HG Semiconductor Limited
宏光半導體有限公司

(Formerly known as HongGuang Lighting Holdings Company Limited
宏光照明控股有限公司)
(incorporated in the Cayman Islands with limited liability)
Stock Code: 6908

ANNUAL REPORT 2021

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. ZHAO Yi Wen (趙奕文)
(Chairman and Chief Executive Officer)
Mr. LIN Qi Jian (林啟建)
Mr. CHAN Wing Kin (陳永健)

Non-executive Director

Mr. CHIU Kwai San (趙桂生)
(Resigned on 27 January 2022)
Dr. Wang David Nin-kou (王寧國)
(Appointed on 17 June 2021)

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)

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)

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)

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)

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)

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STOCK CODE

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COMPANY'S WEBSITE

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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 2021 (the "**Reporting Year**" or "**Year**" or "**2021**").

During the past year, the lingering worldwide impact of the COVID-19 pandemic ("**COVID-19**" or the "**Pandemic**"), disruptions to global supply chains and rising inflation hindered economic recovery. Amid these headwinds, a global shortage of semiconductors in recent years has put the industry in the spotlight. World Semiconductor Trade Statistics ("**WSTS**") estimates that the global semiconductor industry's output grew by 25.6% to approximately US$552.9 billion in 2021. In the context of strong demand for chips, the Group believes that the prospects for manufacturers of third-generation semiconductors are promising. As we have capitalised on the immense business potential unleashed by semiconductor development, we expanded our business into the research and development ("**R&D**"), design, manufacturing and sales of gallium nitride ("**GaN**") third-generation semiconductor-related products during the Reporting Year, leveraging our expertise in light-emitting diode ("**LED**") manufacturing, and embarked upon a business transformation based on all-round strategic integration.

The Group's third-generation semiconductor business is still at the investment and R&D stage, so our LED business remains the primary contributor to our annual results. As the global economy has yet to fully rebound amid recurrences of COVID-19 outbreaks and the emergence of mutated variants of the virus, our revenue increased slightly to approximately RMB126.1 million during the Year. In addition, as the development of our third-generation semiconductor business incurred various one-off expenses, and as non-cash flow items such as the issuance of share options and loss arising on the acquisition of intangible assets impacted our financial performance, the Group incurred a loss of approximately RMB446.8 million for the Year. Excluding the effect of those non-cash flow items such as the issuance of share options and loss arising on the acquisition of intangible assets during the Year, the Group recorded a loss of approximately RMB18.4 million for the Year. However, as the Group's third-generation semiconductor business continues to develop, we are confident that our efforts in this sphere will reap rewards in the future as long as the new business is on track.

During the Year, in order to seize business opportunities in the market for third-generation semiconductors, the Group has been building its core GaN semiconductor capabilities, outperforming its competitors technologically, intensifying its industry-wide R&D efforts, and focusing on production management. The Group achieved breakthroughs in all of the above areas during the year, providing solid foundations for its progress towards becoming a GaN semiconductor pioneer in Greater China.

The Group acquired GSR GO Holding Corporation, a company engaged mainly in the R&D of fast-charging solutions for battery systems, in order to capture the market potential of the battery systems for electric bicycles and related fast-charging solutions. We also invested in Israel's VisIC Technologies Limited, a leading supplier of GaN semiconductors, in August, and in GaN Systems Inc., another top company in the GaN space, in November.

The Group has continuously consolidated its technological competitiveness and optimised its production planning. During the Year, we began to renovate our Xuzhou Factory, actively enhancing our core equipment and production facilities while seeking to achieve technological breakthroughs to become a pioneer integrated device manufacturer ("**IDM**") in third-generation semiconductors throughout the entire industry chain.

During the Year, the Group obtained six fast-charging battery system patents for charging stations, charging conversion systems, charging modules and fast charging equipment for electric vehicle charging stations. Apart from that, the Group has established a Global Strategic Advisory Committee and invited leading figures and researchers in the field of third-generation semiconductor technology to join its management team. The Group will benefit from their strategic and tactical advice, which will improve its access to key third-generation semiconductor technologies, ensure that it remains plugged into market and business requirements for product design and production, and help it to secure an increased market share.

The Group is currently embarking on initiatives to establish strategic cooperation arrangements with targeted customers, and has successfully entered into strategic cooperation agreements with Beijing Dianxiaoer Network Technology Co., Ltd. and Shenzhen Romoss Technology Co., Ltd., companies active in areas including R&D of next-generation semiconductor technologies, GaN-related products and fast-charging solutions for battery systems. These cooperation agreements demonstrate the effectiveness of the Group's strategic business transformation and its ability to secure early-stage profitability.

Amid a significant increase in demand for industrial and consumer electronics, the applications of GaN technology are expanding. In addition, China has launched a number of national policies to support R&D of key core technologies for high-end chips and to promote the long-term development of the semiconductor industry. Among these policies, the national "14th Five-Year Plan" indicates clearly that China needs to develop independent control of a number of industries as soon as possible and enhance industrial integration to tackle problems involving core technology bottlenecks. Alongside advocating green development and the building of an environmentally-friendly, low-carbon, circular economy, the central government has stated that China should achieve the goals of reaching peak carbon emission and carbon-neutrality, enhance plans for the development of the new-energy vehicle industry, and boost sales of new-energy vehicles, with the clear implication that the replacement of traditional vehicles with new-energy vehicles will become a trend in the future. These policies concerning the environment are conducive to the development of the third-generation semiconductor business.

In order to capture the opportunities arising from huge market demand and actively seeking cooperation with other enterprises, the Group will also strengthen its own technological competitiveness and capabilities. It will continue to seek increased cooperation with suitable third parties and recruit more semiconductor talents to accelerate its R&D and create more applications for GaN-related products, using a multi-pronged approach that sees it outperform in both the LED bead business and the third-generation semiconductor business. The Group will also build a stronger sales team by recruiting sales professionals with extensive industry experience, which will help it to win more new customers and grow its business.

The Company officially changed its name to "HG Semiconductor Limited" in September 2021, a milestone marking its expansion into the third-generation semiconductor business. The Company's new name reflects its strategic development and business direction, and demonstrate its determination to explore the third-generation semiconductor field. With the aim of becoming a GaN third-generation semiconductor pioneer in Greater China, we are committed to developing our business to reach its greatest possible potential.

Last but not least, on behalf of the Board and our management, I would like to express my sincere gratitude to all of our shareholders, investors, business partners, suppliers and customers for their long-standing trust and support. We will continue to work together, as we always do, to weather any difficulties and realise our vision of sustainable business growth and long-term, solid returns for our shareholders.

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

Hong Kong, 31 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

HG Semiconductor Limited (the "**Company**"; together with its subsidiaries referred to here as the "**Group**") is engaged principally in the design, development, manufacturing, subcontracting and sales of semiconductors, including light-emitting diode ("**LED**") beads and LED lighting products in China. Leveraging its expertise in LED manufacturing, the Group has expanded its business into the research and development ("**R&D**"), design, manufacturing and sales of gallium nitride ("**GaN**") third-generation semiconductors related products which include GaN components, fast-charging products, and other types of semiconductor-related products.

While operating its LED bead business, the Group is working hard to explore diversification opportunities. Recognising the strong potential of GaN development and its vast number of applications, the Group has expanded its third-generation semiconductor and system application design and manufacturing activities since 2021. Leveraging its expertise, the professionalism of its teams, and its R&D capabilities in semiconductor manufacturing, the Group successfully transformed its business strategy during the Year and strategically deployed capital to invest in the world's leading GaN companies and enhance its manufacturing plans, with the aim of becoming the leading supplier of third-generation GaN semiconductors in Greater China. The Group will continue to develop and produce GaN technology products to contribute to the country's semiconductor industry.

INDUSTRY REVIEW

In 2021, the global economy was gradually recovering from the adverse impact of the COVID-19 pandemic ("**COVID-19**" or "**Pandemic**"), whose effects continue to be felt around the world, and during which the outlook for the semiconductor market has become even brighter. As a global shortage of chips has affected industries such as automotive manufacturing, market demand for chips has increased as global economic activity has rebounded. Industry data service provider World Semiconductor Trade Statistics ("**WSTS**") estimates that the sector's global output grew 25.6% to approximately US$552.9 billion in 2021, and it will exceed US$600 billion in 2022 amid record-breaking year-on-year growth of 8.8%.

The market for the third-generation semiconductor materials such as GaN and silicon carbide ("**SiC**") has been expanding since 2020 as third-generation semiconductors prioritise technology requires less investment for high output value when compared to other semiconductors. Third-generation semiconductors have a wide range of applications in a huge and growing market. GaN is often referred to as the representative of third-generation semiconductor materials, boasting a wider band gap, higher breakdown voltages, increased power conversion efficiency and greater thermal stability at high temperatures than earlier generations of semiconductor materials. Thanks to GaN's high frequency, high-temperature resistance and high efficiency, its demand in industrial and consumer electronics has increased significantly.

The markets for GaN products are sizeable, and include — but are not limited to — (i) electric vehicles, (ii) wireless fast-charging, (iii) data centres, new energy and radio frequency (RF) communications. Huge global demand for third-generation semiconductors has contributed to the continued growth of the industry. Sales of electric vehicles, for instance, have grown substantially over the past decade. Deloitte & Touche (one of the Big Four Accounting Firms) estimates that the global market share of electric vehicles will exceed 30% of all vehicles in 2025. Amid increasing demand for wireless, high-power, fast-charging products, market intelligence firm TrendForce (a global leader in providing in-depth market intelligence and professional consultation services) expects that GaN's penetration of the fast-charging market will exceed 50% in 2025. "The Market Outlook and Investment Planning Analysis Report on the Shared Charging Battery Industry in China" (中國共享充電寶行業市場前瞻與投資規劃分析報告) points out that the number of users of fast-charging devices is expected to increase to 610 million in 2026, which will translate into development opportunities in the market, and that the GaN power market segment is expected to become the fastest-growing segment in the third-generation semiconductor industry by output value. In the context of rapidly growing data collection and utilisation, and increasing take-up of technologies such as cloud computing and edge computing, China's market for data centres is expected to expand rapidly. In this setting, and given that the demand for 5G, electric vehicles, Internet of Things (IoT) technology and other applications will continue to grow amid limited foundry capacity, foundry prices are expected to increase, creating significant market potential.

In addition to the strong demand for third-generation semiconductors, favourable national development policies are also aiding the development of the semiconductor industry. China's National Key Research and Development Programme spurred the implementation of important projects involving new display and strategic electronic materials (新型顯示與戰略性電子材料) technology in 2021, among which third-generation semiconductors are the key focus. Third-generation semiconductors are a key technology identified in the Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and Long-Range Objectives for 2035 (國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), and accordingly both national and local governments will support their development for use in fields which includes education, research, talent and financing. In addition, a strategy of domestic industrial replacement (國產化替代) was first detailed in the Outline of the 14th Five-Year Plan, indicating that the Central Government attaches considerable importance to issues such as the development of innovation and technology, and a means to realise industrial independence, upgrade integrated industry, concentrate on addressing core technology bottlenecks, and achieve independent control of a number of key technologies in the high-end industrial chain.

In recent years, the Central Government has advocated building a green, low-carbon, recycling-intensive economic system that is also conducive to the development of third-generation semiconductors. The Instructions of the Communist Party of China's Central Committee and the State Council on Implementing New Development Concepts to Completely, Accurately and Comprehensively Achieve Carbon-Neutrality (中共中央國務院關於完整準確全面貫徹新發展理念做好碳達峰碳中和工作的意見) aims at attaining the goals of curbing carbon dioxide emissions to reach carbon-neutrality, improving energy efficiency, reducing carbon dioxide emissions and improving the carbon sink capacity of the ecosystem. The Central Government also stated in the Development Plan for the New-Energy Automobile Industry (2021–2035) (新能源汽車產業發展規劃(2021–2035年)) that it will implement preferential tax policies related to new-energy vehicles, increase the proportion of new-energy vehicles in new vehicle sales, make pure electric trams mainstream, and fully electrify public transport. This shows that the replacement of traditional vehicles with new-energy vehicles will become a trend that will indirectly drive long-term semiconductor development.

During the Year, the Group took advantage of national policies and trends in both technology and the industry to accelerate the development of its businesses. The Group has accumulated extensive industry expertise in LED manufacturing, and will accelerate the pace of its R&D of GaN-related products to expand their applications and seize opportunities in the market.

BUSINESS REVIEW

In 2021, the Group officially entered the third-generation semiconductor industry. "HongGuang Lighting Holdings Company Limited" changed its name to "HG Semiconductor Limited" in September 2021, to demonstrate the Group's determination to explore the third-generation semiconductor field and further strengthen its related design and production capabilities.

