HG Semiconductor Limited
宏光半導體有限公司

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

ANNUAL REPORT 2023

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Dr. XU Zhihong (徐志宏) *(Chairman)*
(Appointed on 6 February 2023 as Executive Director and Vice Chairman)
(Appointed on 5 June 2023 as Chairman)
Dr. CAO Yu (曹雨) *(Chief Executive Officer)*
(Appointed on 6 February 2023 and resigned on 21 August 2023)
Mr. ZHAO Yi Wen (趙奕文)
Mr. LU Kailin (呂鎧麟)
(formerly known as Mr. LYU Xiangrong (呂向榮))
(Deputy Chief Executive Officer)
(Appointed as Deputy Chief Executive Officer on 1 August 2023)
Mr. LI Yang (李陽)
(Re-designated as Executive Director on 9 February 2024)
Mr. LEUNG Kin Pang (梁健鵬)
Dr. CHEN Zhen (陳振)
(Appointed on 6 February 2023 and resigned on 6 November 2023)
Ms. LIU Yang (劉洋)
(Resigned on 6 February 2023)

Non-executive Directors

Dr. WANG David Nin-kou (王寧國)
Mr. WANG Jie Chuan (王潔川)
(Resigned on 6 February 2023)

Independent Non-executive Directors

Mr. ZOU Haiyan (鄒海燕)
(Appointed on 5 June 2023)
Mr. SIU Miu Man, Simon, *MH* (蕭妙文)
(Appointed on 5 June 2023)
Mr. LI Yang (李陽)
(Re-designated as Executive Director on 9 February 2024)
Professor CHOW Wai Shing, Tommy (周偉誠)
(Ceased on 2 December 2023)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
(Resigned on 5 June 2023)
Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Resigned on 5 June 2023)

AUDIT COMMITTEE

Mr. ZOU Haiyan (鄒海燕) *(Chairman)*
(Appointed as Chairman on 5 June 2023)
Mr. SIU Miu Man, Simon, *MH* (蕭妙文)
(Appointed as member on 5 June 2023)
Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Resigned on 5 June 2023)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
(Resigned on 5 June 2023)
Professor CHOW Wai Shing, Tommy (周偉誠)
(Ceased on 2 December 2023)
Mr. LI Yang (李陽) (Ceased on 9 February, 2024)

NOMINATION COMMITTEE

Mr. ZOU Haiyan (鄒海燕) *(Chairman)*
(Appointed as Chairman on 5 June 2023)
Dr. XU Zhihong (徐志宏)
(Appointed as member on 5 June 2023)
Mr. SIU Miu Man, Simon, *MH* (蕭妙文)
(Appointed as member on 5 June 2023)
Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Resigned on 5 June 2023)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
(Resigned on 5 June 2023)
Professor CHOW Wai Shing, Tommy (周偉誠)
(Ceased on 2 December 2023)
Mr. LI Yang (李陽)
(Ceased as member on 9 February 2024)

REMUNERATION COMMITTEE

Dr. XU Zhihong (徐志宏) *(Chairman)*
(Appointed as Chairman on 5 June 2023)
Mr. ZOU Haiyan (鄒海燕)
(Appointed as member on 5 June 2023)
Mr. SIU Miu Man, Simon, *MH* (蕭妙文)
(Appointed as member on 5 June 2023)
Mr. CHAN Chung Kik, Lewis (陳仲戟)
(Resigned on 5 June 2023)
Mr. WU Wing Kuen, *B.B.S.* (胡永權)
(Resigned on 5 June 2023)
Professor CHOW Wai Shing, Tommy (周偉誠)
(Ceased on 2 December 2023)
Mr. LI Yang (李陽)
(Ceased as member on 9 February 2024)

COMPANY SECRETARY

Ms. TSANG Ngo Yin (曾傲嫣)
(Appointed on 2 June 2023)
Mr. CHAN Tsang Mo (陳增武)
(Appointed on 1 May 2023 and resigned on 1 July 2023)
Mr. CHAN Wing Kin (陳永健)
(Resigned on 1 May 2023)

AUTHORISED REPRESENTATIVES

Mr. ZHAO Yi Wen (趙奕文)
Ms. TSANG Ngo Yin (曾傲嫣)
(Appointed on 2 June 2023)
Mr. CHAN Tsang Mo (陳增武)
(Appointed on 1 May 2023 and resigned on 2 June 2023)
Mr. CHAN Wing Kin (陳永健)
(Resigned on 1 May 2023)

REGISTERED OFFICE

Windward 3
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Cayman Islands

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

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HEAD OFFICE AND PLACE OF BUSINESS IN HONG KONG

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
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North Point
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PRINCIPAL BANKERS

Bank of China
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Xiangzhou, Zhuhai
PRC

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

LEGAL ADVISER

Lau, Horton & Wise LLP
8th Floor, Nexxus Building,
41 Connaught Road Central,
Hong Kong

AUDITOR

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

STOCK CODE

6908

COMPANY'S WEBSITE

www.hg-semiconductor.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I am pleased to present the annual report of HG Semiconductor Limited (the "**Company**") together with its subsidiaries (the "**Group**" or "**us**") for the year ended 31 December 2023 (the "**2023**" or "**Year**").

In 2023, the global economic recovery was hampered by multiple factors, such as hefty inflation rate increases in major economies and growing geopolitical tensions. Nevertheless, the demand for chip manufacturing, packaging and package testing grew despite the economic uncertainty, serving as a growth driver for the semiconductor equipment industry. At the same time, the expansion of the PRC wafer fabs also added to the strong domestic demand for semiconductor equipment. Despite the challenges of the international environment, the Group remains optimistic about the development potential of the third-generation gallium nitride ("**GaN**") technology and will continue to focus on developing new GaN business during the Year, aiming to establish an independent, responsive and fully-integrated industry chain to contribute to PRC component substitution.

