cash flows generated from financing activities		75,544	385,805
Net (decrease)/increase in cash and cash equivalents		(73,002)	108,458
Effect of exchange rate changes on cash and cash equivalents		3,156	(3,992)
Cash and cash equivalents as at the beginning of the year		113,640	9,174
Cash and cash equivalents as at the end of the year		43,794	113,640

Note: Items of property, plant and equipment other than right-of-use assets.

1. GENERAL AND CORPORATE INFORMATION

HG Semiconductor Limited (the "Company") was incorporated with limited liability in the Cayman Islands on 27 May 2015. The shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2016 with stock code "8343" and have been transferred from the GEM to the Main Board of the Stock Exchange on 13 November 2019 with stock code "6908".

The address of the Company's registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company and its subsidiaries (collectively referred to as the "Group") is located in the People's Republic of China (the "PRC") at the North Side, 2nd Floor, No. 8 Pinggong Er Road, Nanping Technology Industrial Park, Zhuhai, the PRC.

The Company's principal activity is investment holding. The Group is principally engaged in the design, development, manufacturing, subcontracting service and sales of semiconductor products, including light emitting diode ("LED") beads, gallium nitride ("GaN") chips, GaN components and related application products, and fast charging products in the PRC.

In the opinion of the Directors, as at 31 December 2022, the Company's ultimate parents are First Global Limited, a company incorporated in the British Virgin Islands (the "BVI") and Wide Yield Investment Holding Limited, a company incorporated in the BVI.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2022

Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	Annual Improvements to HKFRS Standards 2018–2020
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 37	Onerous Contract — Cost of Fulfilling a Contract

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]
Amendment to HKAS 1	Classification of Liabilities as Current or Non-current[2]
Amendment to HKAS 1	Presentation of financial statements — Non-current Liabilities with Covenants[2]
Amendments to HKFRS 16	Lease — Liability in a sale and Leaseback[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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

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

3 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 1 and HKFRS Practice Statement 2 — Disclosure of Accounting Policies

The HKICPA amended HKAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the HKICPA also amended HKFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 8 — Definition of Accounting Estimates

The amendment to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

The Directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKAS 12 — Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to HKAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

HKAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

The Directors of the Company anticipate that the application of the amendments may have an impact on the Group's accounting policies in respect of deferred tax on the Group's right-of-use assets and lease liabilities.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 1 — Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

  In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Amendments to HKAS 1 — Presentation of financial statements — Non-current Liabilities with Covenants

The amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. The amendments do not require an entity to present separately non-current liabilities for which the entity's right to defer settlements is subject to compliance with future covenants within twelve months. Instead, the amendments require entities to disclose information about such covenants and related liabilities in the notes.

Amendments to HKFRS 16 — Lease Liability in a Sale and Leaseback

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements of HKFRS 15 to be accounted for as a sale. The amendments require a seller-lessee to "lease payments" or "revised lease payments" such that the seller-lessee would not recognise a gain or loss that relates to the right of use retained by the seller-lessee. The amendments also clarify that applying the requirements does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to subsequent partial or full termination of a lease.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKRS 16 — Lease Liability in a Sale and Leaseback (Continued)

As part of the amendments, Illustrative Example 25 accompanying HKFRS 16 is added to illustrate the application of the requirements in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted.

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors of the Company anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transaction arise.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are measured at fair value as explained in the accounting policies below.

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs. An optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Changes in the Group's interests in a subsidiary that do not result in a loss of control of the subsidiary are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position (Note 32), investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of property, plant and equipment includes its purchase price and the cost directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Property	Over the remaining life of the lease
Machinery and equipment	3–10 years, over the commencement date of the lease term to the end of the useful life
Motor vehicles	5 years
Furniture, fixtures and office equipment	2–5 years
Leasehold improvement	10 years, over the shorter of lease term or useful life

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Construction in progress represents buildings, plants and machinery on which construction work has not been completed which, upon completion, management intends to hold for production purposes. Construction in progress is carried out at cost which include development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use. On completion, construction in progress is transferred to other property, plant and equipment at cost less accumulated impairment losses.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales. Amortisation is provided on a straight-line basis over their useful lives as follows:

Technology know-how	Useful life of 16 years
Patent sublicense	Over the shorter of lease term or useful life of 8 years
Computer Software	Over the shorter of lease term or useful life of 3 to 5 years

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Intangible assets (Continued)

(ii) Internally generated intangible assets (research and development costs)

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

Expenditure on internally developed products is capitalised if it can be demonstrated that:

— it is technically feasible to develop the product for it to be sold;
— adequate resources are available to complete the development;
— there is an intention to complete and sell the product;
— the Group is able to sell the product;
— sale of the product will generate future economic benefits; and
— expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (Note 4(j)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in the income statement immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group's investments in debt instruments are categories as follows:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, not designated as effective hedging instruments and financial assets that include embedded derivatives, are also classified as at FVTPL. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(i) Financial assets (Continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and bills receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is long overdue with occasional sales and non-response to collection activities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

The Group considers a financial asset to be in default when: (1) there is a breach of financial covenants by the counterparty; (2) the exposure is past due for more than 90 days; or (3) the debtor is unlikely to pay in full for the credit obligations to the Group.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(iii) Financial liabilities (Continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, other payables and accruals, bank and other borrowings and lease liabilities, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECLs provision measured in accordance with principles of the accounting policy set out in 4(e)(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Inventories

Inventories are initially recognised at cost, and subsequently valued at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

(g) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group’s performance:

— provides all of the benefits received and consumed simultaneously by the customer;

— creates or enhances an asset that the customer controls as the Group performs; or

— does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

(a) Sales of goods

Customers obtain control of the LED beads, GaN and other semiconductor products when the goods are delivered to and have been accepted by customers. Revenue is thus recognised at a particular point in time upon when the customers accepted the LED beads, GaN and other semiconductor products. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days, extending up to 120 days for major customers.

No element of financing is deemed present as the revenue are generally made with a credit term from 30 to 90 days, extending up to 120 days for major customers, which is consistent with market practice.

(b) Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(i) Leasing

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset is recognised at cost and comprises: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Leasing (Continued)

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(j) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment and right-of-use asset; and
- Intangible assets.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the relevant period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of each reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to minority interests as appropriate).

Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(l) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax expense

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(o) Employee benefits

(i) Pension scheme

The subsidiaries established and operating in the PRC are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

(ii) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Company's parent.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors 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 differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

(a) Critical judgments in applying accounting policies

(i) Judgements in determining if entities are accounted for as FVTOCI

The Group has an investment in unlisted preferred share of a Company in Israel (the "Israel Company"), in which it holds 18.8% (FY2021: 20.1%) of their non-redeemable equity interests or voting right of the entire equity of the Israel Company. According to the management of the Group, the investment in the Israel Company is solely for the investment purpose. The Group shall appoint only one director to the board of the Israel Company which consists of 9 directors. On 23 August 2021 (the acquisition date of the investment in the Israel Company), the Group entered an agreement with the founders of the Israel Company (the "Founders") pursuant to which the director will cast his vote based on the instructions given by the Founders in all board of directors meetings of the Israel Company. Any modification of the surrender agreement needs to agree by both the Founders and the Group. In substance, it is considered that the Group surrendered its significant rights as board representation as the Group no longer has the power to participate in the financial and operating policy-making decisions. The Directors consider that the Group has no significant influence, joint control nor control over the entities based on the fact that the Group does not participate in any operating and financial policies of the entities and exercise its influence on the operating and financial policies in the board of directors of the entities. The investment in the Israel Company is not held for trade. On initial recognition, the Company has elected to designate the investment as FVTOCI and to present in other OCI changes in the fair value of the investment in Israel Company. The Group therefore accounted for this investment as financial assets at FVTOCI. For detail of the financial asset at FVTOCI are set out in Note 17.