The Group's revenue increased from approximately RMB122.0 million for the year ended 31 December 2020 (the "**Previous Year**" or "**2020**") to approximately RMB126.1 million for the year ended 31 December 2021 (the "**Year**" or "**2021**"). A loss of approximately RMB446.8 million was recorded for the Year, as compared to a profit of approximately RMB4.6 million for the Previous Year. The loss for the year was primarily attributable to the (i) loss arising on acquisition of intangible assets of approximately RMB374.4 million and (ii) recognition of equity-settled share-based payment expenses of approximately RMB54.0 million for the share options granted on 17 June 2021. After excluding the effect of the abovementioned loss arising on acquisition of intangible assets and equity settled share-based payments expenses, the Group recorded a net loss of approximately RMB18.4 million for the Year (Previous Year: net profit of approximately RMB4.6 million). Such loss was mainly attributable to increased staff costs, research and development costs, professional services expenses during the Year, as compared to that of the Previous Year, which was related to the Group's new factory set up in Xuzhou, PRC and the extended efforts on research and development of semiconductor-related products.

During the Year, the Group made arrangements to build core GaN capabilities, a third-generation semiconductor, in various respects including technology, production management, industry R&D, and acquisitions and collaborations. Through these arrangements, the Group has passed many milestones and has advanced in the third-generation semiconductor business.

Strategic investments in leading technologies to drive rapid business growth

During the Year, the Group actively entered into strategic and framework cooperation agreements with a number of third-generation semiconductor companies and made strategic investments in a number of leading firms to accelerate breakthroughs in core technologies as it strives to outperform its competitors in term of technology. Amid the growing demand for electric bicycle battery systems in China, it is expected that fast-charging battery solutions will become the first choice for the country's rapidly expanding food delivery industry. Apart from that, as the battery capacity of various electronic products such as mobile phones, tablets, laptops and electric vehicles has increased, fast-charging has become an indispensable product feature and has enjoyed solid market growth. In May 2021, the Group successfully acquired GSR GO Holding Corporation, together with its subsidiaries, ("**GSR GO Group**") for a consideration of HK$76.8 million. The GSR GO Group is engaged mainly in R&D involving fast-charging solutions for battery systems, helping the Group to capture the market potential of electric bicycle battery systems and related fast-charging solutions.

With the aim of becoming a world-class and whole industry chain in the third-generation semiconductor market, the Group acquired approximately 20.1% of the enlarged issued share capital of Israel's VisIC Technologies Ltd. ("**VisIC**") during the Year, with an investment cost of approximately US$25 million. VisIC is engaged in the development of GaN-related products, with a focus on high-voltage new-energy vehicles, and possesses excellent design capabilities. In addition, the Group made a strategic investment in GaN Systems Inc. ("**GaN Systems**") in November 2021 for approximately US$1.75 million. Principally engaged in the development of various GaN-related products which include high-current GaN power semiconductors, with a particular focus on consumer products, GaN Systems has set up its own factories and accumulated extensive experience in chip production quality control.

Strong technological advantages and solid progress towards complete production layout

In line with its long-term strategy of further developing in the GaN semiconductor industry, the Group has actively enhanced its core equipment, R&D, and production facilities to optimise production management. During the Year, the Group has set up a new factory in the Xuzhou Economic and Technological Development Zone, Jiangsu Province, PRC (the "**Xuzhou Factory**") that includes 7,000 square metres of ultra-clean chambers and 850 square metres of office space, while spending HK$47.1 million to acquire machinery to expand its semiconductor production capacity. The Group intends to set up a production line at the factory to manufacture electronic products which include GaN-related products. Amid huge market demand, the Group will continue to expand its production capacity and upgrade its technology while actively improving efficiency and quality control at the factory to satisfy customers' needs and produce more chips to meet that demand.

In addition to its Xuzhou factory, the Group has set up a R&D centre in Shenzhen with its own design and R&D team to enhance the design and production of materials and devices, and accordingly strengthen its R&D capabilities industry-wide. The Group will continue to bring in semiconductor experts to provide support to its semiconductor production lines.

During the Year, the Group obtained six fast-charging battery system patents for charging stations, charging conversion systems, charging modules and fast-charging equipment for electric vehicle charging stations.

In July 2021, the Group entered into a five-year framework cooperation agreement with a statutory body committed to help Hong Kong enterprises to improve their competitiveness through the application of advanced technology and innovative services to promote the reindustrialisation of Hong Kong through the development of the next-generation semiconductor sector, alongside the development and construction of smart-city technology. The Group will establish an advanced production line for fast-charging products with this statutory body to jointly develop next-generation semiconductor technologies, which will strengthen the Group's technology transformation capabilities and facilitate the development of industry, education and research in Hong Kong and the Greater Bay Area.

The Group is committed to a strategic business transformation and a strategic resource allocation for the development of its third-generation semiconductor business, with the aim of becoming 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.

Strategic cooperation with target customers to generate early-stage profits

Even though the Group's semiconductor business is in its developmental stages, it has already been widely recognised by the industry, and the Group has successfully entered into strategic cooperation arrangements with target customers through which it can secure early profitability, laying solid foundations for business expansion in the long run.

In June 2021, to establish a comprehensive cooperative relationship involving R&D, business development, customer service and productivity sharing, Zhuhai HongGuang Semiconductor Co., Ltd.* ("**Zhuhai HongGuang**"), a wholly-owned subsidiary of the Group, entered into a strategic cooperation agreement with one of the Group's existing customers, a listed semiconductor enterprise that is one of the largest players in its market and a leading global innovator when it comes to LED and mini LED technologies and products using GaN substrate technology.

In July 2021, Xuzhou GSR Semiconductor Co., Ltd.* ("**Xuzhou GSR**"), a wholly-owned subsidiary of the Group, entered into a strategic cooperation agreement with Shenzhen Romoss Technology Co., Ltd.* (深圳羅馬仕科技有限公司) and Beijing Hongzhi Electric Technology Co., Ltd.* (北京鴻智電通科技有限公司). Shenzhen Romoss Technology Co., Ltd. mainly supplies mobile power, car chargers and adapters used to charge many brands and types of electronic products. Beijing Hongzhi Electric Technology Co., Ltd. has more than 20 years of experience in chip design and technology, and holds numerous registered patents and technology-related intellectual property rights. The Group entered into a three-year cooperation agreement with these two companies to jointly provide solutions for semiconductors, GaN-related products and chipsets for fast-charging batteries. Through this collaboration, the Group will further develop and explore the application of its expertise in the semiconductor industry as it relates to a range of semiconductor products, leveraging the large operating scale, extensive experience, resources and expertise offered by these two companies.

Building a world-class science and management team

To accelerate R&D involving the Group's third-generation semiconductors, the Group invited a number of senior semiconductor experts to join the team during the Year to lead its development as an industry pioneer. During the Year, the Group appointed Dr. Wang David Nin-kou, a leading figure in the global semiconductor industry, as a Non-executive director. Dr. Wang has held senior management positions at a number of leading electronics companies.

In preparation for further development and exploration of the GaN semiconductor business, the Group expanded its technology and production team with core members who include Dr. Chen Zhen ("**Dr. Chen**") and Mr. Lu Ruilin ("**Mr. Lu**"). Dr. Chen is the general manager of the Xuzhou factory and a core expert in the GaN semiconductor business with more than 20 years of experience in research, development, production and management related to GaN-based optoelectronics devices. Mr. Lu is the operations deputy general manager of the factory, bringing more than 30 years of experience in the semiconductor industry and in foundry technology and management. For details of their experience and biographies, please refer to the Biographical Details of Directors and Senior Management section of this Annual Report on pages 28 to 29.)

In addition, the Group has established a Global Strategic Advisory Committee to strengthen and promote the development of its GaN business. The Committee comprises three initial members: Mr. Sonny Wu ("**Mr. Wu**"), its chairman, and 2 members Mr. Kenneth James Bradley ("**Mr. Bradley**") and Mr. Tang Yin Man ("**Mr. Tang**"). The Committee is responsible for reporting to and advising the management on issues that the Group may face from time to time, including — but not limited to — matters relating to GaN and the semiconductor industry, such as factory localisation in Hong Kong and China, and global supply chain programmes.

Mr. Wu focuses on special investments in the semiconductor sector, new materials and new energy, and is one of those enlisted in the first batch of talents brought in under the Thousand Talents Program run by the Organization Department of the Central Committee of the Chinese Communist Party. Mr. Wu led the development of the first wave of semiconductor factories in China in 1993, and has made significant contributions to technology and industrial investment for the past 20 years. Mr. Bradley has extensive experience in the electronics industry and Mr. Tang has expertise in investment management. Please refer to the announcement of the Company dated 10 January 2022 on the establishment of the Global Strategic Advisory Committee for details of the experience and biographies of the members of the Committee. The experience and semiconductor industry networks of the members of the Global Strategic Advisory Committee will enable the Group to achieve rapid growth in the third-generation semiconductor business.

The extensive technical, R&D, and semiconductor manufacturing expertise and experience possess by these experts will allow them to provide valuable advice to management on the Group's third-generation semiconductor business and future strategic investment and development, leading the Group's design and production of world-class semiconductor products to outperform its competitors in a highly competitive market.

OUTLOOK

Third-generation semiconductors are an important development focus of China's National Key Research and Development Programme, and are regarded as presenting an opportunity to secure rapid growth for the country's semiconductor industry. China has already invested RMB10 trillion to develop self-sufficiency in the third-generation semiconductor industry, and it considers self-reliance and homegrown technological advances to be the strategic pillars of national development and achieving domestic industrial replacement to overcome core technology bottlenecks.

Consulting firm Grand View Research forecasts that GaN semiconductor devices will form a global market worth US$5.85 billion in 2027, with a compound annual growth rate of 20% from 2020 to 2027, mainly attributable to advances in GaN technology and an increasing number of semiconductor applications, such as rising demand for 5G wireless communications equipment. In addition, as the world is committed to tackling climate change, China's State Council has proposed clear national targets for peak carbon and carbon-neutrality in the future, and is actively promoting the development of electric vehicles in the country's domestic market. Amid growing demand for electric vehicle technologies such as high-frequency, high-speed computing and high-speed charging, increasing global awareness of carbon emissions, and the fact that the carbon footprint of GaN power chips is less than one-tenth of that produced by silicon power chips, third-generation semiconductors are expected to become strongly favoured, thanks to its features of high efficiency and low power consumption. China is expected to be the fastest-growing regional market for GaN, thanks to the growing demand for high-efficiency, high-performance radio frequency components and a surge in electric vehicle production.

The Group will spare no effort to become a third-generation semiconductor IDM pioneer. In order to capture the opportunities arising from huge market demand, in addition to actively seeking cooperation with other enterprises, the Group will strengthen its own capabilities. During the Year, the Group has committed to renovating its Xuzhou factory, and to enhancing its core equipment and various R&D and production support facilities, while continuing the construction and commissioning of the production lines at the factory and enhancing its production capacity to satisfy future market demand. Given that the factory is currently being renovated and that the acquisition of machines is in progress, the factory is expected to commence production in 2023. The Group will leverage the advantages brought about by its internal integration of resources, as it always does, to enhance the efficiency of its operational management and shorten the time required to progress from product design to mass production. Thanks to its continuous expansion of production capacity, the Group will see more rapid growth and make further progress towards the realisation of its goal of offering one-stop IDM.

While further consolidating its presence in the existing markets and its R&D capabilities, the Group will continue to seek more cooperation with suitable third parties and recruit more semiconductor talents to accelerate its R&D and create more applications for GaN-related products. The Group's Global Strategic Advisory Committee will provide management with sound strategic and tactical advice, contributing to established business operations, and the Group will also build a stronger sales team by recruiting sales professionals with extensive experience in the industry, which will help it to obtain cutting-edge advantages when approaching new customers. In product design, the Group will continue to innovate at all levels of the industry chain in order to satisfy customers' needs and stay abreast of market demand.

The Group was awarded the 2021 Annual (Industry) Enterprise with Most Investment Value Award (2021年度(行業)最具投資價值企業) at the 5th Boao Enterprise Forum (博鰲企業論壇) in recognition of its outstanding technological innovation, its strategic transformation efforts, and its expansion in the field of third-generation semiconductor. In the future, the Group will embark on initiatives to enhance its technologies and capabilities, which include R&D of its core technologies, product design, manufacturing, and market promotion. In addition to developing its LED bead business, the Group is also opening a new chapter in the semiconductor industry and moving forwards its goal to become a GaN pioneer in Greater China.

FINANCIAL HIGHLIGHTS

Year ended 31 December (RMB'000)	2021	2020	Percentage Change
Revenue	126,137	121,995	3.4%
Cost of sales	(100,630)	(95,624)	5.2%
Gross profit	25,507	26,371	–3.3%
(Loss)/profit before income tax expense	(447,624)	6,394	–7,100.7%
Net (loss)/profit	(446,826)	4,563	–9,892.4%
Adjusted net (loss)/profit under non-HKFRS measures*	(18,417)	4,563	–503.6%
(Loss)/earnings per share (RMB)	(0.9222)	0.0114	–8,189.5%
Total assets	665,873	220,575	201.9%
Total equity	609,341	172,157	253.9%
Key Financial Ratios			
Gross profit margin (%)	20.2	21.6	
Net (loss)/profit margin (%)	(354.2)	3.7	
Return on equity (%)	(73.3)	2.7	
Return on assets (%)	(67.1)	2.1	
Current ratio	8.1	3.9	
Gearing ratio (%)	1.1	7.6	

* The Company's management believes that the non-HKFRS financial measures provide shareholders and investors with useful supplementary information to assess the performance of the Group's core operations by eliminating impacts of items that the management of the Group does not consider indicative of the Group's operating performance. However, the presentation of the non-HKFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with HKFRS. Shareholders and investors should not view the adjusted results on a standalone basis or as a substitute for results under HKFRS.