Since the third-generation semiconductor business is still in the stage of research and development ("**R&D**") and market launch, the Group's revenue for the Year mainly generated from the LED bead business. In 2023, the Group's revenue for the year was approximately RMB88.6 million, representing a slight increase of approximately 1.2% as compared to that for last year. Also, it is worth mentioning that with the strong scientific research capabilities and the diligent efforts in R&D and production of the Group's team of scientists, the epitaxial wafer in the third-generation GaN business has recorded revenue for the Group for the Year. The loss for the year attributable to owners of the Company widened to approximately RMB157.6 million for the Year, which was mainly due to the recognition of impairment losses on intangible assets and property, plant and equipment during the Year and the issue of new shares by the Company for debt capitalisation which was offset by the loss incurred on financial liabilities.

During the Year, the Group has upgraded its semiconductor factory in the Xuzhou Economic and Technological Development Zone, Jiangsu Province, PRC, and installed two production lines for the production of GaN-related products. The factory has also been equipped with core machinery imported from Europe, America and Japan. These sophisticated hardware are expected to produce high-quality third-generation semiconductor products for the Group. In addition, the Group has currently been granted a total of 17 invention patents, utility model patents and appearance patents, out of which four are LED-related patents, with a number of invention patents pending for approval. With the successive commencement of the production of the third-generation semiconductor products as well as the prolonged enhancement of our research and development capabilities in terms of both software and hardware, the GaN production capacity of the Group has gradually been realised, in which it is expected to be a new driving force for our business.

In addition to investing efforts in developing the third-generation semiconductor industry chain, we also witnessed breakthroughs in product development. During the Year, the Group has successfully produced its own 6-inch GaN power device epitaxial wafers. The entire commissioning process took only three months, but these wafers have attained the high-yield standards of the major international manufacturers. Our achievements in R&D have testified the Group's continued efforts to strengthen the operational and technological capabilities of its third-generation GaN business. We are confident that our investment in our new business will gradually pay off.

In light of the growth of the global GaN power component market, we believe that the development of GaN in China's third generation semiconductor industry is promising. Amid the rapid rise of the new-energy sector, GaN is used in electric vehicles, wireless charging, 5G infrastructure and other applications, unleashing great potential for its future development. Looking ahead, while consolidating its existing LED bead business, the Group will make full use of its existing production facilities and continue to acquire advanced production equipment to speed up the research, development and production of GaN-related products and further improve the third-generation GaN semiconductor industry chain. The Group will also continue to bring in expertise from the third-generation semiconductor industry to build on the strength of its research and technology team, and enhance its research and development capabilities, with a view to upgrading its product applications and technologies. Additionally, the Group will actively seek strategic cooperation agreements with an increased number of leading enterprises, with which complementarities will produce mutual benefits, boosting the continued rapid development of the industry chain.

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

On behalf of the Board,
Dr. Xu Zhihong
Chairman

Hong Kong, 28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

HG Semiconductor Limited (the "**Company**" or "**HG Semiconductor**"; together with its subsidiaries referred to as the "**Group**") is engaged principally in the design, development, manufacturing, subcontracting and sales of semiconductor products, which include light-emitting diode ("**LED**") beads, next-generation semiconductor gallium nitride ("**GaN**") chips, GaN devices and their related applications in China. With the Group's expertise in LED manufacturing, strong scientific research team and research and development ("**R&D**") capability, the Group has in recent years devoted itself to the application of GaN-related products in the third-generation of semiconductors and has gradually achieved business transformation. The Group focuses on developing its third-generation semiconductor business, aiming to provide customers with more efficient and competitive solutions in terms of energy efficiency. By further accelerating the development and application of GaN technology, the Group is moving towards its goal of becoming an integrated device manufacturer ("**IDM**") of semiconductor to serve the whole industrial chain with a core focus on semiconductor design and manufacturing, integrating R&D, manufacturing, packaging and package testing and sales. The Group will continue to implement its established business strategies to capture market opportunities and to strive to become a leading third-generation semiconductor supplier in the Greater China region.

INDUSTRY REVIEW

In 2023, the LED lighting industry, which is widely connected with fields of architectural lighting and electronic consumer products, suffered continuous negative impacts due to factors such as the sluggish real estate market and weak consumer demand for electronic products. Meanwhile, the competition in the LED industry was increasingly intensified. Many large LED manufacturers and suppliers had competitive advantages in technology research and development, product quality, and pricing. All of the abovementioned had an impact on the overall demand for the Group's products.

In the semiconductor industry, according to the data released by the Semiconductor Industry Association (SIA), the total sales value of global semiconductor industry in 2023 amounted to US$526.8 billion, representing a decrease of 8.2% compared to US$574.1 billion in 2022. Nevertheless, China is the largest semiconductor market in the world, and its market demand has shown good growth momentum in various segments, including technological innovation, power devices, automotive electronics, artificial intelligence, and the Internet of Things. Favorable government policies and industrial development strategies have also provided good development opportunities for China's semiconductor industry, especially in the fields of new energy and new energy vehicle electronics. China's new energy investment has grown rapidly, along with leading position in photovoltaic, wind power generation, energy storage, batteries, and other industries globally. China's new energy vehicle market is experiencing rapid development, and the market demand for related automotive intelligent driving chips and power chips is growing quickly.