(ii) Judgements in determining if entities are accounted for as acquisition of assets

During the year ended 31 December 2021, the Group has an acquisition of 100% equity share over an entity. The directors consider the entity being acquired do not constitute a business as it does not consist of inputs and substantive processes applied to those inputs that have the ability to create outputs as at the acquisition date. The Group consider the individual identifiable assets acquired through the acquisition of the entity is just technology know-how. The Group therefore accounted for this entity as an acquisition of assets. For detail of the accounting treatment of the technology know-how are set out in Note 16.

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

(b) Key Sources of estimation uncertainty

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Inventory value is reduced when the decision to markdown below cost is made. The net carrying amount of inventory was approximately RMB58,949,000 (2021: RMB35,615,000). No impairment was recognised in respect of inventory for the years ended 31 December 2022 and 2021.

(ii) Impairment of trade and other receivables

The Group makes allowances for receivables based on assumptions about risk of default and expected loss rates. The Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates as at year ended date. The net carrying amount of trade and bills receivables and other receivable was approximately RMB110,509,000 (2021: RMB97,624,000) and the provision on expected credit losses on trade and bill receivables and other receivables was approximately RMB1,595,000 (2021: Reversal of provision on expected credit losses RMB2,881,000). For the detail credit policy and credit risk arising from trade and other receivables are set out in Note 36.

The Group's management reassesses the impairment of receivables as at the year ended date. Where the expectation is different from the original estimate, such differences will affect the carrying value of receivables and thus the impairment loss in the year in which such estimate is changed.

(iii) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1:	Quoted prices in active markets for identical items (unadjusted);
Level 2:	Observable direct or indirect inputs other than level 1 inputs; and
Level 3:	Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period as they occur.

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

(b) Key Sources of estimation uncertainty (Continued)

(iii) Fair value measurement (Continued)

The Group measures a number of items at fair value:

- Financial instruments at fair value through other comprehensive income; and
- Financial instruments at fair value through profit or loss.

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

(iv) Useful life of the intangible assets

The Group's management determines the useful lives of its intangible assets. This estimate is based on the historical experience and market research of the product life cycle of similar nature and functions and may vary significantly as a result of keen competitions from competitors, resulting in higher amortisation charge when useful lives are less than previously estimated. The independent industry expert was engaged by the Group to assess the useful life of technology know-how (see Note 16). The amortisation was commenced in December 2022.

At 31 December 2022, the carrying amount of technology know-how amounted to approximately RMB63,402,000 (2021: RMB63,734,000).

(v) Impairment assessment of non-financial asset (other than goodwill)

The group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flow are less than expected, a material impairment loss may arise.

The technology know-how was not available for use as at 31 December 2021 due to the production plant related to the GaN and other semiconductor products product still under construction, as described in Note 16. The technology know-how is to be used in the GaN and other semiconductor products segment. The Group shall perform impairment test on the GaN and other semiconductor products cash generating unit ("GaN CGU") by comparing its carrying amount with its recoverable amount annually irrespective of whether there is any indication of impairment.

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

(b) Key Sources of estimation uncertainty (Continued)

(v) Impairment assessment of non-financial asset (other than goodwill) (Continued)

The management estimates the recoverable amount of the CGU based on value in use of the GaN CGU. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the GaN CGU and also a suitable discount rate to calculate the present value of those cash flows. The carrying amount of the technology know-how as 31 December 2021 was RMB63,734,000. Further detail are set out in Note 16 to the consolidated financial statement. During the year ended 31 December 2022, the technology know-how is available for use and the amortisation was commenced in December 2022. The directors do not identified any impairment indicator of the technology know-how as the operation matched with their overall development plan.

(vi) Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset to a similar value to the right-of use asset in similar economic environment. The IBR therefore reflects what the lessee "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

6. SEGMENT INFORMATION

The chief operating decision makers are identified as Executive Directors of the Company. The Group has identified its operating segment based on the regular internal financial information reported to the Company's Executive Directors for their decisions about resources allocation and review of performance. The Group's operating segment is design, development, manufacturing, subcontracting service and sales of semiconductor products, including LED beads, GaN chips, GaN components and related application products, and fast charging products in the PRC. The Executive Directors determined there were two reportable and operating segments which are (i) LED products and (ii) GaN and other semiconductor products.

Segment revenue and results

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

	2022			2021		
	LED products RMB'000	GaN and other semiconductor products RMB'000	Total RMB'000	LED products RMB'000	GaN and other semiconductor products RMB'000	Total RMB'000
Segment revenue	87,185	333	87,518	126,137	—	126,137
Segment result	(2,799)	(53,156)	(55,955)	6,142	(386,444)	(380,302)
Other unallocated						
Income and gains			87			—
Administrative expenses			(45,161)			(67,108)
Finance costs			(617)			(214)
Loss before income tax			(101,646)			(447,624)

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	2022 LED products RMB'000	2022 GaN and other semiconductor products RMB'000	2022 Total RMB'000	2021 LED products RMB'000	2021 GaN and other semiconductor products RMB'000	2021 Total RMB'000
Segment assets	216,819	485,203	702,022	220,066	392,471	612,537
Corporate and other unallocated assets (Note)			16,286			53,336
Total assets			718,308			665,873
Segment liabilities	(40,142)	(48,678)	(88,820)	(29,723)	(9,436)	(39,159)
Corporate and other unallocated liabilities (Note)			(19,543)			(17,373)
Total liabilities			(108,363)			(56,532)
Other segment information:						
Depreciation charge						
— Owned property, plant and equipment	(3,706)	(1,086)	(4,792)	(4,827)	(1,022)	(5,849)
— Right-of-use-assets	(326)	(1,334)	(1,660)	(326)	(389)	(715)
Amortisation of intangible assets	(372)	(342)	(714)	(636)	—	(636)
(Provision)/reversals of provision of expected credit loss on trade and bills receivables	(1,595)	—	(1,595)	2,881	—	2,881
Fair value loss on financial asset	—	(468)	(468)	—	(63)	(63)

Note: Corporate and other unallocated assets mainly include property, plant and equipment in head office, deferred tax assets, prepayment in head office, deposit and other receivable, cash and cash equivalents in head office and corporate and other unallocated liabilities mainly include lease liabilities in head office, and other payables and accruals in head office.

No geographical information is presented as most of the Group's operations are located in the PRC.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

Revenue from customers of the Group's LED products segment who contributed over 10% of the Group's revenue for the corresponding years are as follows:

	2022 RMB'000	2021 RMB'000
Client A	17,945	16,350
Client B	11,272	N/A*
Client C	9,931	16,464

* Revenue did not contribute over 10% of the Group's revenue for the corresponding years.

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods and services sold, less value added tax and other applicable local taxes during the year. The Group is principally engaged in the design, development, manufacturing, subcontracting service and sales of semiconductor products, including LED beads, GaN chips, GaN components and related application products, and fast charging products in the PRC.

The sales contract terms do not allow rebate, discount, warranties and return on revenue. During the years ended 31 December 2022 and 2021, there were no rebate, discount, warranties and return on revenue.

	2022 RMB'000	2021 RMB'000
LED products		
Revenue recognised at a particular point in time		
Sales of LED beads	87,185	126,137
Sales of GaN and fast-charging products	333	—
	87,518	126,137
Other income and gains		
Bank interest income	84	61
Government grants (Note)	777	—
Other income	363	348
	1,224	409

Note: Government grants include various subsidies received by the Group from relevant government bodies in connection with certain subsidies to support the Group's businesses. There are no unfulfilled conditions or contingencies relating to these grants.

During the year ended 31 December 2022, among the government grants, HKD96,000 are government subsidies obtained from the Employment Support Scheme under the Anti-epidemic Fund launched by the Government of the Hong Kong Special Administrative Region supporting the payroll of the Group's employees. The Group has complied with the requirements set out in the subsidy notice or relevant law and regulations.