FINANCIAL REVIEW

Revenue

For the Year, the total revenue was approximately RMB126.1 million, representing an increase of approximately 3.4% as compared with that for the Previous Year (2020: approximately RMB122.0 million). The increase was mainly attributable to the increase in revenue from the sales of LED beads.

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

	2021		2020	
	RMB'000	**%**	RMB'000	%
LED products				
LED beads	**126,137**	**100.0**	121,081	99.3
Subcontracting service	**—**	**—**	914	0.7
Total	**126,137**	**100.0**	121,995	100.0

For the Year, revenue from LED beads amounted to approximately RMB126.1 million (2020: approximately RMB121.1 million), accounting for approximately 100.0% of the total revenue (2020: approximately 99.3%). The increase in revenue was mainly due to the increase in the sales volume during the Year, as the demand for semiconductor products in the PRC has substantially increased in the first half of 2021.

Revenue from subcontracting service during the Year was nil (2020: approximately RMB0.9 million).

Cost of Sales

Cost of sales of the Group primarily consisted of cost of material used, direct labour and production overheads. It increased by approximately 5.2% from approximately RMB95.6 million for the Previous Year to approximately RMB100.6 million for the Year, reflecting an increase in the sales volume of semiconductor products, which mainly led to the increase in the cost of material used.

Gross Profit and Gross Profit Margin

The gross profit decreased from approximately RMB26.4 million for the Previous Year to approximately RMB25.5 million for the Year. The gross profit margin decreased from approximately 21.6% for the Previous Year to approximately 20.2% for the Year. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

	2021		2020	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
LED products				
LED beads	25,507	20.2	25,457	21.0
Subcontracting service	—	—	914	N/A(Note)
Total gross profit/gross profit margin	25,507	20.2	26,371	21.6

Note: The gross profit margin did not apply to the subcontracting service income as the amount was recognised on net basis.

The gross profit margin of LED beads decreased from approximately 21.0% for the Previous Year to approximately 20.2% for the Year. Such decrease was mainly attributable to the decrease in the average selling price of LED beads.

Other Income and Gains

Other income and gains of the Group decreased by approximately 83.3% from approximately RMB2.4 million for the Previous Year to approximately RMB0.4 million for the Year, which was mainly due to the decrease in Government grants from the PRC Government during the Year.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 21.1% from approximately RMB1.9 million for the Previous Year to approximately RMB2.3 million for the Year. The selling and distribution expenses mainly comprised of 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 during the Year.

Administrative and Other Expenses

The Group's administrative and other expenses increased by approximately 486.9% from approximately RMB16.8 million for the Previous Year to approximately RMB98.6 million for the Year. The administrative and other expenses mainly included administrative staff costs, research and development costs, professional services expenses and equity-settled share-based payment expenses. The increase in administrative and other expenses was mainly due to the recognition of the equity-settled share-based payment expenses during the Year. The equity-settled share-based payment expenses were approximately RMB54.0 million for the Year (Previous Year: nil).

Finance Costs

The Group's finance costs was approximately RMB1.1 million for the Year (2020: approximately RMB0.8 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 RMB0.8 million (2020: income tax expense of approximately RMB1.8 million). The income tax credit was primarily attributable to an over provision of income tax expenses in Previous Year.

Loss for the Year

The loss for the Year was approximately RMB446.8 million, as compared to a net profit of approximately RMB4.6 million for the Previous Year. The loss for the Year was mainly attributable to the recognition of the equity-settled share-based payment expenses and loss arising on acquisition of intangible assets during the Year.

Net Margin

The Group recorded a net margin of approximately –354.2% for the Year, compared to that of a net profit margin of approximately 3.7% for the Previous Year. The negative net margin for the Year was mainly due to the recognition of equity-settled share-based payment expenses and loss arising on acquisition of intangible assets during the Year.

Adjusted loss/profit attributable to owners of the Company under non-HKFRS measures

To supplement the consolidated financial results of the Group prepared in accordance with HKFRS, additional non-HKFRS financial measures (in terms of adjusted loss/profit for the year attributable to owners of the Company) have been presented in this annual report. The Company's management believes that the non-HKFRS financial measures provide shareholders and investors with useful supplementary information to assess the performance of the Group's core operations by eliminating impacts of items that the management of the Group does not consider indicative of the Group's operating performance. However, the presentation of the non-HKFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with HKFRS. Shareholders and investors should not view the adjusted results on a stand-alone basis or as a substitute for results under HKFRS. In addition, these non-HKFRS financial measures may be defined differently from similar terms used by other companies.

The following table sets forth the reconciliations of the Group's audited loss/profit for the year attributable to owners of the Company under HKFRS to the adjusted amount under non-HKFRS financial measures for the years ended 31 December 2021 and 2020:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Non-HKFRS Measures		
(Loss)/profit attributable for the year to owners of the Company	**(446,826)**	4,563
Add:		
— Equity settled share-based payment expenses	**53,999**	—
— Loss arising on acquisition of intangible assets	**374,410**	—
Adjusted (loss)/profit for the year attributable to owners of the Company	**(18,417)**	4,563

Adjusted loss for the year attributable to owners of the Company (excluding the equity settled share-based payment expenses and loss arising on acquisition of intangible assets) was approximately RMB18.4 million (2020: profit of approximately RMB4.6 million), primarily due to increase in staff costs research and development costs, professional services expenses during the Year, which was related to the Group's new factory set up in Xuzhou and the extended efforts on research and development of semiconductor-related products.

Dividend

The Directors do not recommend the payment of a final dividend for the Year (2020: 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 RMB59.9 million as compared to that of approximately RMB21.9 million for the Previous Year, primarily due to the greater increase in prepayments, deposits and other receivables during the Year, as compared to that increase for the Previous Year.

As at 31 December 2021, the Group had net current assets of approximately RMB275.8 million (31 December 2020: approximately RMB136.3 million). The Group's current ratio as at 31 December 2021 was approximately 8.1 times (31 December 2020: approximately 3.9 times).

As at 31 December 2021, the Group had total cash and bank balances of approximately RMB113.6 million (31 December 2020: approximately RMB9.2 million). The increase in total cash and bank balances was mainly due to the placing of new shares of approximately RMB394.6 million in the financing activities during the Year.

As at 31 December 2021, the total available banking facilities of the Group were RMB7.0 million (31 December 2020: RMB13.0 million). The total drawn down of the banking facilities as at 31 December 2021 was RMB7.0 million (31 December 2020: approximately RMB13.0 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 2021, the equity attributable to owners of the Company amounted to approximately RMB609.3 million (2020: approximately RMB172.2 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%) decreased from approximately 2.7% for the Previous Year to approximately –73.3% for the Year. Such decrease was mainly attributable to the net loss as a result of the recognition of the equity-settled share-based payment expenses and 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%) decreased from approximately 2.1% for the Previous Year to approximately –67.1% for the Year. Such decrease was mainly attributable to the net loss as a result of the recognition of the equity-settled share-based payment expenses and 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) increased from approximately 3.9 times as at 31 December 2020 to approximately 8.1 times as at 31 December 2021, primarily due to the increase in cash and cash equivalents for the year ended 31 December 2021.

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 2021 was approximately 1.1% (31 December 2020: approximately 7.6%).

Significant Investments

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

On 24 June 2021, the Group'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 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 represents approximately 20.1% of the enlarged issued share capital of VisIC as at 31 December 2021. Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to approximately RMB 158.9 million as at 31 December 2021, representing approximately 23.9% of the Group's consolidated total assets as at 31 December 2021. There was no realised and unrealized gain or loss nor any 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 Group'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 2021. Fair value gain of approximately RMB1.3 million was recognised through other comprehensive income during 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 potentials 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 0.37% of the total issued share capital of GaN Systems. Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to approximately RMB11.1 million as at 31 December 2021. There was no realised and unrealized gain or loss nor any dividends received from this investment for the Year. GaN Systems has an in-depth knowledge in 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 center 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 equity securities of world's leading semiconductor design and production companies, which include technology companies focusing on providing fast charging solution, 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. Such investment was classified as an equity instrument at fair value through profit or loss amounting to approximately RMB25.4 million as at 31 December 2021. Fair value loss of approximately RMB63,000 was recognised through profit or loss during the Year. As the Fund's main focus is on investing the semiconductor industry and semiconductors have a wide range of applications in a huge and growing market, the outlook for the Fund remains positive.

Save as disclosed above, the Group had no significant investments during the Year.

Material Acquisitions and Disposals

The Group has completed the acquisition of GSR GO Holding Corporation, a company incorporated in the BVI with limited liability on 7 May 2021. Details of the acquisition were set out in the Company's announcements dated 25 February 2021, 29 April 2021 and 7 May 2021.

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 2021, the Group had capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to approximately RMB76.7 million (2020: approximately RMB0.4 million).

Charge on the Group's Assets

As at 31 December 2021, the Group did not have any charge on its assets (31 December 2020: the Group (i) pledged bills receivable of approximately RMB0.7 million for the issuance of bank acceptance bills and (ii) charges were created over the right-of-use assets of approximately RMB0.9 million under a lease arrangement).

Contingent Liabilities

As at 31 December 2021, 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 2021, the Group employed 179 employees (31 December 2020: 143 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB68.1 million for the Year (2020: approximately RMB8.6 million). 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.

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 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 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 2021, the Group's planned application and the actual utilisation of the July 2021 Placing Proceeds is set out below:

	Net proceeds HK$ million	**Utilised** HK$ million	**Unutilised** HK$ million	**Expected timeline for utilising the unutilised proceeds**[(Note)]
Expansion of production capacity	144.9	47.1	97.8	On or before 31 December 2022
Strengthening research and development capabilities	74.8	74.8	—	N/A
Repayment of borrowings	11.3	7.2	4.1	On or before 31 December 2022
Provision of general working capital	158.6	151.5	7.1	On or before 31 December 2022
	389.6	280.6	109.0	

Note: The expected timeline for utilising the unutilised proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

(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 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 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 2021, the Group's planned application and the actual utilisation of the December 2021 Placing Proceeds is set out below:

	Net proceeds	**Utilised**	**Unutilised**	**Expected timeline for utilising the unutilised proceeds**(Note)
	HK$ million	HK$ million	HK$ million	
Strengthening research and development capabilities	64.3	64.3	—	N/A
Provision of general working capital	21.9	—	21.9	On or before 31 December 2022
	86.2	64.3	21.9	

Note: The expected timeline for utilising the unutilised proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

The Company intends to continue to apply the July 2021 Placing Proceeds and December 2021 Placing Proceeds in the manner consistent with that mentioned above. Nonetheless, the Directors will constantly evaluate the Group's business objectives and may change or modify the plans against changing market conditions to ascertain the business growth of the Group. All unutilised proceeds have been placed in licensed banks in Hong Kong and the PRC.

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 52, is the Chairman of the Board and the Chief Executive Officer of the Company. 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 overall corporate strategies and handling 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.

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.

Mr. LIN Qi Jian (林啟建) ("Mr. Lin"), aged 43, was appointed as an Executive Director on 13 May 2016. He is one of the founders of the Group and is primarily responsible for overseeing the overall business operation of the Group. Mr. Lin is also the supervisor and general sales manager of Zhuhai HongGuang.

Mr. Lin has over 20 years of experience in production of electronics components. From 1999 to 2016, Mr. Lin was the chairman of Zhuhai Special Economic Zone Lijia Electronics Development Company Limited* (珠海經濟特區利佳電子發展有限公司), a limited liability company incorporated in the PRC which mainly manufactures and sells photosensitive resistors where Mr. Lin was responsible for formulating sales strategies, marketing and customer services. From 2004 to 2015, Mr. Lin was appointed as a supervisor of Zhuhai Kedie Digital Technology Co., Ltd.* (珠海市科碟數碼科技有限公司), a private company in the PRC, where he was responsible for monitoring the operation of the company. Mr. Lin attended secondary school education up to year 2 in the PRC.

Mr. CHAN Wing Kin (陳永健) ("Mr. Chan"), aged 41, was appointed as a Director on 27 May 2015 and subsequently re- designated as an Executive Director on 13 May 2016. He is also the Company Secretary of the Company and a director of a number of subsidiaries of the Group. Mr. Chan is primarily responsible for the financial management of the Group.

Mr. Chan obtained a Bachelor's Degree of Economics and Finance with first class honours from The University of Hong Kong in December 2003 and a Master's Degree of Economics from The University of Hong Kong in December 2004. 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.

Mr. Chan has over 17 years of experience in the electronics industrial sector and in the accounting and internal controls sector. Prior to joining the Group, Mr. Chan was a purchasing supervisor in Jetcrown Industrial (Dongguan) Limited from September 2004 to April 2008 and was responsible for monitoring the daily purchasing operations and the staff recruitment of the company. From July 2008 to April 2010, Mr. Chan was an accountant in KPMG, where he had assisted in a number of audit assignments for a number of major corporate clients of KPMG. In April 2010, Mr. Chan joined Deloitte Touche Tohmatsu as an analyst of the Enterprise Risk Services Department. He was subsequently promoted to the position of manager before his resignation in February 2015. During his term of employment in Deloitte Touche Tohmatsu, Mr. Chan participated in internal controls, risk management and corporate governance advisory projects.