As a key member of the third-generation of semiconductors, GaN can operate at high frequencies and maintain high performance and efficiency with lower loss than previously used silicon transistors. As the development of the third-generation semiconductor enters into a booming period, the demand for third-generation semiconductor materials in different fields is surging, semiconductor products are becoming more diversified and the speed of iteration and innovation continues to accelerate. Although the consumer electronics sector continues to be sluggish, new energy and new energy vehicles will bring sustained application space for GaN. In terms of new energy, in 2023, energy investment maintained rapid growth, with the completed investment in new energy increasing year-on-year by over 34%. New energy vehicles are one of the most core key application markets for third-generation semiconductor materials, which contribute strong demand continuously for third-generation semiconductor power devices. In 2023, the production and sales of new energy vehicles in China reached 9.587 million units and 9.495 million units respectively, representing year-on-year growth of 35.8% and 37.9% respectively, with a market share of 31.6%. Among the main varieties of new energy vehicles, the production and sales of the three major categories of new energy vehicles have shown significant growth compared with the Previous Year.

In recent years, China has been giving great support and encouragement to innovative high-tech enterprises, in particular the new energy and third-generation semiconductors as the representatives of the technological innovation enterprises are gradually becoming a vital driving force for economic development. In the Outline of the Fourteenth Five-Year Plan and Long-Range Objectives Through the Year 2035 (《十四五規劃和2035年遠景目標綱要》), China advocates accelerating the industrialisation process of new materials and technologies for third-generation semiconductors, so as to create a new batch of fast-growing new material enterprises.

BUSINESS REVIEW

In 2023, HG Semiconductor continued to fully deploy the third-generation semiconductor industry chain while maintaining its solid foundation in initial LED bead business. The Group is committed to accelerating the pace of GaN production during the Year. The Group completed the production and commissioning of GaN epitaxial wafer equipment at the beginning of the Year and met the conditions for epitaxial wafer production. The Group also completed the purchase, installation and commissioning of the core equipment of the wafer production line, leading to the establishment of the wafer production line. As the third-generation semiconductor business is still in the investment and R&D stage, the Group's revenue for the Year was mainly derived from the LED bead business. During the Year, the weak real estate and consumer electronics markets in China also affected the industrial chain of the Group's LED bead business. During the Year, the revenue was approximately RMB88.6 million, representing a slight increase of approximately 1.2% as compared with that for the Previous Year, but gross profit decreased by approximately 48% to approximately RMB8.53 million. The Group's third-generation semiconductor GaN business began to contribute revenue of approximately RMB2.95 million.

As the Group recorded non-cash flow items such as loss on disposal of intangible assets, the loss for the Year attributable to the owners of the Company increased to approximately RMB150.72 million.

GaN epitaxial wafer R&D and production breakthrough boost up the development of third-generation semiconductor industry chain

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

Moreover, with the efforts of the Group's scientist team and strong R&D capabilities, the Group has basically completed the installation and commissioning of the chip production line and other preparatory work on the basis of successful production of its own 6-inch GaN power device epitaxial wafer, which is well-prepared for the production of chip products in the near future. The manufacturing process of GaN chips is complex and involves different stages, the Group's success in manufacturing the epitaxial wafers is well ahead of the expected schedule, representing an important achievement in the Group's transformation into a third-generation semiconductor supplier, and paving the way for mass production of GaN chips. As the Group's aim of R&D, manufacturing and implementation of GaN third-generation semiconductors have realized, and quickly channelled into the production of epitaxial wafer, the Group is confident that its hard work will pay off in the foreseeable future.

Optimization of organizational structure and introduction of strategic partners continue to drive GaN business

During the Year, the organizational structure of HG Semiconductor's subsidiary has been optimized. As for GaN business, Shenzhen Jiahong Semiconductor Company Limited ("**Shenzhen Jiahong Semiconductor**") was established as the Chinese headquarters for the GaN business and holds 100% equity interests in Jiangsu Jiahong Semiconductor Co. Ltd which operates the Xuzhou Factory. Through such optimization, the GaN business has strategically based its headquarters in Shenzhen and its factory in Xuzhou, which is conducive to the Company's recruitment of high-end talents as well as establishment of research and development bases and sales bases. It also facilitates the Company's closer proximity to industry markets and capital institutions, which makes it more convenient for the commercial operations of GaN business.

During the Year, Shenzhen Jiahong Semiconductor, a subsidiary of HG Semiconductor, has successfully introduced strategic shareholders, which further enriched its financial resources for investment in the GaN business. Meanwhile, through close cooperation with strategic shareholders in the industry, the applications of Shenzhen Jiahong Semiconductor's GaN chip in the downstream industry have been further enhanced, thereby assisting Shenzhen Jiahong Semiconductor to integrate into industries such as new energy and new energy vehicles in a faster manner.

In order to further attract and motivate high-tech talents, Shenzhen Jiahong Semiconductor has adopted a share incentive scheme during the Year. Through the adoption of the share incentive scheme, long-term incentives would be provided to the management and high-end technical talents of the Group, with an aim to strengthen the cohesion between the core personnel and the Company.

OUTLOOK

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

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

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

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

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

FINANCIAL REVIEW

Revenue

For the Year, total revenue was approximately RMB88.6 million, representing an increase of approximately 1.2% as compared with that for the Previous Year (2022: approximately RMB87.5 million). The increase was mainly attributable to the increase in revenue from the sales of GaN and other semiconductor products.

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

	2023		2022	
	RMB'000	%	RMB'000	%
LED products	85,646	96.7	87,185	99.6
GaN and other semiconductor products	2,954	3.3	333	0.4
Total	88,600	100.0	87,518	100.0

For the Year, revenue from LED products amounted to approximately RMB85.6 million (2022: approximately RMB87.2 million), accounting for approximately 96.7% of the total revenue (2022: approximately 99.6%). Despite consumer confidence has continued to fall short of pre-pandemic level during the Year, the revenue derived from LED products remained relatively stable due to the Group's implementation of price reduction strategy which helped to secure sales from this product segment.