8. LOSS BEFORE INCOME TAX CREDIT

The Group's loss before income tax credit is arrived at after charging/(crediting):

	2022 RMB'000	2021 RMB'000
Cost of inventories sold	**58,826**	88,521
Depreciation charge, included in cost of sales (Note 15):		
— Owned property, plant and equipment	**5,359**	4,885
— Right-of-use-assets included within:		
— Property	**7,278**	2,298
— Machinery	**—**	966
Amortisation of intangible assets, included in cost of sales	**714**	681
Auditor's remuneration	**1,244**	1,164
Change in fair value of financial assets at fair value through profit or loss	**468**	63
Research and development costs, included in administrative and other expenses	**28,472**	16,463
Employee costs (including Directors' remuneration)		
— Wages, salaries and other benefits	**27,201**	12,959
— Contribution to defined contribution pension plans	**3,074**	1,106
— Share-based payment (Note 29)	**10,954**	53,999
Exchange (gain)/loss, net	**(159)**	1,512

9. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on borrowings	**373**	549
Interest on lease liabilities	**1,635**	598
	2,008	1,147

10. DIRECTORS' REMUNERATION

Directors' emoluments are disclosed as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to defined contribution pension plans RMB'000	Share-based payment (Note viii) RMB'000	Total RMB'000
Year ended 31 December 2022					
Executive Directors:					
Mr. Zhao Yi Wen	309	90	13	–	412
Mr. Lin Qi Jian (Note i)	98	90	13	–	201
Mr. Chan Wing Kin (Note i)	–	394	8	–	402
Mr. Lyu Xiangrong (Note ii)	–	577	–	–	577
Ms. Liu Yang (Note iii)	–	325	9	–	334
Mr. Leung Kin Pang (Note iii)	–	162	8	–	170
Non-executive Directors:					
Dr. Wang David Nin-kou (Note vii)	687	–	–	6,526	7,213
Mr. Chiu Kwai San (Note iv)	7	–	–	–	7
Mr. Wang Jie Chuan (Note v)	87	90	–	–	177
Independence Non-executive Directors:					
Professor Chow Wai Shing, Tommy	134	–	–	–	134
Mr. Wu Wing Kuen, *B.B.S.*	134	–	–	–	134
Mr. Chan Chung Kik, Lewis	134	–	–	–	134
Mr. Li Yang (Note vi)	94	–	–	–	94
Total	1,684	1,728	51	6,526	9,989
Year ended 31 December 2021					
Executive Directors:					
Mr. Zhao Yi Wen	299	89	13	1,386	1,787
Mr. Lin Qi Jian	199	89	13	1,386	1,687
Mr. Chan Wing Kin	–	597	15	13,861	14,473
Non-executive Directors:					
Dr. Wang David Nin-kou (Note vii)	358	–	–	4,517	4,875
Mr. Chiu Kwai San (Note iv)	100	–	–	1,386	1,486
Independence Non-executive Directors:					
Professor Chow Wai Shing, Tommy	100	–	–	347	447
Mr. Wu Wing Kuen, *B.B.S.*	100	–	–	347	447
Mr. Chan Chung Kik, Lewis	100	–	–	347	447
Total	1,256	775	41	23,577	25,649

10. DIRECTORS' REMUNERATION (Continued)

Notes:

(i) On 22 June 2022, Mr. Lin Qi Jian and Mr. Chan Wing Kin resigned as an executive director of the Company.

(ii) On 19 April 2022, Mr. Lyu Xiangrong was appointed as an executive director of the Company.

(iii) On 22 June 2022, Mr. Leung Kin Pang and Ms. Liu Yang were appointed as an executive director of the Company.

(iv) On 27 January 2022, Mr. Chiu Kwai San resigned as a non-executive director of the Company.

(v) On 19 April 2022, Mr. Wang Jie Chuan was appointed as a non-executive director of the Company.

(vi) On 19 April 2022, Mr. Li Yang was appointed as an independence non-executive director of the Company.

(vii) On 17 June 2021, Dr. Wang David Nin-kou was appointed as a non-executive director of the Company.

(viii) The Company recognises share-based payment for the services rendered during the vesting period under the share options scheme according to Note 4(p).

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group for the year included 1 (2021: 1) Director whose emoluments is reflected in the disclosures in Note 10. The emoluments of the remaining 4 (2021: 4) highest paid individuals for the year are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	**4,935**	223
Contribution to defined contribution pension plans	**206**	8
Share-based payment (Note 29) (Note)	**1,258**	21,449
	6,399	21,680

11. FIVE HIGHEST PAID INDIVIDUALS (Continued)

Their remuneration fell within the following bands:

	2022 No. of individuals	2021 No. of individuals
Nil to HKD1,000,000	—	—
HKD1,000,001 to HKD1,500,000	1	—
HKD1,500,001 to HKD2,000,000	2	—
HKD2,000,001 to HKD2,500,000	1	—
HKD5,500,001 to HKD6,000,000	—	2
HKD6,000,001 to HKD6,500,000	—	1
HKD8,000,001 to HKD8,500,000	—	1

During the years ended 31 December 2022 and 2021, no director or any of the highest-paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Note: The Company recognises share-based payment for the services rendered during the vesting period under the share options scheme according to Note 4(p).

12. INCOME TAX CREDIT

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2022 and 2021. For the year ended 31 December 2022, the first HK$2,000,000 of profits earned by one of the group companies will be taxed at a rate of 8.25% whilst the remaining profits will continue to be taxed at 16.5%. No provision for Hong Kong profits tax has been made as the Group's Hong Kong subsidiary had no estimated assessable profits for the year (2021: Nil).

12. INCOME TAX CREDIT (Continued)

In 2019, the Group's wholly-owned subsidiary, Zhuhai HongGuang Semiconductor Company Limited ("Zhuhai HongGuang"), previously known as Zhuhai HongGuang Lighting Fixture Company Limited, has renewed the "New and High Technology Enterprise Certificate" (the "Certificate") (高新技術企業證書). The Certificate has to be renewed over three years. In 2022, the Group has successfully renewed the Certificate for three years commencing from 1 January 2022. Pursuant to the relevant PRC enterprise income tax law, regulations and implementation guidance notes, Zhuhai HongGuang is entitled to a tax preference with a reduction of the enterprise income tax ("EIT") from 25% to 15% for the years ended 31 December 2022 and 2021.

	2022 RMB'000	2021 RMB'000
Current income tax — PRC EIT		
— Tax for the year	—	—
— Over provision in respect of prior year	—	(945)
Deferred tax (Note 25)	(359)	147
	(359)	(798)

A reconciliation of the income tax credit applicable to loss before income tax credit using the statutory enterprise income tax rate in the PRC to the tax credit at the effective tax rates is as follows:

	2022 RMB'000	2021 RMB'000
Loss before income tax credit	(101,646)	(447,624)
At the PRC's statutory enterprise income tax rate of 25% (2021: 25%)	(25,412)	(111,906)
Effect of preferential of EIT rate to 15% (2021: 15%)	280	(613)
Effect of different tax rates of subsidiaries operating in other jurisdiction	2,081	37,543
Effect of non-deductible expenses	23,798	75,349
Effect of non-taxable income	(747)	(373)
Over provision in respect of prior year	—	(945)
Effect of temporary difference	(359)	147
Income tax credit	(359)	(798)

13. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2022 RMB'000	2021 RMB'000
Loss		
Loss for the year attributable to owners of the Company	(101,287)	(446,826)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	568,597,433	484,525,098
Effect of dilutive potential ordinary shares in respect of the Company's share option schemes (Note (ii))	—	—
Weighted average number of ordinary shares for the purpose of diluted loss per share	568,597,433	484,525,098

Notes:

(i) Basic loss per share is calculated by dividing loss for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue of the Company during the year.

(ii) For the years ended 31 December 2022 and 2021, the potential ordinary shares from share options were not included in the calculation of loss per share as their inclusion would be anti-dilutive.