NON-EXECUTIVE DIRECTOR

Dr. WANG David Nin-kou (王寧國) ("Dr. Wang"), aged 75, 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 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 62, 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 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 Hong Kong Institution of Engineers ("HKIE"); (ii) a member of the CAI Discipline Advisory Panel of HKIE; and (iii) a professional assessment assessor for 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 65, 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 28 years of experience in real estate investment. He has been the 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"), a company listed on the GEM of the Stock Exchange (Stock Code: 8179) since January 2019; 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 49, 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 24 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.

SENIOR MANAGEMENT

Dr. CHEN Zhen (陳振) ("Dr. Chen"), aged 49, joined the Group in 2021 and is a core expert in the GaN semiconductor business and the general manager of Xuzhou GSR Semiconductor Co., Ltd.* ("**Xuzhou GSR**"). Dr. Chen is also a director of FastPower Inc. He graduated from the Sichuan University, Sichuan, China, with a Bachelor's Degree in Semiconductor Physics and Devices and a Master's Degree and 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 optoelectronics devices. He has mastered the core technologies of GaN electronic devices and full-band solid-state light-emitting devices as well as 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 University of California at Santa Barbara, where he had also worked with Nobel Prize winner Professor Shuji Nakamura 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 characterization, 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 had 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 had 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 team 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 or coauthored three bookchapters, 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 Institute of Electrical and Electronics Engineers ("**IEEE**") Photonics Society, and a senior member of the IEEE Electronic Devices Association. His current research interests include III-nitride-based electronic devices, optical devices with wavelength from red to deep ultraviolet.

Mr. LU Juilin (呂瑞霖) ("Mr. Lu"), aged 55, joined the Group in 2021 and is the operation deputy general manager of Xuzhou GSR. He graduated from the National ChengKong University. He has over 30 years of experience in the semiconductor industry and foundry technology and management, with experience in managing 8 to 12-inch fab management and technical experience and 55 nm to 0.5 um chip manufacturing process factory management experience. Mr. Lu also has experience in building new factories. He worked as factory manager of Semiconductor Manufacturing International Corporation (SMIC, stock code: 981) and Hua Hong Semiconductor Limited (HHS, stock code: 1347).

Mr. MIN Junhui (閔軍輝) ("Mr. Min"), aged 44, joined the Group in 2021 and is the application general manager of Xuzhou GSR. He is also a director of Xuzhou GSR, Suzhou GSR Semiconductor Co., Ltd.* and Shenzhen Frontier Tech Inc.* graduated from the Changchun Institute of Applied Chemistry, Chinese Academy of Sciences, and is engaged in the design and development of Organic Light-Emitting Diode ("**OLED**") materials and supercapacitor materials.

He previously researched in replacement of expensive iridium complexes with neutral copper complexes as new high-performance, low-cost OLED materials, and has published more than ten research papers and invention patents. In 2010, Mr. Min received investment from Golden Sand Venture Capital Co., Ltd. to engage in the research and development of flexible color OLED displays.

The technical team led by Mr. Min successfully combined Roll-to-Roll technology with vacuum small molecule coating technology to manufacture color flexible OLED displays, and won the first place in the Shaanxi Province Entrepreneurship Competition in 2016. The ruthenium oxide ("**RuO_2**") which is designed and developed by Mr. Min has good particle size and redox reversibility, can significantly improve the charging and discharging capacity of supercapacitors, and can significantly accelerate the application of supercapacitors in the fields of energy storage and fast charging.

Mr. Min and his team have successfully developed fast charging modules for electric bicycles and electric vehicles and played the main role in preparing the patents obtained by Fast Charging Limited, a subsidiary of the Group. Mr. Min also has fruitful financing, team building, and technical research and development experience.

Ms. QI Xiang Ling (綦香玲) ("Ms. Qi"), aged 51, 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 65, 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 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 REPORT

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, that 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 35), the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2021.

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 ended 31 December 2021.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2021, the Board comprised of three Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The composition of the Board is as follows:

Executive Directors
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*
Mr. Lin Qi Jian
Mr. Chan Wing Kin

Non-executive Directors
Dr. Wang David Nin-kou
Mr. Chiu Kwai San (Resigned on 27 January 2022)

Independent Non-executive Directors
Professor Chow Wai Shing, Tommy
Mr. Wu Wing Kuen, *B.B.S.*
Mr. Chan Chung Kik, Lewis

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 Director does not involve in the general management and day-to-day operation of the Group. However, he 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 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 or committee meetings will be given to all Directors, who will 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 every Director will 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 concern will declare his/her interest and abstains 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:

	Meetings attended/Meetings held					
Name of Directors	**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)*	15/15	N/A	N/A	N/A	1/1	1/1
Mr. Lin Qi Jian	15/15	N/A	N/A	N/A	1/1	1/1
Mr. Chan Wing Kin	15/15	N/A	N/A	N/A	1/1	1/1
Non-executive Directors						
Mr. Chiu Kwai San	15/15	N/A	N/A	N/A	1/1	1/1
Dr. Wang David Nin-kou	10/10	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors						
Professor Chow Wai Shing, Tommy	14/15	1/2	3/3	2/2	0/1	1/1
Mr. Wu Wing Kuen, *B.B.S*	15/15	2/2	3/3	2/2	0/1	1/1
Mr. Chan Chung Kik, Lewis	15/15	2/2	3/3	2/2	1/1	1/1

Pursuant to code provision C.1.6 of the CG Code, the Independent Non-executive Directors and the Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. At the annual general meeting of the Company held on 28 May 2021, Professor Chow Wai Shing, Tommy and Mr. Wu Wing Kuen, both Independent Non-executive Directors of the Company, were unable to attend the meeting due to personal engagements.

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. Mr. Zhao is also the Chief Executive Officer of the Company who is 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 is 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 the Code Provision C.2.1 is appropriate in such circumstance.

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 of 2021, one meeting between the chairman of the Board and the Independent Non-executive Directors was held.

CONTINUING PROFESSIONAL DEVELOPMENT

Pursuant to the 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)*	A, B
Mr. Lin Qi Jian	A, B
Mr. Chan Wing Kin	A, B
Dr. Wang David Nin-kou	A, B
Mr. Chiu Kwai San	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

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 and Professor Chow Wai Shing, Tommy. 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 ended 31 December 2021. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 34 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 three members, namely, Mr. Chan Chung Kik, Lewis, Mr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. 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 ended 31 December 2021. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 34 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 three members, namely, Mr. Chan Chung Kik, Lewis, Mr. Wu Wing Kuen and Professor Chow Wai Shing, Tommy. 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 two meetings during the year ended 31 December 2021 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 34 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 2021, representation of Independent Non-executive Directors on the Board was 37.5%.

As at 31 December 2021, female representation on the Board was 0%.

The Board will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board will ensure that appropriate balance of gender diversity is achieved with reference to the Listing Rules, 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 seven 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 and Chief Executive Officer)*		✓		
Mr. Lin Qi Jian	✓			
Mr. Chan Wing Kin	✓			
Dr. Wang David Nin-kou				✓
Professor Chow Wai Shing, Tommy			✓	
Mr. Wu Wing Kuen, *B.B.S*			✓	
Mr. Chan Chung Kik, Lewis	✓			

	Professional Experience				
Name of Directors	**Business Management**	**Accounting and Finance**	**Research and Development**	**Teaching and public services**	**Real Estate Investment**
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*	✓				
Mr. Lin Qi Jian	✓				
Mr. Chan Wing Kin		✓			
Dr. Wang David Nin-kou			✓		
Professor Chow Wai Shing, Tommy				✓	
Mr. Wu Wing Kuen, *B.B.S*					✓
Mr. Chan Chung Kik, Lewis		✓			

NOMINATION POLICY

The Company has adopted a Nomination Policy which sets out the selection criteria of 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 pages 74 to 79 of this annual report.

For the year ended 31 December 2021, the fees in respect of the services provided to the Group by BDO Limited, is set out as follows:

Nature of services	For the year ended 31 December 2021 RMB'000
Audit services	1,121
Non-audit services	151

RISK MANAGEMENT AND INTERNAL CONTROL

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the Senior Management. The Board of Directors determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management should identify risks that would adversely affect the achievement of the Group's objectives, and assess and prioritize the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners should then be established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are to be identified and recommendations to be proposed for improvement. Significant internal control deficiencies should be reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

The Board of Directors had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of Securities & Futures Ordinance ("**SFO**") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

COMPANY SECRETARY

Mr. Chan Wing Kin, an Executive Director, is the Company Secretary of the Group. Please refer to his biographical details as set out on pages 24 to 25 of this annual report.

For the year ended 31 December 2021, 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 annual 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 general meetings under the Companies Act (as revised) of the Cayman Islands, as amended, modified and supplemental from time to time.

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

The Board will propose to amend the articles of association of the Company to give the shareholders the power to propose new resolutions at general meetings in the forthcoming annual general meeting. Please refer to the paragraph headed "Constitutional Documents" of this annual report.

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 transfer office 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 considered 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 ended 31 December 2021, the Memorandum and Articles of Association has been amended to reflect the change of name of the Company. The amended memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

The Stock Exchange of Hong Kong Limited has recently announced various amendments to the Listing Rules to implement the proposals under the "Consultation Conclusion Paper on Listing Regime for Overseas Issuers" published on 19 November 2021.

The amendments to the Listing Rules have already taken effect from 1 January 2022 and include the introduction of one common set of core shareholder protection standards(set out in Appendix 3 to the Listing Rules) that will apply to all listed issuers to provide the same level of protection to all investors. To conform with the core shareholder protection standards, the Directors recommended that the articles of association of the Company be amended. A proposal on amending the articles of association and the adoption of a new articles of association will be put forward at the forthcoming annual general meeting and details of the proposed amendments will be set out in the circular of the forthcoming annual general meeting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

We are pleased to present our sixth Environmental Social and Governance ("**ESG**") Report of HG Semiconductor Limited for the year ended 31 December 2021 ("**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 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.

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	• 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 • 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

Major Stakeholder Engaged		Major Communication Channels	Major Concerns
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 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

ESG Aspects	Material ESG issues
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 applicable.

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 ESG-related risks. The management is responsible for the effectiveness of the ESG risk management and internal control systems. The management confirmed that these systems are effective to mitigate our ESG-related risks. The Board organises 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 becomes more cautious in controlling its pollutant emissions and resource consumption, and will strictly abides by the 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 case was noted in relation to environmental laws and regulations in Hong Kong and the PRC during the Reporting Period.

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** **2021**	2020	**Percentage Increase (+) or Decrease (–)**
Benzene	Kilogram	**0.1**	0.2	–50%
Methylbenzene & Dimethylbenzene	Kilogram	**0.2**	4.6	–96%
VOCs	Kilogram	**12.5**	244.6	–95%

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.

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 usage are not applicable.

Greenhouse Gas Emission	**Unit**	**Amount** **2021**	2020	**Percentage Increase (+) or Decrease (–)**
Scope 1[1] (Direct Emissions)	tCO_2e	**4,254**	N/A	N/A
Scope 2[2] (Other Indirect Emissions)	tCO_2e	**1,345**	1,120	+20%
Total Greenhouse Gas Emissions	tCO_2e	**5,599**	1,120	+400%

1 Scope 1 comprises of GHG emissions from stationary combustion sources.

2 Scope 2 includes GHG emissions from electricity.

To maintain the emission reduction targets in the future, the Group will continue to record and monitor the GHG emissions and other relevant environmental data from time to time.

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 of 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 2021	2020	Percentage Increase (+) or Decrease (–)
Waste organic solvent	Tonne	**3.6**	1.6	+125%

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.

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 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 2021	2020	Percentage Increase (+) or Decrease (–)
Electricity	Kilowatt hour ("**kWh**") ('000s)	**2,204**	2,201	No change

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

Type of Packaging Material	Unit	Amount 2021	2020	Percentage Increase (+) or Decrease (–)
Cartoon box	Tonne	**6.42**	6.77	–5%
Antistatic bag	Tonne	**4.78**	5.11	–6%

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 relevant energy saving initiatives. Measures adopted by the Group include:

- Using 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 appliance, the Group takes into consideration its energy efficiency

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 to the environment 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 undesirable 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 adverse 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 impacted 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 affect 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 light-emitting diode ("**LED**"), the potential policy and legal risk are relatively low. In this Reporting Period, the Group was 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 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 our 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 2021, the Group has a workforce of 165 full time employees and 14 part time employees in the PRC and Hong Kong.

Key Performance Indicator	Category	Number of Employees 2021
Gender	Male	116
	Female	63
Employment type	Full time	165
	Part time	14
Age group	Below 30	55
	Between 31 and 40	72
	Between 41 and 50	32
	Above 51	20
Geographical region	Mainland China	168
	Hong Kong	11

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 Group, and provide adequate development opportunities accordingly.

We also believe 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 the 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 case relating to employment laws and regulations in Hong Kong and the PRC during the Reporting Period was noted.