Revenue from GaN and other semiconductor products during the Year was approximately RMB3.0 million (2022: approximately RMB0.3 million), accounting for approximately 3.3% of the total revenue (2022: approximately 0.4%).

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 12.7% from approximately RMB71.1 million for the Previous Year to approximately RMB80.1 million for the Year, mainly due to an increase in the application of higher-end raw materials and therefore an increase in the cost of material used.

Gross Profit and Gross Profit Margin

The gross profit decreased from approximately RMB16.4 million for the Previous Year to approximately RMB8.5 million for the Year. The gross profit margin decreased from approximately 18.8% for the Previous Year to approximately 9.6% for the Year. The following table sets forth a breakdown of the gross profit and gross profit margin by segment for the periods indicated:

	2023		2022	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
LED products	11,754	13.7	16,434	18.8
GaN and other semiconductor products	(3,222)	(109.1)	(3)	(0.9)
Total gross profit/gross profit margin	8,532	9.6	16,431	18.8

The gross profit margin of LED products decreased from approximately 18.8% for the Previous Year to approximately 13.7% for the Year. Such decrease was mainly attributable to the increase in the cost of material used.

Other Income and Gains

Other income and gains of the Group increased by approximately 300% from approximately RMB1.2 million for the Previous Year to approximately RMB4.8 million for the Year, which was mainly due to the increase in government grants from the PRC Government during the Year.

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 73.3% from approximately RMB3.0 million for the Previous Year to approximately RMB5.2 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 sales and marketing staff costs and traveling expenses.

Administrative and Other Expenses

The Group's administrative and other expenses decreased by approximately 14.3% from approximately RMB112.7 million for the Previous Year to approximately RMB96.6 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 decrease in administrative and other expenses was mainly due to the decrease in (i) equity-settled share-based payment expenses and (ii) research and development costs.

The equity-settled share-based payment expenses were approximately RMB3.8 million for the Year (Previous Year: approximately RMB11.0 million).

The research and development costs were approximately RMB19.6 million for the Year (Previous Year: approximately RMB28.5 million).

Finance Costs

The Group's finance costs were approximately RMB8.2 million for the Year (Previous Year: approximately RMB2.0 million). The increase in finance costs was mainly attributable to the interest expense arising from the loan drawndown by the Group during the Year.

Income Tax Credit

Income tax credit of the Group for the Year was approximately RMB2.9 million (Previous Year: approximately RMB0.4 million).

Loss for the Year

The loss for the Year was approximately RMB157.6 million, as compared to a loss of approximately RMB101.3 million for the Previous Year. The increase in loss for the Year was mainly attributable to (i) the impairment losses on intangible assets and property, plant and equipment being recognised for the Year and (ii) the loss arising from financial liabilities extinguished in relation to the issue of new shares of the Company for debt capitalisation.

Net Margin

The Group recorded a net margin of approximately –177.8% for the Year, compared to that of a net margin of approximately –115.7% for the Previous Year. The worsened net margin for the Year was mainly attributable to (i) the impairment losses on intangible assets and property, plant and equipment being recognised for the Year; and (ii) the loss arising from financial liabilities extinguished in relation to the issue of new shares of the Company for debt capitalisation.

Dividend

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

Liquidity, Financial Resources and Capital Structure

For the Year, the amount of net cash used by the Group in its operating activities was approximately RMB23.2 million as compared to that of approximately RMB94.8 million for the Previous Year, primarily due to the decrease in inventories and the decrease in trade and bills receivables.

As at 31 December 2023, the Group had net current assets of approximately RMB284.4 million (31 December 2022: approximately RMB189.2 million).

As at 31 December 2023, the Group had total cash and bank balances of approximately RMB49.3 million (31 December 2022: approximately RMB43.8 million). The increase in total cash and bank balances was mainly due to a decrease in net cash flows used in operating activities and a decrease in net cash flows used in investing activities.

As at 31 December 2023, the total available facilities of the Group were RMB10.0 million (31 December 2022: RMB10.0 million). The total drawn down of the facilities as at 31 December 2023 was RMB10.0 million (31 December 2022: RMB10.0 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 2023, the equity attributable to owners of the Company amounted to approximately RMB683.7 million (2022: approximately RMB593.8 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 –16.6% for the Previous Year to approximately –21.9% for the Year. Such decrease was mainly attributable to (i) the impairment losses on intangible assets and property, plant and equipment being recognised for the Year; and (ii) the loss arising from financial liabilities extinguished in relation to the issue of new shares of the Company for debt capitalisation.

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 –14.1% for the Previous Year to approximately –20.6% for the Year. Such decrease was mainly attributable to (i) the impairment losses on intangible assets and property, plant and equipment being recognised for the Year; and (ii) the loss arising from financial liabilities extinguished in relation to the issue of new shares of the Company for debt capitalisation.

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 2.9 times as at 31 December 2022 to approximately 8.2 times as at 31 December 2023, primarily due to the decrease of other loans.

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 2023 was approximately 1.4% (31 December 2022: approximately 6.7%).