14. DIVIDEND

No dividend has been paid or declared by the Company for the years ended 31 December 2022 and 2021.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Property (Note) RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost							
At 31 December 2020 and 1 January 2021	—	2,035	61,635	148	92	200	64,110
Additions	—	24,288	4,636	299	4,345	—	33,568
Exchange adjustment	—	(281)	(131)	—	(39)	—	(451)
At 31 December 2021 and 1 January 2022	—	26,042	66,140	447	4,398	200	97,227
Additions	54,508	—	6,080	77	995	—	61,660
Exchange adjustment	—	1,328	339	—	20	—	1,687
At 31 December 2022	54,508	27,370	72,559	524	5,413	200	160,574
Accumulated depreciation							
At 31 December 2020 and 1 January 2021	—	650	29,559	135	79	96	30,519
Depreciation charge for the year	—	2,298	5,291	—	542	18	8,149
Exchange adjustment	—	(27)	(45)	—	(1)	—	(73)
At 31 December 2021 and 1 January 2022	—	2,921	34,805	135	620	114	38,595
Depreciation charge for the year	—	7,278	4,019	79	1,243	18	12,637
Exchange adjustment	—	288	140	—	17	—	445
At 31 December 2022	—	10,487	38,964	214	1,880	132	51,677
Net book value							
At 31 December 2022	54,508	16,883	33,595	310	3,533	68	108,897
At 31 December 2021	—	23,121	31,335	312	3,778	86	58,632

Note:

As at 31 December 2022, the carrying amount of the Group's property, mainly representing the leases of Hong Kong office and Xuzhou plant, are right-of-use assets. The property includes an amount of approximately RMB0.8 million (2021: approximately RMB1.1 million) leased from 珠海經濟特區利佳電子發展有限公司, a related party of the Group which is beneficially owned by the shareholder of the Company, Mr. Zhao Yi Wen, who is also Director of the Company, with lease term of 10 years from 1 April 2015 to 31 March 2025.

16. INTANGIBLE ASSETS

	Patent sublicense RMB'000	Computer software RMB'000	Technology know-how (Note) RMB'000	Total RMB'000
Cost				
At 1 January 2021	3,600	465	—	4,065
Additions	—	—	63,734	63,734
At 31 December 2021 and 1 January 2022	3,600	465	63,734	67,799
Additions	7,810	122	—	7,932
As 31 December 2022	11,410	587	63,734	75,731
Accumulated amortisation				
At 1 January 2021	2,964	203	—	3,167
Amortisation charge for the year	636	45	—	681
At 31 December 2021 and 1 January 2022	3,600	248	—	3,848
Amortisation charge for the year	325	57	332	714
At 31 December 2022	3,925	305	332	4,562
Net Book Value				
At 31 December 2022	7,485	282	63,402	71,169
At 31 December 2021	—	217	63,734	63,951

Note:

On 24 February 2021, the Company entered into a sale and purchase agreement with an independent third party pursuant to which the Company has conditionally agreed to acquire the entire equity interests of GSR GO Holding Corporation ("GSR GO") at a consideration of HK$76,800,000 by issuing 80,000,000 shares of the Company ("Consideration Shares") at an issue price of HK$0.96 per Consideration Share.

GSR GO is principally engaged in the research and development of fast charging solutions of battery system. The Directors consider that GSR GO does not constitute a business under HKFRS 3, as GSR GO does not consists of inputs and substantive processes applied to those inputs that have the ability to create outputs as at the acquisition date. The Group therefore accounted for this transaction as an acquisition of assets, and recognised the technology know-how as intangible assets.

The technology know-how relates to 6 patents under the process of registration in the PRC as at the acquisition completion date and the Group further applied for 3 more patents after the acquisition completion date under the PRC jurisdiction. As at 31 December 2022, 6 out of 9 of the registration of the patent have been completed.

16. INTANGIBLE ASSETS (Continued)

Note: (Continued)

As at the completion date, based on the then closing share price of the Company, the total cost of Consideration Shares issued by the Company was HK$528,000,000 (equivalent to approximately RMB438,224,000). However, the fair value of the technology know-how measured by the independent professional valuer was approximately RMB63,734,000, which is the initial cost of technology know-how. The difference between the total cost of Consideration Shares issued by the Company and the initial cost of the technology know-how was recognised as a loss arising on acquisition of intangible assets of approximately RMB374,410,000 in the profit or loss of the year ended 31 December 2021.

The technology know-how was estimated by the management of the Group to have estimated useful life of 16 years and the Group's adopted accounting policy is to carry the intangible assets at cost less accumulated amortisation and accumulated impairment losses. Amortisation shall begin when the asset is available for use. The Group engaged an independent industry expert to assess the useful life of technology know-how. Amortisation is calculated using the straight-line method to allocate the cost of technology know-how over their estimated useful lives from the point at which the asset is ready for use.

Impairment testing of technology know-how

The technology know-how is not available for use as at 31 December 2021. The Group shall perform impairment test on technology know-how by comparing its carrying amount with its recoverable amount annually irrespective of whether there is any indication of impairment.

The carrying amount of technology know-how allocated to the GaN CGU. To support the management to determine the recoverable amount of the GaN CGU, the Group engaged the independent professional valuer to perform a valuation.

The GaN CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management with budgeted gross margins, the discount rate and the long term growth rate applied in the cash flow projections.

Other than the approximately RMB374,410,000 loss recognised in the profit or loss for the year ended 31 December 2021, no further loss relating to the technology know-how was recognised during the year ended 31 December 2021 as the recoverable amount is higher than the carrying amount of approximately RMB63,734,000.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of GaN CGU:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the budget selling price from the memorandum of understanding from a potential customer and the budget unit cost of each product. The gross margin applied in the first five-year of the cash flow projections is 30%.

Discount rate — the discount rates used are before tax and reflect specific risks relating to the relevant unit. The pre-tax discount rate applied at 31 December 2021 is 16.49%.

Long term growth rate — the long term growth rate is based on market data and management's expectation on the future development of the semiconductor related product industry. The long term growth rate applied at 31 December 2021 is 3%.

The value assigned to the key assumptions on market development and discount rate are consistent with external information sources.

During the year ended 31 December 2022, the technology know-how is available for use and the amortisation was commenced in December 2022. The directors do not identified any impairment indicator of the technology know-how as the operation matched with their overall development plan.

17. FINANCIAL ASSETS AT FAIR VALUE

	2022 RMB'000	2021 RMB'000
Non-current assets		
Financial assets at FVTOCI		
— Unlisted equity securities (Note i)	**198,865**	186,333
Current assets		
Financial assets at FVTPL		
— Investment in unlisted fund (Note ii)	**33,900**	25,383

Notes:

(i) The unlisted equity securities were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature, which includes:

The Group invested 8.65% (FY2021: 10%) of the ordinary shares of a company in the PRC at the consideration of RMB15,000,000 for investment purpose in 2021. The fair value as at 31 December 2022 is HK$18,000,000 (equivalents to approximately RMB16,338,000).

The Group acquired 206,367 non-redeemable preference shares, which representing 0.37% of total equity share in a Canadian company at the consideration of approximately US$1,750,000 (equivalents to approximately RMB11,135,000) in 2021. The fair value as at 31 December 2022 is US$1,500,000 (equivalents to approximately RMB10,332,000).

The Group acquired 1,749,961 non-redeemable series E preferred shares, which representing 18.76% (FY2021: 20.10%) of an unlisted company in the Israel Company principally engaged in developing GaN related products including high-power transistors and modules at the consideration of approximately USD25,000,000 (equivalents to approximately RMB158,889,000) in 2021. The fair value as at 31 December 2022 is USD$25,000,000 (equivalents to approximately RMB172,195,000).

The above-mentioned preferred shares acquired by the Group have no provision for redemption at the option of the holder and the issuer has no contractual obligation to pay dividends. The preferred shares are considered by the management as equity investment and do not contain any derivatives. The equity investment were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature and was classified as non-current asset.

The Company engaged an independent professional valuer to measure the fair value of the unlisted equity securities as at 31 December 2022. Fair value gain of approximately RMB12,532,000 was recognised in other comprehensive income during the year ended 31 December 2022. Refer Note 35(b) for detail.