Employee turnover

During the Reporting Period, the Group's overall employee turnover rate was approximately 13%. The employee turnover rate by (i) gender, (ii) age group (iii) geographical region are presented in the table below:

	Categories	Percentage of Turnover rate 2021
By gender	Male	12%
	Female	14%
By age group	Below 30	19%
	Between 31 and 40	12%
	Between 41 and 50	7%
	Above 51	—
By geographical region	Hong Kong	—
	Mainland China	13%

Health and Safety

The Company realises that the health and safety of the 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 in 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 to our 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 case in relation to health and safety laws and regulations in Hong Kong and the PRC was noted. There were no work-related fatalities and the Group did not record any lost days during its manufacturing process due to work injury during the Report Period.

Development and Training

The Group highly emphasises 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. The percentage of total employee who take part in these trainings is 61%. Safety training is crucial to enhance employees' safety awareness in order to mitigate the risk of work-related injury. The Group reminds our 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.

Category	Key Performance Indicators	Percentage 2021	Training Hours
Gender Category	Male	52%	23.2
	Female	48%	40.0
Employment category	Senior management	6%	22.0
	Middle management	29%	27.4
	Frontline and other employees	65%	29.0

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 comply 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 applicants will not be accepted.

No material non-compliance case in relation to child and forced labour laws and regulations in Hong Kong and the PRC during the Reporting Period was noted.

Supply Chain Management

Suppliers have a direct impact on the Company's sustainability performance. To oversee the environmental and social performances of our suppliers, 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 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 82 pre-approved suppliers.

Product Responsibility

Products and Services Quality Assurance

Continuous customer satisfaction and support are essential to 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 product 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 for examining products at each key stage of production to ensure that the quality of our products can meet our internal standards and customers' requirements.

During the Reporting Period, none of our products were recalled and we received 24 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 the employees, distributors and relevant parties, should contain a confidentiality clause to prevent disclosure of sensitive information. In order to detect any breaches of this confidentiality clause, the Group has established a whistle-blowing platform for 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 case in relation to product and service quality laws and regulations in Hong Kong and the PRC during the Reporting Period was 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 Group. No tolerance is given to fraud.

To enhance the governance of the Group, internal controls are 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 channel has 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, 3 directors and 106 employees have undergone two hours of anti-corruption training to strength our corporate governance. The percentage of total employee who took part in the training is 85%.

During the Reporting Period, no material non-compliance case in relation to business fraud laws and regulations in Hong Kong and the PRC was 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.

CHANGE OF COMPANY NAME AND THE STOCK SHORT NAMES

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 10 September 2021, the Shareholders have approved to change the English name of the Company from "HongGuang Lighting Holdings Company Limited" to "HG Semiconductor Limited" and to change the dual foreign name in Chinese of the Company from "宏光照明控股有限公司" to "宏光半導體有限公司" with effect from 15 September 2021.

The stock short names of the Company for trading in the Shares on the Stock Exchange has been changed from "HONGGUANG LIGHT" to "HG SEMI" in English and from "宏光照明" to "宏光半導體" in Chinese with effect from 12 October 2021. The stock code of the Company on the Stock Exchange remains unchanged as "6908".

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 23 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 80.

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 154. 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 83 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 (2020: nil).

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

Save as disclosed in the announcements of the Company dated 15 June 2021, 22 July 2021, 4 November 2021 and 1 December 2021 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 Act, 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 2021, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately RMB457.9 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 13.1% (2020: approximately 17.7%) of the total revenue. For the Year, the percentage of revenue derived from the five largest customers in aggregate was approximately 50.2% (2020: approximately 64.7%).

For the Year, the largest supplier accounted for approximately 24.6% (2020: approximately 17.6%) of the total purchases. For the Year, the five largest suppliers in aggregate accounted for approximately 67.0% (2020: approximately 63.4%) of the total purchases.

None of the Directors, their respective close associates or any shareholder of the Company (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 fail 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 suffice 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 our 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.

Supply Chain and Production Risks due to COVID-19 Pandemic

The outbreak of the COVID-19 pandemic and the emergence of highly transmissible variants have affected most countries and regions worldwide to varying extents since 2020. While some countries are moving on to a new normal of "living with COVID", others are still struggling to overcome a resurgent wave of pandemic with continued lockdowns.

In strict compliance with the regulations and guidance of the local authorities and the government, the Group's supply chain, logistics and different aspects of operations maybe disrupted by COVID-19, which may lead to mandatory closure of production facilities, offices and R&D centres.

In particular, the renovation progress of the Xuzhou factory as well as the delivery of the machinery acquired earlier may be delayed if the spikes in the COVID-19 infections spur lockdown in cities where the Group has geographical presence.

In response to the pandemic, the management team spared no efforts in devising effective emergency prevention strategies and control plan and implemented various protective measures to protect its employees while ensuring a safe and hygienic work environment.

The Group did not encounter any adverse material impact on the supply of raw materials in the Group's production and operation in 2021. The senior management will keep close monitoring of the related risks.

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 47 to 58 of this annual report/to be published in due course 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 packages 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 would 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 under review and up to the date of this annual report were as follows:

Executive Directors
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer)*
Mr. Lin Qi Jian
Mr. Chan Wing Kin

Non-executive Director
Dr. Wang David Nin-kou (Appointed on 17 June 2021)
Mr. Chiu Kwai San (Resigned on 27 January 2022)

Independent Non-executive Directors
Professor Chow Wai Shing, Tommy
Mr. Wu Wing Kuen, *B.B.S.*
Mr. Chan Chung Kik, Lewis

Pursuant to the Company's memorandum and articles of association, Mr. Zhao Yi Wen, Dr. Wang David Nin-kou, and Mr. Chan Chung Kik, Lewis will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Directors' Service Contracts

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing, 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 contract.

The Non-executive Director has entered into a letter of appointment with the Company for a term of three years commencing from 17 June 2021 and is subject to re-election at the next following annual general meeting of the Company after his appointment and thereafter 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 the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of two years commencing from 2 December 2020, 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 contract 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 under 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 has been 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 has been 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.

NON-COMPETITION UNDERTAKINGS

Each of Mr. Zhao Yi Wen, Mr. Lin Qi Jian, Mr. Chiu Kwai San, First Global Limited, Star Eagle Enterprises Limited, Bigfair Enterprises Limited (each of them, a "**Covenantor**" and collectively, the "**Covenantors**") has entered into a Deed of Non-Competition on 2 December 2016 in favour of the Company (for itself and as trustee for and on behalf of its subsidiaries). In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the Shares cease to the listed on the Stock Exchange; or (ii) the date on which the Covenantors cease to a Controlling Shareholder, he/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (the "**Controlled Company**") not, either on his/its own or in conjunction with or on behalf of any person, firm or any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, among other things, carry on, participate or be interested in, hold any right or interest (in each case whether as an investor, a shareholder, principal, partner, director, employee, consultant, urgent, or otherwise and whether for profit, reward, interest or otherwise), engage in, acquire or otherwise be involved in any business which is or may be in competition, whether directly or indirectly, with the business carried on or contemplated to be carried on by the Company or any of our subsidiaries in Hong Kong, the PRC and such other places as the Company or any of our subsidiaries may conduct or carry on business from time to time in the future, including but not limited to the design, development, manufacturing and sales of LED beads, LED lighting products and/or related products (the "**Restricted Business**"). Details of the Non-competition Deed are set out in the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company dated 16 December 2016.

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 2021.

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, a total of 34,510,000 options to subscribe for the ordinary shares of HK$0.01 in the issued share capital of the Company were granted, subject to acceptance of the grantees in accordance with the terms and conditions of the Share Option Scheme adopted by the Company on 2 December 2016.

As at 31 December 2021, 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 the date of grant	Granted between the date of grant and 31 December 2021	Exercised between the date of grant and 31 December 2021	Cancelled between the date of grant and 31 December 2021	Lapsed between the date of grant and 31 December 2021	Number of Shares in relation to outstanding options as at 31 December 2021
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	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	480,000	—	—	—	—	480,000
Mr. Chan Wing Kin	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	4,800,000	—	—	—	—	4,800,000
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	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	—	—	—	—	11,400,000
Senior management and other employees in aggregate	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	5,760,000	—	—	—	—	5,760,000
		Nil	17/6/2021–16/6/2029	7.5	4,050,000	—	—	—	—	4,050,000
		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)	17/6/2021–16/6/2029	7.5	6,500,000	—	—	—	—	6,500,000
Subtotal					23,110,000	—	—	—	—	23,110,000
Total					34,510,000	—	—	—	—	34,510,000

Note:

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

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 2021, 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 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 ordinary shares of the Company

Name	**Capacity/Nature of interest**	**Number of issued ordinary shares interested**	**Percentage of the issued share capital of the Company**
Mr. Zhao Yi Wen (Note 2, 5)	Interest in a controlled corporation; interest held jointly with another person	301,440,000 (L)	53.49%
Mr. Lin Qi Jian (Note 3, 5)	Interest in a controlled corporation; interest held jointly with another person	301,440,000 (L)	53.49%
Mr. Chiu Kwai San (Note 4, 5)	Interest in a controlled corporation; interest held jointly with another person	301,440,000 (L)	53.49%
Mr. Chan Chung Kik, Lewis	Beneficial owner	120,000 (L)	0.02%
Mr. Chan Wing Kin	Beneficial owner	4,800,000 (L)	0.85%
Professor Chow Wai Shing, Tommy	Beneficial owner	120,000 (L)	0.02%
Dr. Wang David Nin-kou	Beneficial owner	4,800,000 (L)	0.85%
Mr. Wu Wing Kuen	Beneficial owner	120,000 (L)	0.02%

Notes:

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

2. The aggregate 301,440,000 Shares in which Mr. Zhao Yi Wen is interested consist of (i) 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; (ii) 480,000 Shares held by Mr. Zhao Yi Wen and (iii) 200,460,000 Shares in which Mr. Zhao Yi Wen is deemed to be interested as a result of being a party acting-in-concert with Mr. Lin Qi Jian and Mr. Chiu Kwai San.

3. The aggregate 301,440,000 Shares in which Mr. Lin Qi Jian is interested consist of (i) 100,500,000 Shares held by Star Eagle Enterprises Limited, a company wholly owned by Mr. Lin Qi Jian, in which Mr. Lin Qi Jian is deemed to be interested under the SFO; (ii) 480,000 Shares held by Mr. Lin Qi Jian and (iii) 200,460,,000 Shares in which Mr. Lin Qi Jian is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Chiu Kwai San.

4. The aggregate 301,440,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, a company wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; (ii) 480,000 shares held by Mr. Chiu Kwai San and (iii) 201,960,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.

5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

Save as disclosed above, as at 31 December 2021, 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 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.

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

As at 31 December 2021, 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 of the Company 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 issued ordinary shares interested	Percentage of the issued share capital of the Company
First Global Limited (Note 2, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	52.23%
Star Eagle Enterprises Limited (Note 3, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	53.23%
Bigfair Enterprises Limited (Note 4, 5)	Beneficial owner; interest held jointly with another person	300,000,000 (L)	53.23%
Ms. Zhuang Chan Ling (Note 6)	Interest of spouse	301,440,000 (L)	53.49%
Ms. Xie Wan (Note 7)	Interest of spouse	301,440,000 (L)	53.49%
Ms. Wong Ching Ming (Note 8)	Interest of spouse	301,440,000 (L)	53.49%
GSR Capital Special Opportunity Fund L.P.	Beneficial owner	56,000,000 (L)	9.94%
GoldenSand Capital Ltd (Note 9)	Interest in a controlled corporation	56,000,000 (L)	9.94%
Wu Sonny (Note 10)	Interest in a controlled corporation	56,000,000 (L)	9.94%

Notes:

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

2. The aggregate 301,440,000 Shares in which Mr. Zhao Yi Wen is interested consist of (i) 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; (ii) 480,000 Shares held by Mr. Zhao Yi Wen and (iii) 200,460,000 Shares in which Mr. Zhao Yi Wen is deemed to be interested as a result of being a party acting-in-concert with Mr. Lin Qi Jian and Mr. Chiu Kwai San.

3. The aggregate 301,440,000 Shares in which Mr. Lin Qi Jian is interested consist of (i) 100,500,000 Shares held by Star Eagle Enterprises Limited, a company wholly owned by Mr. Lin Qi Jian, in which Mr. Lin Qi Jian is deemed to be interested under the SFO; (ii) 480,000 Shares held by Mr. Lin Qi Jian and (iii) 200,460,000 Shares in which Mr. Lin Qi Jian is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Chiu Kwai San.

4. The aggregate 301,440,000 Shares in which Mr. Chiu Kwai San is interested consist of (i) 99,000,000 Shares held by Bigfair Enterprises Limited, a company wholly owned by Mr. Chiu Kwai San, in which Mr. Chiu Kwai San is deemed to be interested under the SFO; (ii) 480,000 Shares held by Mr. Chiu Kwan San and (iii) 201,960,000 Shares in which Mr. Chiu Kwai San is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhao Yi Wen and Mr. Lin Qi Jian.

5. On 8 June 2016, Mr. Lin Qi Jian, Mr. Zhao Yi Wen and Mr. Chiu Kwai San entered into the Concert Parties Confirmatory Deed to acknowledge and confirm, among other things, that they are parties acting in concert with each of the members of the Group. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Reorganisation and Corporate Structure — Parties acting in concert" of the prospectus of the Company dated 16 December 2016.