Significant Investments

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

On 24 June 2021, the Company's wholly-owned subsidiary, FastSemi Holding Limited ("**FastSemi**"), acquired 349,992 series E preferred shares of VisIC, an unlisted company in Israel principally engaged in the development of GaN-related products, which include high-power transistors and modules, at the consideration of approximately USD5 million. On 23 August 2021, FastSemi further acquired 1,399,969 series E preferred shares of VisIC, at the consideration of approximately USD20 million. In 2021, the total number of shares acquired was 1,749,961 with an investment cost of approximately USD25 million. The total number of shares acquired represented approximately 18.7% of the enlarged issued share capital of VisIC as at 31 December 2023. Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to approximately RMB196.7 million as at 31 December 2023, representing approximately 25.7% of the Group's consolidated total assets as at 31 December 2023. Fair value gain of approximately RMB24.5 million was recognised through other comprehensive income during the Year. There was no dividends received from this investment for the Year. As VisIC is one of the largest players in the third-generation field of GaN devices, the Group plans to hold VisIC as a long-term investment.

Beijing Hongzhi Electric Technology Co., Ltd.* (“**Beijing Hongzhi**”)

On 6 August 2021, the then Company’s wholly-owned subsidiary, Xuzhou GSR Semiconductor Co., Ltd.* (“**Xuzhou GSR**”), invested in 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 RMB10.6 million as at 31 December 2023. Fair value loss of approximately RMB5.8 million was recognised through other comprehensive income during the Year. There was no dividends received from this investment for the Year. Beijing Hongzhi has more than 20 years of experience in chip design and technology, and holds numerous registered patents and technology-related intellectual property rights which helps the company to maintain high potential for future growth.

GaN Systems Inc. (“**GaN Systems**”)

On 30 November 2021, FastSemi acquired 206,367 series F-2 preferred shares of GaN Systems, a Canadian company principally engaged in the development of a broad range of GaN-related products, which include high current GaN power semiconductors, at a consideration of approximately USD1.75 million, representing approximately 0.37% of the total issued share capital of GaN Systems as at 31 December 2023. Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to approximately RMB17.2 million as at 31 December 2023. Fair value gain of approximately RMB6.9 million was recognised through other comprehensive income during the Year. There was no dividends received from this investment for the Year. GaN Systems has in-depth knowledge of GaN technology and a management team with decades of GaN product experience. GaN System is also a GaN power transistor company currently shipping to automotive, consumer, industrial, and data centre customers globally.

HighTec SP2 Fund (the “**Fund**”)

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

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

Such investment was classified as an equity instrument at fair value through profit or loss amounting to approximately RMB34.4 million as at 31 December 2023, representing approximately 4.5% of the Group’s consolidated total assets as at 31 December 2023. Fair value loss of approximately RMB311,000 was recognised through profit or loss during the Year. As the Fund’s main focus is on investing in the semiconductor industry and semiconductors have a wide range of applications in a huge and growing market, the outlook for the Fund remains positive.

Material Acquisitions and Disposals

Transfer of the equity interests in Jiangsu Jiahong Semiconductor Co. Ltd* to Employee Shareholding Platform

On 28 April 2023, Swift Power Limited ("**Swift Power**"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with Xuzhou Diheng Semiconductor Technology Partnership* (徐州地恒半導體科技合夥企業(有限合夥)), a proposed employee shareholding platform (the "**Employee Shareholding Platform**"), pursuant to which Swift Power transferred approximately 21.01% equity interests (the "**Equity Transfer**") in Jiangsu Jiahong Semiconductor Co., Ltd* 江蘇鎵宏半導體有限公司 (formerly known as Xuzhou GSR Semiconductor Co., Ltd.* 徐州金沙江半導體有限公司) ("**Jiangsu Jiahong Semiconductor**"), an indirect non wholly-owned subsidiary of the Company, to the Employee Shareholding Platform at a consideration of USD3.5142 million (equivalent to approximately RMB24.2 million) payable in cash by 16 April 2026, for the purpose of the proposed implementation of the Employee Share Incentive Scheme (as referred to below).

For illustration purpose, above amounts in USD have been translated into RMB at the rate of USD1 = RMB6.884.

Reference is made to: (i) the announcements of the Company dated 20 September 2023 and 29 December 2023 (the "**Employee Share Incentive Scheme Announcements**") in relation to, among other things, (a) the entering into of the Equity Transfer Agreement pursuant to which Swift Power transferred to the Employee Shareholding Platform the Equity Interests in Jiangsu Jiahong Semiconductor for the purpose of implementing and facilitating the administration and operation of the Employee Share Incentive Scheme; and (b) the adoption of the Employee Share Incentive Scheme; and (ii) the announcement of the Company dated 28 September 2023 (the "**Capital Injection Announcement**") in relation to, among other things, the entering into of the Capital Injection Agreement. Capitalized terms used herein shall bear the same meanings as defined in the Employee Share Incentive Scheme Announcements and the Capital Injection Announcement unless otherwise stated.

Deemed Disposal of Equity Interest in Shenzhen Jiahong Semiconductor Company Limited*

On 28 September 2023, Taizhou Huirong Jianeng Youchuang Investment Management Partnership (Limited Partnership)* (台州匯融嘉能友創股權投資合夥企業(有限合夥)) as subscriber (the "**Investor**"), (i) Shenzhen Jiahong Semiconductor Company Limited* (深圳鎵宏半導體有限公司) (the "**Target Company**"), (ii) Jiangsu Jiahong Semiconductor Co., Ltd* (江蘇鎵宏半導體有限公司) (formerly known as Xuzhou GSR Semiconductor Co., Ltd.* (徐州金沙江半導體有限公司)) (the "**Project Company**"), (iii) Swift Power Limited ("**Swift Power**") (all three of which are subsidiaries of the Company) and (iv) Join Gain HK Limited ("**Join Gain**") as guarantors entered into the Capital Injection Agreement, pursuant to which the Investor has conditionally agreed to inject RMB100 million into the Target Company, of which approximately USD1,672,656.51 (approximately RMB11,860,807.31) will be contributed towards the registered capital of the Target Company, which accounts for approximately 9.0909% of the enlarged equity interest in the Target Company, and the balance will be contributed towards the capital reserve of the Target Company.