(ii) The Group subscripted approximately the 5,000 shares (2021: 4,000 shares) in the unlisted fund as at 31 December 2022. Fair value loss of approximately RMB468,000 was recognised in profit or loss during the year ended 31 December 2022, refer Note 35(b) for detail

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	46,036	27,106
Finished goods	12,913	8,509
	58,949	35,615

19. TRADE AND BILLS RECEIVABLES

The information about trade and bills receivables after ECLs are as follows:

	2022 RMB'000	2021 RMB'000
Trade receivables	68,327	80,330
Bills receivable	8,938	17,048
	77,265	97,378

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 90 days, extending up to 120 days for major customers. The Group seeks to maintain control over its outstanding receivables and overdue balances which are reviewed regularly by senior management. There is a certain concentration of credit risk. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 36. The business model of the Group related to the bills receivable is "hold to collect".

Included in trade and bills receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	2022 RMB'000	2021 RMB'000
0 to 30 days	32,681	28,900
31 to 60 days	8,503	18,092
61 to 90 days	8,504	9,691
91 to 120 days	6,815	5,964
121 to 365 days	5,243	19,923
Over 1 year	20,663	18,357
	82,409	100,927
Less: Impairment of trade and bills receivables (Note 36)	(5,144)	(3,549)
	77,265	97,378

The Group recognised impairment loss based on the accounting policy stated in Note 4(e)(ii).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Other receivables	**33,244**	246
Prepayments and deposits (Note i)	**90,178**	82,970
	123,422	83,216
Less: non-current portion		
Prepayments and deposits (Note ii)	**(50,946)**	(40,843)
Current portion	**72,476**	42,373

Prepayments, deposits and other receivables do not contain impaired assets.

Notes:

(i) The amount includes the prepayment to the independent third parties suppliers amounted to approximately RMB37,034,000 (2021: approximately RMB39,866,000) for purchase of raw material.

(ii) The amounted includes the prepayment of approximately RMB49,138,000 for purchase of machinery (2021: RMB31,198,000 for purchase of machinery and RMB7,334,000 for decoration). The machinery was delivered to the Company subsequent to the year ended.

21. CASH AND CASH EQUIVALENTS

	2022 RMB'000	2021 RMB'000
Bank balances and cash	**43,794**	113,640
Denominated in RMB	**40,509**	2,094
Denominated in HK$	**2,813**	53,014
Denominated in US$	**472**	58,532

The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the bank balances and cash approximated their fair values at the end of the reporting period. Bank balances and cash denominated in RMB are not freely convertible and the remittance of such funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

22. TRADE PAYABLES

The credit period granted from suppliers normally ranges from 0 to 120 days. The aging analysis of trade payables, based on invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
0 to 30 days	**5,197**	8,116
31 to 60 days	**5,000**	3,431
61 to 90 days	**4,174**	1,795
91 to 120 days	**2,642**	4,000
121 to 365 days	**5,533**	831
Over 1 year	**716**	467
	23,262	18,640

23. OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Accrued payroll	**3,230**	2,226
Deposits received	**9**	9
Other payables and accruals	**20,430**	3,750
Other tax payables	**1,578**	388
	25,247	6,373

24. BANK AND OTHER BORROWINGS

	2022 RMB'000	2021 RMB'000
Bank loans — unsecured (Note i)	**10,000**	7,000
Other loans — secured (Note ii)	**31,139**	—
	41,139	7,000

24. BANK AND OTHER BORROWINGS (Continued)

Notes:

(i) As at 31 December 2022, the effective interest rates of the unsecured interest — bearing bank loans were 3.75% (2021: 3.80%) per annum.

All of the banking facilities are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the borrowings would become repayable on demand. The Group regularly monitors its compliance with these covenants. At the end of each of reporting period, none of the covenants related to drawn down facilities had been breached.

(ii) As at 31 December 2022, the other loan was secured by the share capital of certain subsidiaries of the Group with the effective interest rates of 12% per annum. The other loan contained a repayment on demand clause giving the lender the unconditional right to call the loans at any time.

25. DEFERRED TAX ASSETS

Details of the deferred tax recognised and movements are as follows:

	Impairment of trade and bills receivables RMB'000	Write off of inventories RMB'000	Depreciation in excess of related depreciation allowances RMB'000	Total RMB'000
At 31 December 2020 and 1 January 2021	1,606	4	225	1,835
(Charged)/credited to profit or loss (Note 12)	(720)	—	573	(147)
At 31 December 2021 and 1 January 2022	886	4	798	1,688
Credited/(charged) to profit or loss (Note 12)	399	—	(40)	359
At 31 December 2022	1,285	4	758	2,047

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors.

As at 31 December 2022 and 2021, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC for RMB137,616,000 (2021: RMB140,815,000). It is because in the opinion of the Directors, it is not probable that the subsidiaries will distribute its earnings accrued from the date of operation to 31 December 2022 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2022 and 2021.

25. DEFERRED TAX ASSETS (Continued)

No deferred tax asset has been recognised in respect of deductible temporary differences of RMB106,827,000 (2021: RMB23,544,000) as the deductible temporary differences have arisen in subsidiaries that have been loss-making for years and it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised. The unused tax losses of the PRC subsidiaries will expire in five years.

26. SHARE CAPITAL

	Number of ordinary shares	RMB'000
Issued and fully paid:		
At 1 January 2021	400,000,000	3,580
Issued for the acquisition of intangible assets (Note (i))	80,000,000	664
Placement of new shares (Note (ii))	83,591,000	693
At 31 December 2021 & 1 January 2022	563,591,000	4,937
Placement of new shares (Note (iii))	18,010,000	161
At 31 December 2022	581,601,000	5,098

Notes:

(i). The Company entered into a sales and purchase agreement to acquire the GSR GO together with its subsidiary (the "GSR GO Group"), involving the issuance of 80,000,000 shares for acquisition, please refer to Note 16 for details.

(ii). An aggregate of 69,245,000 and 14,346,000 shares have been successfully placed on 22 July 2021 and 1 December 2021 respectively to not less than six placees at the share price of HK$5.80 and HK$6.20 respectively per share.

(iii). An aggregate of 9,428,000 and 8,582,000 shares have been successfully placed on 2 September 2022 and 13 October 2022 respectively to not less than six placees at the share price of HK$3.20 and HK$3.20 respectively per share.

27. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2022 and 2021 is presented in the consolidated statement of changes in equity. Movements on the Company's reserves are as follows:

The Company

	Share premium RMB'000 (Note (a))	Share option reserve RMB'000 (Note (f))	Accumulated losses RMB'000 (Note (g))	Total RMB'000
At 1 January 2021	46,162	—	(29,573)	16,589
Loss for the year	—	—	(445,124)	(445,124)
Total comprehensive income for the year	—	—	(445,124)	(445,124)
Acquisition of intangible assets (Note 16)	437,560	—	—	437,560
Placing to new shares (Note 26)	393,910	—	—	393,910
Recognition of equity settled share-based payment expenses (Note 29)	—	53,999	—	53,999
At 31 December 2021 and 1 January 2022	877,632	53,999	(474,697)	456,934
Loss for the year	—	—	(86)	(86)
Total comprehensive income for the year	—	—	(86)	(86)
Placing to new shares (Note 26)	50,189	—	—	50,189
Recognition of equity settled share-based payment expenses (Note 29)	—	10,954	—	10,954
At 31 December 2022	927,821	64,953	(474,783)	517,991

27. RESERVES (Continued)

The Company (Continued)

(a) Share Premium

Share premium represents amount subscribed for share capital in excess of par value.

(b) Statutory Reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the PRC subsidiary, it is required to appropriate 10% of the annual net profits of the PRC subsidiary, after offsetting any prior years' losses as determined under the relevant PRC accounting standards, to their respective statutory reserves before distributing any net profit. When the balances of the statutory reserves reach 50% of their respective registered capital, any further appropriation is at the discretion of shareholders. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) Other reserve

Other reserve represents the difference between the fair value of the consideration paid and the carrying value of the subsidiaries acquired and was recorded in the equity.