6. 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.

7. Ms. Xie Wan is the spouse of Mr. Lin Qi Jian and is deemed, or taken to be, interested in the Shares in which Mr. Lin Qi Jian has interest under the SFO.

8. Ms. Wong Ching Ming is the spouse of Mr. Chiu Kwai San and is deemed, or taken to be, interested in the Shares in which Mr. Chiu Kwai San has interest under the SFO.

9. 56,000,000 Shares held by GSR Capital Special Opportunity Fund L.P., a company owned by GoldenSand Capital Ltd in 50%, in which GoldenSand Capital Ltd is deemed to be interested under the SFO.

10. 56,000,000 Shares held by GoldenSand Capital Ltd, a company wholly owned by Mr. Sonny Wu, in which Mr. Sonny Wu is deemed to be interested under the SFO.

Save as disclosed above, as at 31 December 2021, 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 31 to 46 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, the 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 2022

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF HG SEMICONDUCTOR LIMITED
(FORMERLY KNOWN AS HONGGUANG LIGHTING HOLDINGS COMPANY LIMITED)
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of HG Semiconductor Limited (formerly known as HongGuang Lighting Holdings Company Limited) (the "Company") and its subsidiaries (together the "Group") set out on pages 80 to 153 which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 2021, the Group's gross trade and bills receivables balance amounted to approximately RMB100,927,000, of which approximately RMB34,439,000 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 2021, the fair value of which was estimated by management to be approximately RMB186,333,000. 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 2021. 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.

Impairment assessment of technology know-how

Refer to Note 16 to the consolidated financial statements and the accounting policies on Note 4(d)(ii) and Note 4(j).

During the year ended 31 December 2021, the Company acquired 100% equity interests over GSR GO Holding Corporation which accounted for as the acquisition of intangible assets ("Technology know-how") amounted to approximately RMB63,734,000.

Based on management's impairment testing, the technology know-how was allocated to the GaN and other semiconductor products cash-generating unit ("GaN CGU"), and the recoverable amount of the GaN CGU was determined based on the value in use calculation carried by an independent professional valuer using cash flow projections estimated by the management. Significant judgement is involved to determine the key inputs and assumptions used in the calculation of value in use of the GaN CGU.

We identified impairment assessment of technology know-how as a key audit matter because of the management's significant judgement and high level of estimation uncertainty involved in the determination of the recoverable amount, and the net carrying amount of the technology know-how is significant to the Group's consolidated financial statements.

Our response:

- Evaluating the reasonableness of key inputs and assumptions used in the cash flow projections, which include budgeted revenue growth rates, long term growth rate, budgeted gross margins and discount rate;

- Checking the arithmetic accuracy of the cash flow projections used in the value in use calculation;

- Evaluating the reasonableness of disclosures related to technology know-how impairment assessment in the consolidated financial statements; and

- Evaluating the competence, capabilities and objectivity of the independent professional valuer used by management.

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 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	7	**126,137**	121,995
Cost of sales		**(100,630)**	(95,624)
Gross profit		**25,507**	26,371
Other income and gains	7	**409**	2,428
Selling and distribution expenses		**(2,259)**	(1,877)
Administrative and other expenses		**(98,605)**	(16,823)
Loss arising on acquisition of intangible assets	16	**(374,410)**	—
Reversal of provision/(provision) on expected credit losses on trade and bills receivables		**2,881**	(2,926)
Finance costs	9	**(1,147)**	(779)
(Loss)/profit before income tax credit/(expense)	8	**(447,624)**	6,394
Income tax credit/(expense)	12	**798**	(1,831)
(Loss)/profit for the year attributable to owners of the Company		**(446,826)**	4,563
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(4,125)**	(2)
Change in fair value of financial assets at fair value through other comprehensive income		**1,309**	—
Total comprehensive income for the year attributable to owners of the Company		**(449,642)**	4,561
(Loss)/earnings per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	13	**(92.22)**	1.14

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	58,632	33,591
Intangible assets	16	63,951	898
Financial assets at fair value through other comprehensive income	17	186,333	—
Prepayments and deposits	20	40,843	653
Deferred tax assets	25	1,688	1,835
		351,447	36,977
Current assets			
Inventories	18	35,615	38,413
Trade and bills receivables	19	97,378	114,421
Prepayments, deposits and other receivables	20	42,373	19,360
Financial assets at fair value through profit or loss	17	25,383	2,230
Current tax recoverables		37	—
Cash and cash equivalents	21	113,640	9,174
		314,426	183,598
Current liabilities			
Trade and bills payables	22	18,640	22,794
Other payables and accruals	23	6,373	5,806
Bank borrowings	24	7,000	13,000
Lease liabilities	28	6,651	1,028
Current tax liabilities		—	4,663
		38,664	47,291
Net current assets		275,762	136,307

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Lease liabilities	28	17,868	1,127
		17,868	1,127
Net assets		609,341	172,157
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	4,937	3,580
Reserves	27	604,404	168,577
Total equity		609,341	172,157

On behalf of the Directors

Zhao Yi Wen	**Lin Qi Jian**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	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 RMB'000 (Note 27(g))	Total RMB'000
At 1 January 2020	3,580	46,162	—	13,767	580	35,972	—	(4,710)	72,245	167,596
Profit for the year	—	—	—	—	—	—	—	—	4,563	4,563
Exchange differences on translating foreign operations	—	—	—	—	—	—	—	(2)	—	(2)
Total comprehensive income for the year	—	—	—	—	—	—	—	(2)	4,563	4,561
Transfer to statutory reserve	—	—	—	1,038	—	—	—	—	(1,038)	—
At 31 December 2020 and 1 January 2021	3,580	46,162	—	14,805	580	35,972	—	(4,712)	75,770	172,157
Loss for the year	—	—	—	—	—	—	—	—	(446,826)	(446,826)
Exchange differences on translating foreign operations	—	—	—	—	—	—	—	(4,125)	—	(4,125)
Change in fair value of financial assets at fair value through other comprehensive income	—	—	—	—	—	—	1,309	—	—	1,309
Total comprehensive income for the year	—	—	—	—	—	—	1,309	(4,125)	(446,826)	(449,642)
Acquisition of intangible assets (Note 16)	664	437,560	—	—	—	—	—	—	—	438,224
Placing of new shares (Note 26)	693	393,910	—	—	—	—	—	—	—	394,603
Recognition of equity-settled share-based payment expenses (Note 29)	—	—	53,999	—	—	—	—	—	—	53,999
Transfer to statutory reserve	—	—	—	693	—	—	—	—	(693)	—
At 31 December 2021	4,937	877,632	53,999	15,498	580	35,972	1,309	(8,837)	(371,749)	609,341

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
(Loss)/profit before income tax		**(447,624)**	6,394
Adjustments for:			
Depreciation of property, plant and equipment	8	**8,149**	6,385
Amortisation of intangible assets	8	**681**	682
Interest income	7	**(61)**	(301)
Finance costs	9	**1,147**	779
(Reversal of provision)/provision on expected credit losses on trade and bills receivables	36	**(2,881)**	2,926
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)	**63**	—
Share-based payment	8, 29	**53,999**	—
Operating (loss)/profit before working capital changes		**(12,117)**	16,865
Decrease/(increase) in inventories		**2,798**	(15,026)
Decrease in trade and bills receivables		**19,924**	19,833
Increase in prepayments, deposits and other receivables		**(63,203)**	(11,688)
Decrease in trade and bills payables, other payables and accruals		**(3,587)**	(31,842)
Cash used in operations		**(56,185)**	(21,858)
Income tax paid		**(3,755)**	—
Net cash flows used in operating activities		**(59,940)**	(21,858)
Cash flows from investing activities			
Purchases of property, plant and equipment (Note)		**(9,280)**	(8,214)
(Purchase of)/proceeds from financial assets at fair value through profit or loss, net		**(23,216)**	10,960
Purchases of financial assets at fair value through other comprehensive income		**(185,024)**	—
Acquisition of intangible assets		**52**	—
Interest received		**61**	301
Net cash flows (used in)/generated from investing activities		**(217,407)**	3,047

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from financing activities			
Interest paid		**(1,147)**	(779)
Proceeds from placing of new shares		**394,603**	—
Repayments of bank borrowings		**(13,000)**	(12,850)
Proceeds from bank borrowings		**7,000**	13,000
Repayments of principal portion of the lease liabilities		**(1,651)**	(1,858)
Net cash flows generated from/(used in) financing activities		**385,805**	(2,487)
Net increase/(decrease) in cash and cash equivalents		**108,458**	(21,298)
Effect of exchange rate changes on cash and cash equivalents		**(3,992)**	187
Cash and cash equivalents as at the beginning of the year		**9,174**	30,285
Cash and cash equivalents as at the end of the year		**113,640**	9,174

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

1. GENERAL AND CORPORATE INFORMATION

HG Semiconductor Limited (formerly known as HongGuang Lighting Holdings Company 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".

During the year, the English and Chinese names of the Company have been changed from "*HongGuang Lighting Holdings Company Limited 宏光照明控股有限公司*" to "*HG Semiconductor Limited 宏光半導體有限公司*"; the stock short name for trading in the shares on the Stock Exchange has been changed from "*HONGGUANG LIGHT 宏光照明*" to "*HG SEMI 宏光半導體*". The Group's industry and sector classification of the Hang Seng Industry Classification System provided by Hang Seng Indexes Company Limited have been re-classified to "Information Technology" Industry, "Semiconductors" Sector and "Semiconductors" Subsector to better reflect and align with the current status and future business development of the Group in the semiconductor industry.

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 2021, the Company's ultimate parents are First Global Limited, a company incorporated in the British Virgin Islands (the "BVI"), Star Eagle Enterprises Limited, a company incorporated in the BVI, and Bigfair Enterprises 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 2021

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to HKFRS 16	COVID-19 Related Rent Concessions beyond 30 June 2021 (early adopted)

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 HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	Annual Improvements to HKFRS Standards 2018–2020[1]
Amendment to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[1]
Amendment to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[1]
Amendment to HKFRS 3	Reference to the Conceptual Framework[1]
Amendment to HKAS 1	Classification of Liabilities as Current or Non-current[2]
HK Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
HKFRS 17	Insurance Contracts[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 2022.
2 Effective for annual periods beginning on or after 1 January 2023.
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.

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

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

Annual Improvements to HKFRSs 2018–2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

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

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The Directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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 37, Onerous Contracts — Cost of Fulfilling a Contract (Continued)

The Directors of the Company is currently assessing whether the application of the amendments will have any material impact on the Group's consolidated financial statements.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

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

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

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 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.

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.

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 12 — Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Continued)

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.

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The Directors of the Company do not anticipate that the application of this standard 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 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 31), 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

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.

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 shorter of lease term or useful life
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.

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	Over the shorter of the term or useful life of 16 years
Patent sublicense	Over the shorter of lease term or useful life of 5 years
Computer Software	Over the shorter of lease term or useful life of 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(i) Financial assets (Continued)

Debt instruments (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(iii) Financial liabilities (Continued)

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.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and borrowings, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition (Continued)

(b) Subcontracting service

The Group provides assembly services of the materials provided by customers. Revenue is thus recognised as a performance obligation satisfied overtime as the Group creates or enhances an asset that the customer controls when the Group provides subcontracting service. Revenue is recognised for these subcontracting service based on the stage of completion of the contract using input method.

The Group does not have control over the major materials in performing the assembly services. Thus, the Group recognises the subcontracting service revenue on net basis.

(c) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties (Continued)

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 20.10% 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.

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

(a) Critical judgments in applying accounting policies (Continued)

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

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.

(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 RMB35,615,000 (2020: RMB38,413,000). No impairment recognised the respect of inventory for the year ended 31 December 2021 and 2020.

(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 RMB97,624,000 (2020: RMB114,494,000) and the reversal of provision on expected credit losses on trade and bill receivables and other receivables was approximately RMB2,881,000 (2020: Provision RMB2,926,000). 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.

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

(b) Key Sources of estimation uncertainty (Continued)

(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.

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 engaged by the Group to assess the useful life of technology know-how (see Note 16).

At 31 December 2021, the carrying amount of technology know-how amounted to approximately RMB63,734,000 (2020: Nil).

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

(b) Key Sources of estimation uncertainty (Continued)

(v) Impairment assessment of intangible asset not available for use

The technology know-how is 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.

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.