As a condition precedent to the Capital Injection Agreement, the Company, the Target Company, Swift Power, Join Gain, Red Mont HK Limited ("**Red Mont**") and the Investor will enter into the Shareholders' Agreement, which sets out, among others, the rights and obligations of the shareholders of the Target Company and the governance structure of the Target Company.

As the Capital Injection will not result in the Company's loss of control over the Target Group, the Capital Injection is accounted for as an equity transaction and will not result in the recognition of any gain or loss in the Company's consolidated statement of profit or loss and other comprehensive income.

For details, please refer to the announcements of the Company dated 28 September 2023 and 13 October 2023.

For illustration purpose, above amounts in USD have been translated into RMB at the rate of USD1 = RMB7.091.

Updated Accounting Treatment for the Group's Equity Interests in Shenzhen Jiahong Semiconductor

Upon completion of the Equity Transfer on 28 April 2023 and the Internal Reorganization on 30 August 2023, the equity interests in Shenzhen Jiahong Semiconductor (the "**Shenzhen Jiahong Equity Interests**") indirectly held by the Company through Swift Power became 65% (which was diluted to approximately 59.09% following the completion of the Capital Injection Agreement while the Employee Shareholding Platform owned approximately 21.01% Shenzhen Jiahong Equity Interests which was diluted to approximately 19.10% following the completion of the Capital Injection Agreement.

As set out in the Employee Share Incentive Scheme Announcements, the Equity Transfer was made for the purpose of implementing and facilitating the administration and operation of the Employee Share Incentive Scheme. Following discussions between the Board and the auditor of the Company in the preparation of the audited consolidated financial statements of the Company for the year ended 31 December 2023, the Board is of the view, which the auditor of the Company has concurred, that the Group was able to exercise control over the 19.1% Shenzhen Jiahong Equity Interests held by the Employee Shareholding Platform as at 31 December 2023 and such Shenzhen Jiahong Equity Interests shall accordingly be considered to be held by the Group from accounting perspective (the "**Updated Accounting Treatment**") based on the following reasons (the "**Circumstances**"):

(i) as at 31 December 2023, the Incentive Interests had yet to be granted to any Selected Participants;

(ii) pursuant to the Scheme Administration and Operation Agreement, if the Incentive Interests are not entirely granted to the Eligible Participants on or before 30 June 2026, the Employee Shareholding Platform shall transfer the corresponding unawarded Shenzhen Jiahong Equity Interests to Swift Power at the same per dollar consideration of the paid-up Shenzhen Jiahong Equity Interests which the Employee Shareholding Platform has paid to Shenzhen Jiahong Semiconductor; and

(iii) as at 31 December 2023, the Employee Shareholding Platform was held as to 1% by the General Partner which was in turn wholly owned by Dr. Xu Zhihong, an executive Director and the chairman of the Board.

Therefore, from accounting perspective, the Company was considered to own approximately 78.19% Shenzhen Jiahong Equity Interests as at 31 December 2023 notwithstanding that the Equity Transfer was completed in April 2023 from legal perspective.

Upon the granting of the Incentive Interests to any Selected Participant by Shenzhen Jiahong Semiconductor who will then become a limited partner of the Employee Shareholding Platform, the corresponding portion of the Shenzhen Jiahong Equity Interests held by the Employee Shareholding Platform (as calculated by multiplying the Selected Participant's ownership of the Incentive Interests by the total Shenzhen Jiahong Equity Interests held by the Employee Shareholding Platform) will no longer be required to be accounted for as Shenzhen Jiahong Equity Interests held by the Group and such transfer of the Shenzhen Jiahong Equity Interests would be accounted for as an equity transaction and would not result in the recognition of any gain or loss in the Company's consolidated statement of profit or loss and other comprehensive income.

The Board is of the view that it is necessary to account for and present the Shenzhen Jiahong Equity Interests held by the Group based on the Updated Accounting Treatment in accordance with its substance by reasons of the Circumstances notwithstanding that the Equity Transfer was completed in April 2023 from legal perspective, while the Group's purpose of implementing and facilitating the administration and operation of the Employee Share Incentive Scheme by way of the Equity Transfer as disclosed in the Employee Share Incentive Scheme Announcements remains unchanged and unaffected.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the Reporting Year.

Capital Commitments

As at 31 December 2023, the Group has capital commitments for the acquisition of property, plant and equipment, the amount contracted for amounted to approximately RMB5.3 million (31 December 2022: approximately RMB64.5 million).

Charge on the Group's assets

As at 31 December 2023 and 31 December 2022, the Group did not have any charge on its assets.

Contingent Liabilities

As at 31 December 2023, 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 ended 31 December 2023, the Group did not hedge any exposure to foreign exchange risk.

Employees and Remuneration Policies

As at 31 December 2023, the Group employed 158 employees (31 December 2022: 237 employees). Employee costs (including Directors' remuneration, wages, salaries, performance related bonuses, other benefits and contribution to defined contribution pension plans) amounted to approximately RMB35.0 million for the Year (Previous Year: approximately RMB41.2 million). As at 31st December 2023, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years. Apart from basic remuneration, share options may be granted under the share option scheme of the Company to eligible employees by reference to the Group's performance as well as the individual's contribution. The employee costs for the Year have included the share-based payment expenses of approximately RMB3.8 million (Previous Year: approximately RMB11.0 million), in relation to the share options granted by the Company on 17 June 2021 and 28 July 2023. 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.