(d) Capital Reserve

Capital reserve represents the capital contribution from shareholders.

(e) Exchange Reserve

Exchange reserve represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

(f) Share Option Reserve

Share option reserve represents recognition of Equity-settled Share base payment from grant date to exercisable period.

(g) Retained Earnings/Accumulated Losses

Retained earnings/(accumulated losses) represents cumulative net gains and losses recognised in profit or loss.

(h) Investment revaluation reserve

Investment revaluation reserve represents change in fair value of financial assets at fair value through other comprehensive income.

28. LEASES

Nature of leasing activities (in the capacity as lessee)

The Group leases a property in the jurisdiction from which it operate. The rent for the property is fixed at RMB30,928 per month with lease term of 10 years.

Right-of-use assets

The net book value of the underlying assets of right-of-use assets included in property, plant and equipment (Note 15) are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Properties leased for own use, carried at depreciated cost	16,883	23,121

Lease liabilities

Future lease payments are due as follows:

	Minimum lease payments 31 December 2022 RMB'000	Future interest 31 December 2022 RMB'000	Present-value 31 December 2022 RMB'000
Not later than one year	8,748	1,228	7,520
Later than one year and not later than two years	7,374	773	6,601
Later than two years and not later than five years	5,426	832	4,594
	21,548	2,833	18,715

28. LEASES (Continued)

Nature of leasing activities (in the capacity as lessee) (Continued)

Lease liabilities (Continued)

	Minimum lease payments 31 December 2021 RMB'000	Future interest 31 December 2021 RMB'000	Present-value 31 December 2021 RMB'000
Not later than one year	8,255	1,604	6,651
Later than one year and not later than two years	12,930	1,279	11,651
Later than two years and not later than five years	6,282	1,464	4,818
Later than five years	1,455	56	1,399
	28,922	4,403	24,519

The present value of future lease payments are analysed as:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Current liabilities	7,520	6,651
Non-current liabilities	11,195	17,868
	18,715	24,519

The lessee's incremental borrowing rate for the additional lease enforced during the year is 4.55%.

No short term and low value lease which the Group has elected to recognise right-of-use asset and lease liabilities for the years ended 31 December 2022 and 2021.

29. SHARE-BASED PAYMENT

The Company's share option scheme was approved by the Company pursuant to the written resolutions of the then all shareholders of the Company dated 2 December 2016 (the "Share Option Scheme"). The Share Option Scheme remains valid and effective following the transfer of listing of the Company's shares from the GEM to the Main Board on 13 November 2019 and is implemented in full compliance with the requirements under Chapter 17 of the Listing Rules.

The Company operates the Share Option Scheme for the purpose of providing incentives and/or rewards to eligible participants (including the Company's directors and other employees of the Group) who render services and/or contribute to the success of the Group's operations. Eligible participants receive remuneration in the form of share-based payments, whereby eligible participants render services as consideration for share options.

29. SHARE-BASED PAYMENT (Continued)

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted on grant date. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

On 17 June 2021, the Company granted 34,510,000 options to 26 grantees to subscribe for an aggregate of 34,510,000 shares under the Share Option Scheme for a consideration of HK$1 per option granted.

The following tables disclose details of movements of the Company's share options held by directors and employees during the year:

				Number of share options							
Date of grant	Vesting period	Exercisable period	Subscription price per Share (HK$)	Outstanding at 1 January 2022	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Transfer between category during the Year	Outstanding at 31 December 2022	Vested and exercisable at 31 December 2022
Directors of the Company											
17/6/2021	Nil (Note 5)	17/6/2021–16/6/2024	7.50	6,600,000	–	–	–	–	(5,760,000)	840,000	840,000
	Nil (Note 5)	17/6/2021–16/6/2029	7.50	–	–	–	–	–	2,400,000	2,400,000	2,400,000
	17/6/2021–16/6/2022 (Note 6)	17/6/2022–16/6/2026	7.50	1,200,000	–	–	–	–	–	1,200,000	1,200,000
	17/6/2021–16/6/2023 (Note 6)	17/6/2023–16/6/2027	7.50	1,200,000	–	–	–	–	–	1,200,000	–
	17/6/2021–16/6/2024 (Note 6)	17/6/2024–16/6/2028	7.50	1,200,000	–	–	–	–	–	1,200,000	–
	17/6/2021–16/6/2025 (Note 6)	17/6/2025–16/6/2029	7.50	1,200,000	–	–	–	–	–	1,200,000	–
				11,400,000	–	–	–	–	(3,360,000)	8,040,000	4,440,000
Senior management and other employees											
17/6/2021	Nil (Note 5)	17/6/2021–16/6/2024	7.50	5,760,000	–	–	–	–	5,760,000	11,520,000	11,520,000
	Nil (Note 5)	17/6/2021–16/6/2029	7.50	4,050,000	–	–	–	–	(2,400,000)	1,650,000	1,650,000
	17/6/2021–16/6/2022 (Note 6)	17/6/2022–16/6/2026	7.50	1,637,500	–	–	–	–	–	1,637,500	1,637,500
	17/6/2021–16/6/2023 (Note 6)	17/6/2023–16/6/2027	7.50	250,000	–	–	–	–	–	250,000	–
	17/6/2021–16/6/2024 (Note 6)	17/6/2024–16/6/2028	7.50	250,000	–	–	–	–	–	250,000	–
	17/6/2021–16/6/2025 (Note 6)	17/6/2025–16/6/2029	7.50	250,000	–	–	–	–	–	250,000	–
	17/6/2021–16/6/2022 (Note 7 & 6)	17/6/2022–16/6/2026	7.50	62,500	–	–	–	–	–	62,500	62,500
	17/6/2021–16/6/2023 (Note 7 & 6)	17/6/2022–16/6/2027	7.50	62,500	–	–	–	–	–	62,500	–
	17/6/2021–16/6/2024 (Note 7 & 6)	17/6/2022–16/6/2028	7.50	62,500	–	–	–	–	–	62,500	–
	17/6/2021–16/6/2025 (Note 7 & 6)	17/6/2022–16/6/2029	7.50	62,500	–	–	–	–	–	62,500	–
	17/6/2021–16/6/2023 (Note 1 & 6)	17/6/2023–16/6/2027	7.50	1,387,500	–	–	–	–	–	1,387,500	–
	17/6/2021–16/6/2024 (Note 1 & 6)	17/6/2024–16/6/2028	7.50	1,387,500	–	–	–	–	–	1,387,500	–
	17/6/2021–16/6/2025 (Note 1 & 6)	17/6/2025–16/6/2029	7.50	1,387,500	–	–	–	–	–	1,387,500	–
	17/6/2021–16/6/2029 (Note 2)	From vesting date –16/6/2029	7.50	500,000	–	–	–	–	–	500,000	–
	17/6/2021–16/6/2029 (Note 3)	From vesting date –16/6/2029	7.50	2,500,000	–	–	–	–	–	2,500,000	–
	17/6/2021–16/6/2029 (Note 4)	From vesting date –16/6/2029	7.50	3,500,000	–	–	–	–	–	3,500,000	–
				23,110,000	–	–	–	–	3,360,000	26,470,000	14,870,000
				34,510,000	–	–	–	–	–	34,510,000	19,310,000

29. SHARE-BASED PAYMENT (Continued)

Notes:

1. Vesting of the Share Options is conditional upon achievement of certain sales targets of the Group by the grantees within the vesting period.

2. Vesting of the Share Options is conditional upon successfully develops a new technology and product that appreciated by the board by the grantee within the vesting period of the Group.

3. Vesting of the Share Options is conditional upon successfully procures financing for the Group in the amount and from financial institutions of the satisfaction of the Group by the grantees within the vesting period.

4. Vesting of the Share Options is conditional upon successfully procures certain target company to become a customer of the Group by the grantees within the vesting period.