(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. For the year ended 31 December 2020, the Executive Directors have considered the only operating segment of the Group is design, development, manufacturing, subcontracting service and sales of LED beads. For the year ended 31 December 2021, 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:

	2021			2020		
	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	126,137	—	126,137	121,995	—	121,995
Segment result	5,325	(382,095)	(376,770)	11,610	—	11,610
Other unallocated						
Other income and gains			409			2,428
Other administrative expenses			(70,499)			(7,044)
Finance costs			(764)			(600)
(Loss)/profit before income tax			(447,624)			6,394

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:

	2021			2020		
	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 assets	491,212	80,081	571,293	210,687	—	210,687
Corporate and other unallocated assets (Note)	—	—	94,580	—	—	9,888
Total assets			665,873			220,575
Segment liabilities	(32,160)	—	(32,160)	(32,641)	—	(32,641)
Corporate and other unallocated liabilities (Note)			(24,372)			(15,777)
Total liabilities			(56,532)			(48,418)
Other segment information:						
Depreciation charge						
— Owned property, plant and equipment	(4,846)	(9)	(4,855)	(4,343)	—	(4,343)
— Right-of-use-assets	(1,681)	—	(1,681)	(1,775)	—	(1,775)
Amortisation of intangible assets	(681)	—	(681)	(682)	—	(682)
Reversals of provision/(provision) of expected credit loss on trade and bills receivables	2,881	—	2,881	(2,926)	—	(2,926)

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 financial assets at fair value through profit or loss and corporate and other unallocated liabilities mainly include lease liabilities in head office, bank borrowings 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)

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:

	2021 RMB'000	2020 RMB'000
Client A	**16,350**	21,596
Client B	**N/A***	19,495
Client C	**16,464**	17,166
Client D	**N/A***	15,693

* 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 sold, less discounts, returns, 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 2021 and 2020, there were no rebate, discount, warranties and return on revenue.

An analysis of the Group's revenue, other income and gains are as follows:

	2021 RMB'000	2020 RMB'000
LED products		
Revenue recognised at a particular point in time		
Sales of LED beads	**126,137**	121,081
Revenue recognised overtime		
Subcontracting service	**—**	914
	126,137	121,995
Other income and gains		
Bank interest income	**61**	301
Government grants (Note)	**—**	2,127
Other income	**348**	—
	409	2,428

Note: The amount represents the government subsidy received for the Group's technology advancement with no condition during the year of 2020.

8. (LOSS)/PROFIT BEFORE INCOME TAX CREDIT/(EXPENSE)

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

	2021 RMB'000	2020 RMB'000
Cost of inventories sold	**88,521**	83,192
Depreciation charge (Note 15):		
— Owned property, plant and equipment	**4,885**	4,611
— Right-of-use-assets included within:		
— Property	**2,298**	325
— Machinery	**966**	1,449
Amortisation of intangible assets, included in cost of sales	**681**	682
Auditor's remuneration	**1,164**	824
Research and development costs, included in administrative and other expenses	**16,463**	8,335
Employee costs (including Directors' remuneration)		
— Wages, salaries and other benefits	**12,959**	8,014
— Contribution to defined contribution pension plans	**1,106**	581
— Share-based payment (Note 29)	**53,999**	—
Exchange loss, net	**1,512**	—

9. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	**549**	600
Interest on lease liabilities	**598**	179
	1,147	779

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 iii) RMB'000	Total RMB'000
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 Director:					
Dr. Wang David Nin-kou (Note i)	358	—	—	4,517	4,875
Mr. Chiu Kwai San (Note ii)	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
Year ended 31 December 2020					
Executive Directors:					
Mr. Zhao Yi Wen	320	89	13	—	422
Mr. Lin Qi Jian	213	89	13	—	315
Mr. Chan Wing Kin	—	639	16	—	655
Non-executive Director:					
Mr. Chiu Kwai San	107	—	—	—	107
Independence Non-executive Directors:					
Professor Chow Wai Shing, Tommy	107	—	—	—	107
Mr. Wu Wing Kuen, *B.B.S.*	107	—	—	—	107
Mr. Chan Chung Kik, Lewis	107	—	—	—	107
Total	961	817	42	—	1,820

Notes:

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

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

(iii) 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 (2020: 3) Director whose emoluments is reflected in the disclosures in Note 10. The emoluments of the remaining 4 (2020: 2) highest paid individuals for the year are as follows:

	2021	2020
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**223**	117
Performance related bonuses	**—**	44
Contribution to defined contribution pension plans	**8**	9
Share-based payment (Note 29) (Note)	**21,449**	—
	21,680	170

Their remuneration fell within the following bands:

	2021	2020
	No. of individuals	No. of individuals
Nil to HKD1,000,000	**—**	2
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 2021 and 2020, 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/(EXPENSE)

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 2021 and 2020. For the year ended 31 December 2021, 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 (2020: Nil).

12. INCOME TAX CREDIT/(EXPENSE) (Continued)

In 2017, the Group's wholly-owned subsidiary, Zhuhai HongGuang Semiconductor Company Limited ("Zhuhai HongGuang"), previously known as Zhuhai HongGuang Lighting Fixture Company Limited, was awarded a "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 2019, the Group has successfully renewed the Certificate for three years commencing from 1 January 2019. 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 2021 and 2020.

	2021 RMB'000	2020 RMB'000
Current income tax — PRC EIT		
— tax for the year	—	3,468
— Over provision in respect of prior year	(945)	—
Deferred tax (Note 25)	147	(1,637)
	(798)	1,831

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

	2021 RMB'000	2020 RMB'000
(Loss)/profit before income tax (credit)/expense	(447,624)	6,394
At the PRC's statutory enterprise income tax rate of 25% (2020: 25%)	(111,906)	1,599
Effect of reduction of EIT rate to 15% (2020: 15%)	(613)	(1,220)
Effect of different tax rates of subsidiaries operating in other jurisdiction	37,543	493
Effect of non-deductible expenses	75,349	966
Effect of non-taxable income	(373)	(7)
Over provision in respect of prior year	(945)	—
Effect of temporary difference	147	—
Income tax (credit)/expense	(798)	1,831

13. (LOSS)/EARNINGS PER SHARE

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

	2021 RMB'000	2020 RMB'000
(Loss)/earnings		
(Loss)/profit for the year attributable to owners of the Company	(446,826)	4,563
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	484,525,098	400,000,000
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)/earnings per share	484,525,098	400,000,000

Notes:

(i) Basic (loss)/earnings per share is calculated by dividing (loss)/profit 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 year ended 31 December 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 2021 and 2020.

15. PROPERTY, PLANT AND EQUIPMENT

	Property (Note (i)) RMB'000	Machinery and equipment (Note (ii)) RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost						
At 31 December 2019 and 1 January 2020	2,035	53,918	148	92	200	56,393
Additions	—	8,214	—	—	—	8,214
Exchange adjustment	—	(497)	—	—	—	(497)
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	26,042	66,140	447	4,398	200	97,227
Accumulated depreciation						
At 1 January 2020	325	23,832	135	72	78	24,442
Depreciation charge for the year	325	6,035	—	7	18	6,385
Exchange adjustment	—	(308)	—	—	—	(308)
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	2,921	34,805	135	620	114	38,595
Net book value						
At 31 December 2021	23,121	31,335	312	3,778	86	58,632
At 31 December 2020	1,385	32,076	13	13	104	33,591

Notes:

(i) As at 31 December 2021, 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 RMB1.1 million (2020: approximately RMB1.4 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 shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Directors of the Company, with lease term of 10 years from 1 April 2015 to 31 March 2025.

(ii) As at 31 December 2021, the carrying amount of the Group's machinery and equipment includes an amount of nil (2020: approximately RMB0.96 million) of right-of-use assets, which the ownership would transfer to the Group by the end of the lease term with no further consideration.

16. INTANGIBLE ASSETS

	Patent sublicense	Computer software	Technology know-how (Note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2020, 31 December 2020, 1 January 2021	3,600	465	—	4,065
Additions	—	—	63,734	63,734
As 31 December 2021	3,600	465	63,734	67,799
Accumulated amortisation				
At 1 January 2020	2,329	156	—	2,485
Amortisation charge for the year	635	47	—	682
At 31 December 2020 and 1 January 2021	2,964	203	—	3,167
Amortisation charge for the year	636	45	—	681
At 31 December 2021	3,600	248	—	3,848
Net Book Value				
At 31 December 2021	—	217	63,734	63,951
At 31 December 2020	636	262	—	898

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 do 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 was relating 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 2021, 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.

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. As at 31 December 2021, the technology is not ready for use as the production plant related to the sale of fast charging product was still under construction. The Directors expected that construction of the production plant will be completed and the technology know-how is ready for use in late 2022. 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 million 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 million.

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 ranges from 21.9% to 23.4%.

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 36.2%.

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 0%.

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

17. FINANCIAL ASSETS AT FAIR VALUE

	2021 RMB'000	2020 RMB'000
Non-current assets		
Financial assets at FVTOCI		
— Unlisted equity securities (Note 1)	**186,333**	—
Current assets		
Financial assets at FVTPL		
— Investment in unlisted fund (Note 2)	**25,383**	—
— Investment in term deposits (Note 3)	**—**	2,230
	25,383	2,230

Notes:

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

   On 6 August 2021, the Group invested 10% of the ordinary shares of a company in the PRC at the consideration of RMB15,000,000 for investment purpose. The fair value as at 31 December 2021 is HK$20,000,000 (equivalents to approximately RMB16,309,000).

   On 30 November 2021, 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$1.75 million (equivalents to approximately RMB11,135,000).

   On 24 June 2021, the Group acquired 349,992 non-redeemable series E preferred shares 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 USD5,000,000 (equivalents to approximately RMB31,778,000). On 23 August 2021, the Group further acquired 1,399,969 series E preferred shares, in the Israel Company at the consideration of approximately USD20,000,000 (equivalents to approximately RMB127,111,000). The total number of shares acquired was 1,749,961 and represents approximately 20.10% of the enlarged issued share capital of the Israel Company. 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 (see note 5).

   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 2021. Fair value gain of approximately RMB1,309,000 was recognised in other comprehensive income during the year ended 31 December 2021. Refer Note 35(b) for detail.

2. In December 2021, a wholly owned subsidiary signed a subscription agreement to subscribe 4,000 shares of a fund with consideration of US$4,000,000 (equivalents to approximately RMB25,383,000).

   The Company engaged an independent professional valuer to measure the fair value of the unlisted fund as at 31 December 2021. Fair value loss of approximately RMB63,000 was recognised in profit or loss during the year ended 31 December 2021, refer Note 35(b) for detail.

17. FINANCIAL ASSETS AT FAIR VALUE (Continued)

Note: (Continued)

3. As at 31 December 2021, the financial assets at fair value through profit or loss represent the investment in term deposits that the interest income are indexed to performance of investment portfolios comprising corporate bonds, interest bearing deposit and other kind financial asset or group of financial assets. The interest amounts are not consideration for just the time value of money on the principal amount outstanding.

   The fair value of financial assets at fair value through profit or loss have been determined by reference to the default rate and recovery rate of the term deposits. No fair value gain or loss was recognised in profit or loss during the years ended.

   The term deposit as at 31 December 2020 with maturity dates of less than six months from the year ended date and pledged as security for bills payable issued by the Group.

   During the year ended 31 December 2021, the Group has no further investment in term deposits and all the investment in term deposits held by the Group have been fully redeemed.

   The Company engaged an independent professional valuer to measure the fair value of the term deposits as at 31 December 2020. No fair value gain or loss was recognised in profit or loss during the year ended 31 December 2020. Refer Note 35(b) for detail.

18. INVENTORIES

	2021	2020
	RMB'000	RMB'000
Raw materials	**27,106**	33,702
Finished goods	**8,509**	4,711
	35,615	38,413

19. TRADE AND BILLS RECEIVABLES

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

	2021 RMB'000	2020 RMB'000
Trade receivables	80,330	111,615
Bills receivable	17,048	2,806
	97,378	114,421

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".

As at 31 December 2021, the Group has no bills receivable pledged (2020: RMB0.7 million) for bills payable issued by the Group.

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.

	2021 RMB'000	2020 RMB'000
0 to 30 days	28,900	34,877
31 to 60 days	18,092	11,706
61 to 90 days	9,691	9,672
91 to 120 days	5,964	14,616
121 to 365 days	19,923	19,753
Over 1 year	18,357	30,227
	100,927	120,851
Less: Impairment of trade and bills receivables (Note 36)	(3,549)	(6,430)
	97,378	114,421

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Other receivables	246	73
Prepayments and deposits (Note 1)	82,970	19,940
	83,216	20,013
Less: non-current portion		
Prepayments and deposits (Note 2)	(40,843)	(653)
Current portion	42,373	19,360

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

Notes:

1. The amount includes the prepayment to the independent third parties suppliers amounted to approximately RMB39,866,000 (2020: approximately RMB17,999,000) for purchase of raw material.

2. The amounted includes the prepayment of approximately RMB31,198,000 (2020: Nil) for purchase of machinery and approximately RMB7,334,000 (2020: Nil) for decoration.

21. CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Bank balances and cash	113,640	9,174
Denominated in RMB	2,094	8,861
Denominated in HK$	53,014	312
Denominated in US$	58,532	1

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 AND BILLS PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	**18,640**	22,126
Bills payable	**—**	668
	18,640	22,794

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

	2021 RMB'000	2020 RMB'000
0 to 30 days	**8,116**	13,407
31 to 60 days	**3,431**	4,064
61 to 90 days	**1,795**	2,779
91 to 120 days	**4,000**	1,764
121 to 365 days	**831**	672
Over 1 year	**467**	108
	18,640	22,794

23. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Accrued payroll	**2,226**	607
Deposits received	**9**	15
Other payables and accruals	**3,750**	4,884
Other tax payables	**388**	300
	6,373	5,806

24. BANK BORROWINGS

	2021 RMB'000	2020 RMB'000
Unsecured interest-bearing bank borrowings:		
— Repayable on demand or within one year from the reporting date	**7,000**	13,000

As at 31 December 2021, the effective interest rates of the unsecured interest-bearing bank borrowings were 3.80% (2020: from 3.80% to 4.55%) per annum.