The Group has adopted an Employee Share Incentive Scheme on 29 December 2023 to recognize the contributions by the Selected Participants to the Group whereby the Eligible Participants will be provided with opportunities to indirectly invest in Jiangsu Jiahong Semiconductor and share the future growth and success of Jiangsu Jiahong Semiconductor through the Employee Shareholding Platform, details of which are set out in the section headed "Adoption of the Employee Share Incentive Scheme" of the Company's announcement dated 29 December 2023.

The Board is of the view that the Employee Share Incentive Scheme will help to establish a long-term incentive mechanism for the Eligible Participants, further stimulate the vitality of talents in the power semiconductor industry, and form a virtuous cycle of common growth of Jiangsu Jiahong Semiconductor and the Eligible Participants, so as to better promote the development of the GaN related products of the Group. The Employee Shareholding Platform was established and administered pursuant to the Scheme Administration and Operation Agreement for the purpose of implementation of the Employee Share Incentive Scheme. The Board considers that the terms and conditions of the Employee Share Incentive Scheme are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

Use of Proceeds

Placing of New Shares under General Mandate

(1) Placing on 13 June 2023

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 23 May 2023, the Company entered into a placing agreement with VC Brokerage Limited in relation to the placing of a maximum of 40,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a price of HK$0.9 per share (the "**June 2023 Placing**"). The closing price for the Company's shares on 22 May 2023 (being the last trading day prior to the date of signing the placing agreement) was HK$1.06 per share. On 13 June 2023, the June 2023 Placing was completed and the Company issued and allotted an aggregate of 40,000,000 new ordinary shares to not less than six independent third parties. The net price for such shares was approximately HK$0.88 per share and the aggregate nominal value of such shares was HK$400,000. The June 2023 Placing generated net proceeds of approximately HK$35.1 million (the "**June 2023 Placing Proceeds**"). Details of the June 2023 Placing were set out in the Company's announcements dated 23 May 2023 and 13 June 2023.

As at 31 December 2023, the Group's planned application and the actual utilisation of the June 2023 Placing Proceeds are set out below:

	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million	Expected timeline for utilising the unutilized proceeds(Note)
Strengthening research and development capabilities	17.55	10.92	6.63	On or before 31 December 2024
Provision of general working capital	17.55	17.55	—	
	35.10	28.47	6.63	

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

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

EXECUTIVE DIRECTORS

Dr. XU Zhihong (徐志宏) ("Dr. Xu"), aged 61, was appointed as an Executive Director and Vice Chairman of the Company on 6 February 2023 and subsequently as Chairman of the Company on 5 June 2023. Dr. Xu is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Board.

Dr. Xu graduated from the Anhui Finance and Trade Vocational College with a Bachelor of Economics Degree, and then obtained a Master of Business Administration Degree from the Oklahoma City University and a Doctorate Degree in Economics from the Renmin University of China.

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

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

Mr. ZHAO Yi Wen (趙奕文) ("Mr. Zhao"), aged 54, 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 handling the day-to-day management of certain subsidiaries of the Group. Mr. Zhao is also a director of a number of subsidiaries of the Group.

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. LU Kailin (呂鎧麟) ("Mr. Lu") (formerly known as Mr. Lyu Xiangrong (呂向榮)), aged 44, was appointed as an Executive Director of the Company on 19 April 2022 and also Deputy Chief Executive Officer of the Company on 1 August 2023. Mr. Lu graduated from the Tsinghua University with a Master's Degree of Management in 2010, and from the Peking University with a Bachelor of Economics. Mr. Lu has extensive experience in financial market, asset management and investment banking. From 2000 to 2014, Mr. Lu worked at ICBC where he was the head of several divisions in the Financial Market Department and the Asset Management Department of the ICBC headquarters. He was one of the first batch of domestic bank asset management practitioners in the PRC. In 2011, he was stationed in Hong Kong and was responsible for the investment banking business and financial institution business of ICBC Asia. From 2015 to 2018, Mr. Lu worked in BOCOM International Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3329), where he served as Chief Investment Officer, General Manager of Asset Management Company and head of Asset Management Head Office in Hong Kong, and was mainly responsible for overseas investment and asset management business. From 2018 to 2021, Mr. Lu was the Chief Executive Officer of CNCBI International Investment Holdings Co., Ltd., where he was mainly responsible for its investment, asset management, investment banking and other businesses. Since 2022, Mr. Lu was the Chief Executive Officer of PIH Capital Co. Limited, which is principally engaged in investment and asset management.

Mr. LI Yang (李陽) ("Mr. Li"), aged 52, was re-designated from an Independent Non-executive Director to an Executive Director of the Company on 9 February 2024. Mr. Li ceased to be a member of the Audit Committee of the Board on 9 February 2024.

Mr. Li was an Independent Non-executive Director of the Company and also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board between 19 April 2022 and 8 February 2024.

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

Mr. Li has over 20 years of experience in investment activities and business management, and has extensive industry experience in fashion apparel, trendy brand promotion, information technology and other businesses. He has held directorships in several companies listed on the Main Board of the Stock Exchange and a public company listed on the stock market of the People's Republic of China. From September 2014 to June 2018, Mr. Li acted as the deputy chairman and an executive director of China Best Group Holding Limited (stock code: 370). From July 2015 to September 2016, he acted as the chairman and a director of Shanxi Guanghe Landscape Culture Communication Co., Ltd.* (山西廣和山水文化傳播股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600234). From February 2017 to December 2018, he also served as an independent non-executive director of Sino Haijing Holdings Limited (stock code: 1106). From November 2018 to December 2020, he acted as the deputy chairman and an executive director of Leyou Technologies Holdings Limited (stock code: 1089), which was privatized by way of a scheme of arrangement under the Companies Act of its place of incorporation and its listing was withdrawn on 24 December 2020. From August 2020 to February 2021, he also acted as an executive director of CT Environmental Group Limited (stock code: 1363), the listing of which was cancelled under Rule 6.01A of the Listing Rules. On 19 January 2022, Mr. Li was appointed as the chairman of the board and an executive director of Virtual Mind Holding Company Limited (formerly known as CEFC Hong Kong Financial Investment Company Limited) (stock code: 1520). On 21 March 2023, Mr. Li was appointed as an executive director and deputy chairman of IBO Technology Company Limited, a company whose shares are listed on the Stock Exchange (stock code: 2708).