5. Vesting of the Share Options immediately at grant date.

6. Share Options are exercisable when the grantees retain employment in the Group until the end of the vesting period.

7. Vesting of the Share Options is conditional upon achievement of satisfaction on relationship between the PRC local government authorities and the Group by the grantee within the vesting period.

The estimated fair value of the options granted on the grant date is approximately HK$122,873,000. On the date of grant, the closing price was HK$7.5 per Share.

The fair values of the share options at the dates of grant were calculated using the Binomial Option Pricing model. The assumptions used for the calculation for options granted are as follows:

Share options granted on 17 June 2021:

Closing share price at date of grant	HK$7.50
Exercise price	HK$7.50
Fair value per share option	HK$3.0807–HK$4.5977
Risk free rate	0.276%–1.102%
Time to Maturity	3–8 years
Time to vest	0–8 years
Expected dividend yield	0%
Expected volatility	63%–74%
Early exercise multiple	Directors: 280% Non-directors: 220%

The variables and assumptions used above are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The total fair value of the share option on grant date is approximately HK$99,319,000. During the year ended 31 December 2022, the Company recognised expense for the services rendered during the vesting period under the share options scheme of approximately RMB10,954,000 (2021: RMB53,999,000).

30. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Commitments for the acquisition of property, plant and equipment	64,527	76,728

31. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		7	7
Amounts due from subsidiaries (Note)		429,029	325,191
Intangible assets (Note 16)		63,402	63,734
		492,433	388,932
Current assets			
Prepayment		—	123
Amounts due from subsidiaries (Note)		41,553	29,698
Cash and cash equivalents		2,649	44,639
		44,202	74,460
Current liabilities			
Other borrowings		6,139	—
Other payables		7,407	1,521
		13,546	1,521
Net assets		523,089	461,871
EQUITY			
Share capital	26	5,098	4,937
Reserves	27	517,991	456,934
Total equity		523,089	461,871

Note: For the amounts due from subsidiaries, the Directors make periodic individual assessment on the recoverability of the subsidiaries. No provision on expected credit loss on amount due from subsidiaries recognised during the year ended 31 December 2022 (2021: RMB980,000).

On behalf of the Directors

Zhao Yi Wen
Director

Leung Kin Pang
Director

32. INVESTMENT IN SUBSIDIARIES

Details of the subsidiaries as at 31 December 2022 and 2021 are as follows:

Name	Form of business structure	Place of incorporation/ operation and principal activity	Description of shares held	Percentage of ownership interests/ voting rights/profit share			
				2022		2021	
				Direct %	Indirect %	Direct %	Indirect %
HongGuang Lighting Group Company Limited	Corporation	BVI Investment holding	1 ordinary share of United State Dollar ("US$") 1 each	100	–	100	–
HongGuang Lighting (International) Limited	Corporation	BVI Investment holding	1,000 ordinary shares of US$1 each	100	–	100	–
FastPower Holding Limited	Corporation	BVI Investment holding	1 ordinary shares of US$1	100	–	100	–
FastSemi Holding Limited	Corporation	BVI Investment holding	1 ordinary shares of US$1	100	–	100	–
GSR Go Holding Corporation	Corporation	BVI Investment holding	1,000 ordinary shares of US$1 each	100	–	100	–
HongGuang Lighting (Hong Kong) Holdings Limited	Corporation	Hong Kong Investment holding	1,000 ordinary shares of HK$1 each	–	100	–	100
Zhuhai HongGuang Semiconductor Company Limited*, previously known as Zhuhai HongGuang Lighting Fixture Company Limited	Corporation	The PRC Design, development, manufacturing, subcontracting service and sales of LED products	RMB 36,000,000	–	100	–	100
Fast Charging Limited	Corporation	Hong Kong Research and development of fast charging solutions for battery system	10,000 ordinary shares of HK$1 each	–	100	–	100
西安速充半導體有限公司*	Corporation	The PRC Research and development	Nil**	–	100	–	100
FastPower Inc.	Corporation	United States of America Research and development	1,000,000 ordinary shares with no par value	–	100	–	100
Swift Power Limited	Corporation	Hong Kong Investment holding	1 ordinary share of HK$1 each	–	100	–	100

32. INVESTMENT IN SUBSIDIARIES (Continued)

Name	Form of business structure	Place of incorporation/ operation and principal activity	Description of shares held	Percentage of ownership interests/ voting rights/profit share			
				2022		2021	
				Direct %	Indirect %	Direct %	Indirect %
徐州金沙江半導體有限公司	Corporation	The PRC Design, development, manufacturing and sales of GaN and other semiconductor products	US$25,254,215	–	86.01	–	100
蘇州金沙江半導體有限公司*	Corporation	The PRC Research and development	Nil**	–	100	–	100
深圳前沿科技研發有限公司*	Corporation	The PRC Research and development	Nil**	–	100	–	100
HG Semiconductor (Hong Kong) Limited	Corporation	Hong Kong Sale of semiconductor products	1,000 ordinary shares of HK$1 each	–	100	–	–

None of the subsidiaries had issued any debt securities at the end of the year.

* Those subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

** No share capital paid up during the year.

33. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

Name of related party	Nature of transactions	Transaction amount	
		2022 RMB'000	2021 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense (Note (ii))	1,972	2,019
珠海經濟特區利佳電子發展有限公司	Rental expense (Note (iii))	248	316
珠海經濟特區利佳電子發展有限公司	Interest on lease liability (Note (iii))	123	55
		2,343	2,390

33. RELATED PARTY TRANSACTIONS (Continued)

(a) During the year, the Group entered into the following transactions with related parties: (Continued)

Notes:

(i) The related party is beneficially owned by the shareholders of the Company, Mr. Zhao Yi Wen, who is also Director of the Company.

(ii) The utility expense was first paid by the related party based on the actual amount of utility expense incurred, which was subsequently reimbursed by the Group.

(iii) The rental expense and interest on lease liability are relating to the property lease from the related party (Note 15).

(b) Compensation of key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Executive Directors as disclosed in Note 10, is as follows:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	2,045	1,273
Pension scheme contributions	54	41
Share-based payment (Note)	—	16,633
	2,099	17,947

Note: The Company recognise share-based payment for the services rendered during the vesting period under the share options scheme according to note 4(p).

34. NOTES SUPPORTING CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise

	2022 RMB'000	2021 RMB'000
Bank balances and cash available on demand	43,794	113,640

34. NOTES SUPPORTING CASH FLOW STATEMENT (Continued)

(b) Reconciliation of liabilities arising from financing activities

	Borrowings RMB'000	Lease liabilities RMB'000
At 31 December 2020 and 1 January 2021	13,000	2,155
Change from cash flow:		
Proceed from borrowings	7,000	—
Repayment of borrowings	(13,000)	—
Repayment of principal portion of the lease liabilities	—	(1,651)
Interest paid	(549)	(598)
Total change from cash flow	(6,549)	(2,249)
Other change:		
Addition of leases liabilities	—	24,006
Exchange realignment	—	9
Interest expenses	549	598
At 31 December 2021 and 1 January 2022	7,000	24,519
Change from cash flow:		
Proceed from borrowings	41,139	—
Repayment of borrowings	(7,000)	—
Repayment of principal portion of the lease liabilities	—	(6,937)
Interest paid	(373)	(1,635)
Total change from cash flow	33,766	(8,572)
Other change:		
Exchange realignment	—	1,133
Interest expenses	373	1,635
Total other change	373	2,768
At 31 December 2022	41,139	18,715

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows the carrying amount and fair value of financial assets and liabilities:

	2022 RMB'000	2021 RMB'000
Financial assets		
Measured at amortised cost	155,060	211,264
Fair value through profit or loss	33,900	25,383
Fair value through other comprehensive income	198,865	186,333
Financial liabilities		
Measured at amortised cost	105,635	56,144

The fair value of all these financial assets and financial liabilities are not materially different from their carrying amounts.

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include bank balances and cash, trade and bills receivables, other receivables, trade payables and other payables and accruals.