All of the banking facilities are subject to the fulfillment 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.

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 deprecation allowances** RMB'000	**Total** RMB'000
At 1 January 2020	875	4	(681)	198
Credited to profit or loss (Note 12)	731	—	906	1,637
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	886	4	798	1,688

25. DEFERRED TAX ASSETS (Continued)

Certain deferred tax assets and liabilities have been offset for the purpose of presentation. An analysis of the deferred tax balances is as follows:

	2021 RMB'000	2020 RMB'000
Deferred tax assets	1,688	1,835
Deferred tax liabilities	—	—
	1,688	1,835

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 2021 and 2020, 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 RMB140,815,000 (2020: RMB133,797,000). 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 2021 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2021 and 2020.

26. SHARE CAPITAL

	Number of ordinary shares	RMB'000
Issued and fully paid:		
At 1 January 2020, 31 December 2020, 1 January 2021	400,000,000	3,580
Acquisition of intangible assets (Note (i))	80,000,000	664
Placing of new shares (Note (ii))	83,591,000	693
At 31 December 2021	563,591,000	4,937

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.

27. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2021 and 2020 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 2020	46,162	—	(24,546)	21,616
Loss for the year	—	—	(5,027)	(5,027)
Total comprehensive income for the year	—	—	(5,027)	(5,027)
At 31 December 2020 and 1 January 2021	46,162	—	(29,573)	16,589
Loss for the year	—	—	(444,980)	(444,980)
Total comprehensive income for the year	—	—	(444,980)	(444,980)
Acquisition of intangible assets (Note 16)	437,508	—	—	437,508
Placing to new shares (Note 26)	393,910	—	—	393,910
Recognition of equity-settled share-based payment expenses (Note 29)	—	53,907	—	53,907
At 31 December 2021	877,580	53,907	(474,553)	456,934

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

Retained earnings 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 2021 RMB'000	31 December 2020 RMB'000
Properties leased for own use, carried at depreciated cost	**23,121**	1,385
Machinery, carried at depreciated cost	**—**	966

Lease liabilities

Future lease payments are due as follows:

	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**

28. LEASES (Continued)

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

Lease liabilities (Continued)

	Minimum lease payments 31 December 2020 RMB'000	Future interest 31 December 2020 RMB'000	Present-value 31 December 2020 RMB'000
Not later than one year	1,102	74	1,028
Later than one year and not later than two years	371	41	330
Later than two years and not later than five years	835	38	797
	2,308	153	2,155

The present value of future lease payments are analysed as:

	31 December 2021 RMB'000	31 December 2020 RMB'000
Current liabilities	**6,651**	1,028
Non-current liabilities	**17,868**	1,127
	24,519	2,155

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 year ended 31 December 2021 and 2020.

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.

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.

29. SHARE-BASED PAYMENT (Continued)

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 2021	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding at 31 December 2021	Vested and exercisable at 31 December 2021
Directors of the Company										
17/6/2021	Nil (Note 5)	17/6/2021–16/6/2024	7.50	—	6,600,000	—	—	—	6,600,000	6,600,000
	17/6/2021–16/6/2022 (Note 6)	17/6/2022–16/6/2026	7.50	—	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	—	—	—	11,400,000	6,600,000
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	5,760,000
	Nil (Note 5)	17/6/2021–16/6/2029	7.50	—	4,050,000	—	—	—	4,050,000	4,050,000
	17/6/2021–16/6/2022 (Note 6)	17/6/2022–16/6/2026	7.50	—	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	—
	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	—	—	—	23,110,000	9,810,000
				—	34,510,000	—	—	—	34,510,000	16,410,000

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.

29. SHARE-BASED PAYMENT (Continued)

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$99,314,000. During the year ended 31 December 2021, the Company recognised expense for the services rendered during the vesting period under the share options scheme of approximately RMB53,999,000.

30. CAPITAL COMMITMENTS

	2021 **RMB'000**	2020 RMB'000
Commitments for the acquisition of property, plant and equipment	**76,728**	393

31. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2021 RMB'000	2020 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		7	7
Amounts due from subsidiaries (Note)		325,191	—
Intangible assets (Note 16)		63,734	—
		388,932	7
Current assets			
Prepayment		123	—
Amounts due from subsidiaries (Note)		29,698	22,606
Cash and cash equivalents		44,639	245
		74,460	22,851
Current liabilities			
Other payables		1,521	2,689
		1,521	2,689
Net assets		461,871	20,169
EQUITY			
Share capital	26	4,937	3,580
Reserves	27	456,934	16,589
Total equity		461,871	20,169

Note: For the amounts due from subsidiaries, the Directors make periodic individual assessment on the recoverability of the subsidiaries. The provision on expected credit loss on amount due from subsidiaries for the amount of RMB980,000 recognised during the year ended 31 December 2021 (2020: Nil).

On behalf of the Directors

Zhao Yi Wen	**Lin Qi Jian**
Director	*Director*

32. INVESTMENT IN SUBSIDIARIES

Details of the subsidiaries as at 31 December 2021 and 2020 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			
				2021		2020	
				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	—	—	—
FastSemi Holding Limited	Corporation	BVI Investment holding	1 ordinary shares of US$1	100	—	—	—
GSR Go Holding Corporation	Corporation	BVI Investment holding	1,000 ordinary shares of US$1 each	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	—	—
西安速充半導體有限公司	Corporation	The PRC Research and development	Nil**	—	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			
				2021		2020	
				Direct %	Indirect %	Direct %	Indirect %
FastPower Inc.	Corporation	United States of America Research and development	1,000,000 ordinary shares with no par value	—	100	—	—
Swift Power Limited	Corporation	Hong Kong Investment holding	1 ordinary share of HK$1 each	—	100	—	—
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$20,000,000	—	100	—	—
蘇州金沙江半導體有限公司*	Corporation	The PRC Research and development	Nil**	—	100	—	—
深圳前沿科技研發有限公司*	Corporation	The PRC Research and development	Nil**	—	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 2021 RMB'000	2020 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense (Note (ii))	2,019	2,143
珠海經濟特區利佳電子發展有限公司	Rental expense (Note (iii))	316	302
珠海經濟特區利佳電子發展有限公司	Interest on lease liability (Note (iii))	55	69
		2,390	2,514

33. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

(i) The related party is beneficially owned by the shareholders of the Company, Mr. Lin Qi Jian and Mr. Zhao Yi Wen, who are also Directors 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:

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	1,273	1,350
Pension scheme contributions	41	42
Share-based payment (Note)	16,633	—
	17,947	1,392

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

	2021 RMB'000	2020 RMB'000
Bank balances and cash available on demand	113,640	9,174

34. NOTES SUPPORTING CASH FLOW STATEMENT (Continued)

(b) Reconciliation of liabilities arising from financing activities

	Bank borrowings RMB'000	**Lease liabilities** RMB'000
At 31 December 2019 and 1 January 2020	12,850	4,013
Change from cash flow:		
Proceed from bank borrowings	13,000	—
Repayment of bank borrowings	(12,850)	—
Repayment of principal portion of the lease liabilities	—	(1,858)
Interest paid	(600)	(179)
Total change from cash flow	(450)	(2,037)
Other change:		
Interest expenses	600	179
Total other change	600	179
At 31 December 2020 and 1 January 2021	13,000	2,155
Change from cash flow:		
Proceed from bank borrowings	7,000	—
Repayment of bank 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
Total other change	549	24,613
At 31 December 2021	7,000	24,519

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows the carrying amount and fair value of financial assets and liabilities:

	2021 RMB'000	2020 RMB'000
Financial assets		
Measured at amortised cost	211,264	123,668
Fair value through profit or loss	25,383	2,230
Fair value through other comprehensive income	186,333	—
Financial liabilities		
Measured at amortised cost	56,144	43,455

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 and other payables and accruals 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 2021 RMB'000	Fair value at 31 December 2020 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	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	16,309	—	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	25,383	—	Level 3	Net asset value of underlying investments	Net assets	The higher the net asset value, the higher the valuation
Investment in term deposits	—	2,230	Level 3	Discounted asset value	Default rate	The higher the default rate, the lower the valuation
					Recovery rate	The higher the recovery rate, the higher the valuation

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

(b) Financial instruments measured at fair value (Continued)

Significant unobservable inputs

	2021	2020
Default rate	—	0.05%
Recovery rate	—	35.13%
Discount rate	26%	—
Growth rate	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 2020	—	—	13,190
Acquisitions	—	—	2,230
Disposals	—	—	(13,190)
Change in fair value	—	—	—
As at 31 December 2020 and 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	186,333	25,383	—

There were no transfers between levels during the year 2021 and 2020.

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:

2021

	2021 **RMB'000**	2020 RMB'000
USD	**58,532**	1
HKD	**53,014**	312

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.

	2021		2020	
	Increase/ (decrease) in foreign exchange rates	**(Increase)/ decrease in loss after tax and (increase)/ decrease in retained earning RMB'000**	Increase/ (decrease) in foreign exchange rates	(Increase)/ decrease in loss after tax and (increase)/ decrease in retained earning RMB'000
USD	**5%**	**2,248**	5%	—
	(5%)	**(2,248)**	(5%)	—
HKD	**5%**	**2,253**	5%	13
	(5%)	**(2,253)**	(5%)	(13)

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 2021, the Group has a certain concentration of credit risk as approximately 41% (2020: 45%) 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 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

36. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

31 December 2021 (Continued)

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)

31 December 2020

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.28%	50,701	144
Past due for less than 30 days	0.28%	8,307	24
Past due for more than 30 days but less than 90 days	0.28%	7,624	22
Past due for more than 90 days but less than 120 days	1.50%	648	10
Past due for more than 120 days but less than 365 days	1.50%	1,437	21
Over 365 days	6.19%	690	43
		69,407	264

Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	2.67%	7,805	208
Past due for less than 30 days	2.67%	3,405	91
Past due for more than 30 days but less than 90 days	2.67%	2,493	67
Past due for more than 90 days but less than 120 days	4.36%	50	2
Past due for more than 120 days but less than 365 days	4.36%	16,551	722
Over 365 days	20.05%	15,468	3,102
		45,772	4,192

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	68.88%	2,866	1,974
		2,866	1,974

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:

	2021	2020
	RMB'000	RMB'000
Balance at 1 January	**6,430**	3,504
(Reversal of provision)/provision on expected credit losses	**(2,881)**	2,926
Balance at 31 December	**3,549**	6,430

The following significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in the loss allowance during 2021:

— Decrease in long overdue trade receivable resulted in a decrease in loss allowance at approximately RMB2,881,000 (2020: Increase RMB2,926,000).

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.

36. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

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 2021						
Trade and bills payables	18,640	18,640	18,640	—	—	—
Other payables and accruals	5,985	5,985	5,985	—	—	—
Bank 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

	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 2020						
Trade and bills payables	22,794	22,794	22,794	—	—	—
Other payables and accruals	5,506	5,506	5,506	—	—	—
Bank borrowings	13,000	13,225	13,225	—	—	—
Lease liabilities	2,155	2,308	1,102	371	835	—
	43,455	43,833	42,627	371	835	—

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 and bills 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:

	2021 **RMB'000**	2020 RMB'000
Trade and bills payables	**18,640**	22,794
Other payables and accruals	**6,373**	5,806
Bank borrowings	**7,000**	13,000
Less: Bank balances and cash	**(113,640)**	(9,174)
Net (assets)/debt	**(81,627)**	32,426
Equity	**609,341**	172,157
Net debt-to-equity ratio	**N/A**	19%

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 2022.

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

	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**126,137**	121,995	243,260	203,747	116,737
(Loss)/profit before income tax expense	**(447,624)**	6,394	23,078	29,036	13,494
Income tax credit/(expense)	**798**	(1,831)	(5,800)	(5,140)	(661)
(Loss)/profit for the year	**(446,826)**	4,563	17,278	23,896	12,833
*Non-HKFRS Measures**					
(Loss)/profit for the year	**(446,826)**	4,563	17,278	23,896	12,833
Add:					
Equity settled share-based payment expenses	**53,999**	—	—	—	—
Loss arising on acquisition of intangible assets	**374,410**	—	—	—	—
Adjusted (loss)/profit for the year under non-HKFRS Measures*	**(18,417)**	4,563	17,278	23,896	12,833

ASSETS AND LIABILITIES

	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**665,873**	220,575	246,096	198,948	144,891
Total liabilities	**56,532**	48,418	78,500	48,738	19,266
Total equity	**609,341**	172,157	167,596	150,210	125,625

* The Company's management believes that the non-HKFRS financial measures provide shareholders and investors with useful supplementary information to assess the performance of the Group's core operations by eliminating impacts of items that the management of the Group does not consider indicative of the Group's operating performance. However, the presentation of the non-HKFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with HKFRS. Shareholders and investors should not view the adjusted results on a standalone basis or as a substitute for results under HKFRS.