Due to their short term nature, the carrying value of bank balances and cash, trade and bills receivables, other receivables, trade payables, other payables and accruals, bank and other borrowings and lease liabilities approximates fair value.

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instrument, as well as the relationship between key observable inputs and fair value are set out below.

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

(b) Financial instruments measured at fair value (Continued)

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value at 31 December 2022 RMB'000	Fair value at 31 December 2021 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Unlisted equity investments at fair value	182,527	170,024	Level 3	Latest transaction prices/ consideration for shares transfer in similar equity interest	Consideration due to timing, condition of sale and terms of agreement, size and nature of similar business to derive estimated value	The higher the value of similar transactions, the higher the valuation
Unlisted equity investments at fair value	16,338	16,309	Level 3	Discounted cash flows — future cash flows are estimated based on expected return, discounted at a rate that reflects risk of underlying assets	Discount rate	The higher the discount rate, the lower the valuation
					Growth rate	The higher the growth rate, the higher the valuation
Unlisted fund investments at fair value	33,900	25,383	Level 3	Net asset value of underlying investments	Net assets	The higher the net asset value, the higher the valuation

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

(b) Financial instruments measured at fair value (Continued)

Significant unobservable inputs

	2022	2021
Discount rate	25%	26%
Growth rate	3%	3%

Details of reconciliation of financial assets and financial liabilities at FVTPL and FVOCI measured at Level 3 fair value measurement are set out as below:

	Unlisted equity investments at fair value RMB'000	Unlisted fund investments at fair value RMB'000	Investment in term deposits RMB'000
As at 1 January 2021	—	—	2,230
Acquisitions	185,024	25,446	—
Disposals	—	—	(2,230)
Change in fair value	1,309	(63)	—
As at 31 December 2021 and 1 January 2022	186,333	25,383	—
Acquisitions	—	8,985	—
Change in fair value	12,532	(468)	—
As at 31 December 2022	198,865	33,900	—

There were no transfers between levels during the year 2022 and 2021.

36. FINANCIAL RISK MANAGEMENT

The Group's activities expose itself to variety of financial risks: interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors regularly reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk in relation to variable-rate bank balances. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the short-term bank deposits. However, management considers the interest rate risk on the deposits is insignificant as they are relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

After performed the sensitivity analysis, management considered that the potential effect on the Group's post-tax profit at the end of each of the reporting period would be minimal, if interest rates had been 100 basis points higher/lower and all other variables were held constant. In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of each of the reporting period do not reflect the exposures during the year.

Foreign currency risk

The Group's exposure to foreign currency risk relates principally to its bank balances denominated in foreign currencies other than the functional currency of relevant group entity. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
USD	472	58,532
HKD	2,813	53,014

36. FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency risk (Continued)

The following table indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2022		2021	
	Increase/ (decrease) in foreign exchange rates	(Increase)/ decrease in loss after tax and (increase)/ decrease in retained earnings RMB'000	Increase/ (decrease) in foreign exchange rates	(Increase)/ decrease in loss after tax and (increase)/ decrease in retained earnings RMB'000
USD	5%	20	5%	2,248
	(5%)	(20)	(5%)	(2,248)
HKD	5%	120	5%	2,253
	(5%)	(120)	(5%)	(2,253)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' loss/profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

Except for trade receivables, the credit risk of the Group's other financial assets, which comprise bank balances and cash and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty.

36. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of 31 December 2022, the Group has a certain concentration of credit risk as approximately 61.6% (2021: 41%) of the total trade receivables were due from the five largest customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The Group's historical credit loss experience indicated different loss patterns for different customer segments. The historical default rates on the Group's trade receivables for the past 5 years were low. The management, in assessing the amount of the ECLs, takes into account not only the Group's historical data but also external market information about possible default rates on debts similar to the Group's trade debts. Different customer segments are outlined as follows:

— Grade 1 Good credit rating customers
— Grade 2 Average credit rating customers
— Grade 3 Credit impaired customers

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

31 December 2022

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.32%	29,011	94
Past due for less than 30 days	0.32%	6,021	20
Past due for more than 30 days but less than 90 days	0.32%	3,195	10
Past due for more than 90 days but less than 120 days	1.57%	60	1
Past due for more than 120 days but less than 365 days	1.57%	6	—
		38,293	125

36. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

31 December 2022 (Continued)
Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	2.91%	10,997	320
Past due for less than 30 days	2.91%	863	21
Past due for more than 30 days but less than 90 days	2.91%	951	28
Past due for more than 90 days but less than 120 days	4.71%	477	22
Past due for more than 120 days but less than 365 days	4.71%	2,529	119
Over 365 days	17.22%	16,903	2,910
		32,720	3,420

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	65%	2,458	1,599
		2,458	1,599

36. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

31 December 2021

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.27%	31,597	85
Past due for less than 30 days	0.27%	2,435	6
Past due for more than 30 days but less than 90 days	0.27%	2,242	6
Past due for more than 90 days but less than 120 days	1.31%	192	3
Past due for more than 120 days but less than 365 days	1.31%	16,792	219
Over 365 days	6.00%	7,693	462
		60,951	781

Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	2.50%	9,618	240
Past due for less than 30 days	2.50%	1,234	31
Past due for more than 30 days but less than 90 days	2.50%	1,633	41
Past due for more than 90 days but less than 120 days	4.16%	489	20
Past due for more than 120 days but less than 365 days	4.16%	1,421	59
Over 365 days	15.70%	6,075	954
		20,470	1,345

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	57.9%	2,458	1,423
		2,458	1,423

36. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Summary

Movement in the loss allowance account in respect of trade and bills receivables during the year is as follows:

	2022 RMB'000	2021 RMB'000
Balance at 1 January	3,549	6,430
Provision/(Reversal of provision) on expected credit losses	1,595	(2,881)
Balance at 31 December	5,144	3,549

The following significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in the loss allowance during 2022:

— Increase in long overdue trade receivable resulted in an increase in loss allowance at approximately RMB1,595,000 (2021: Decrease RMB2,881,000).

36. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's non-derivative and derivative financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000
At 31 December 2022						
Trade payables	23,262	23,262	23,262	—	—	—
Other payables and accruals	23,670	23,670	23,670	—	—	—
Borrowings	41,139	45,251	45,251	—	—	—
Lease liabilities	18,715	21,548	8,748	7,374	5,426	—
	106,786	113,731	100,931	7,374	5,426	—

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000
At 31 December 2021						
Trade payables	18,640	18,640	18,640	—	—	—
Other payables and accruals	5,985	5,985	5,985	—	—	—
Borrowings	7,000	7,266	7,266	—	—	—
Lease liabilities	24,519	28,923	8,255	12,931	6,282	1,455
	56,144	60,814	40,146	12,931	6,282	1,455

37. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing the products commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. Net debt includes trade payables, other payables and accruals and bank borrowings less Bank balances and cash. The net debt-to-equity ratio as at the end of each of the financial year is as follows:

	2022 RMB'000	2021 RMB'000
Trade payables	23,262	18,640
Other payables and accruals	25,247	6,373
Borrowings	41,139	7,000
Less: Bank balances and cash	(43,794)	(113,640)
Net debt/(assets)	45,854	(81,627)
Equity	609,945	609,341
Net debt-to-equity ratio	8%	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2023.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from published audited financial statements and restated/reclassified as appropriate, is set out below:

RESULTS

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	**87,518**	126,137	121,995	243,260	203,747
(Loss)/profit before income tax expense	**(101,646)**	(447,624)	6,394	23,078	29,036
Income tax credit/(expense)	**359**	798	(1,831)	(5,800)	(5,140)
(Loss)/profit for the year	**(101,287)**	(446,826)	4,563	17,278	23,896

ASSETS AND LIABILITIES

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	**718,308**	665,873	220,575	246,096	198,948
Total liabilities	**108,363**	56,532	48,418	78,500	48,738
Total equity	**609,945**	609,341	172,157	167,596	150,210