Mr. LEUNG Kin Pang (梁健鵬) ("Mr. Leung"), aged 42, was appointed as an Executive Director of the Company on 22 June 2022. Mr. Leung obtained his Bachelor's Degree in Economics and Finance from the University of Hong Kong, a Master's Degree in Economics from the University of Hong Kong, a Master's Degree in Global History from the London School of Economics and Political Science, and a Master's Degree in Politics of the World Economy from the London School of Economics and Political Science. Mr. Leung has over 16 years of experience in merger and acquisition, investment and fund management. Mr. Leung is the founder and president of LT Capital Management Limited and LT International Limited Partnership Fund. Mr. Leung is also the cofounder and executive director of Feder Capital Management Limited and Feder Capital Limited.

NON-EXECUTIVE DIRECTOR

Dr. WANG David Nin-kou (王寧國) ("Dr. Wang"), aged 77, was appointed as a Non-executive Director on 17 June 2021. Dr. Wang is primarily responsible for monitoring the executive activities and providing strategic advice to the Group.

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZOU Haiyan (鄒海燕) ("Mr. Zou"), aged 59, was appointed as an Independent Non-executive Director of the Company on 5 June 2023 and is responsible for providing independent advice to the Board. Mr. Zou is also the chairman of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Board.

Mr. Zou graduated from Guangdong Provincial Finance School in Taxation* (廣東省財政學校) with a Bachelor's degree of Taxation, from University of Electronic Science and Technology with a Bachelor's degree of Human Resources Management, from European Business School in the Netherlands with a Master's degree of EMBA and from Shanxi Normal University with a Bachelor's degree of Law. He has obtained the qualifications of Chinese Institute of Certified Public Accountant (CICPA), a Fellow of the Institute of Public Accountants of Australia (FIPA), a Fellow of the Institute of Financial Accountants of British (FFA), an Associate member of International Accountants (AAIA), a member of the Institute of Cost Accountants of India (ACMA), and a Certified Financial Planner (FChFP), as well as who has over 30 years of experience in the financial and accounting services industry.

Mr. Zou is currently an independent non-executive director of Universal Health International Group Holding Limited (stock code: 02211), a company listed on the Stock Exchange of Hong Kong. He also is an independent director of Shenzhen AV-Display Co., Ltd. (stock code: 300939), Shenzhen Yanmade Technology Co., Ltd. (stock code: 688312) and Inner Mongolia Xianhong Science Co., Ltd. (stock code: 836619), which is listed on the China growth enterprise market, the China Science and Technology Innovation Board and the China NEEQ respectively. Meanwhile, Mr. Zou is a Managing Partner of Shenzhen Guangshen Certified Public Accountants, and managing Director of China Tax And Business Consultants Limited and Kaowick Financial And Listing Services Limited.

Mr. Zou has been a training instructor and guest lecturer of the Association of Chartered Certified Accountants (ACCA) Hong Kong, Associate of International Accountants (AIA) Hong Kong, Hong Kong Chinese Accountants Association, The Hong Kong Institute of Chartered Secretaries (HKICS) continuing education of Shanghai University of Finance and Economics Institute, City University of Hong Kong, The University of Hong Kong and The Hong Kong Polytechnic University. He was an Adjunct Associate Professor of The Hong Kong Polytechnic University, and a distinguished Professor at the School of Continuing Education of Shanghai University of Finance and Economics.

Mr. SIU Miu Man, Simon, MH (蕭妙文) ("Mr. Siu"), aged 66, was appointed as an Independent Non-executive Director of the Company on 5 June 2023 and is responsible for providing independent advice to the Board. Mr. Siu is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board.

Mr. Siu graduated from The Hong Kong Polytechnic University with a Polytechnic Associateship in Building Technology and Management and a Master of Science in Electronic Commerce. He is a corporate member of the Hong Kong Institution of Engineers, Hong Kong Institute of Surveyors (General Practice Stream), Royal Institution of Chartered Surveyors (General Practice Stream) and Chartered Institute of Arbitrator. Mr. Siu is an Authorized Person under the Hong Kong Building Ordinance of the Government of the HKSAR. He is also a Registered Professional Engineer (Building Stream) and a Registered Professional Surveyor (General Practice Stream).

Mr. Siu was an independent non-executive director of Excalibur Global Financial Holdings Limited (Stock Code: 8350) between December 2017 and December 2023, a company listed on the Stock Exchange of Hong Kong. He is currently an independent non-executive director of Value Convergence Holdings Limited (Stock Code: 821), a company listed on the Stock Exchange of Hong Kong. He is also a director of DBG Technology Co., Ltd. (Stock Code: 300735), a company listed on Shenzhen Stock Exchange. Meanwhile, Mr. Siu is also a director of a consultancy firm and engineering firm. He had served in many public listed companies as senior management and has over 25 years of managerial experience in general management, commerce, banking, finance, real estate development and construction business. Due to Mr. Siu's dedicated service to local community, he was conferred the Medal of Honour (M.H.) by The Government of the Hong Kong Special Administrative Region in 2019.

Mr. Siu is actively participating in public affairs and charitable activities. He is the vice president of the Association of Hong Kong Professionals and the Hong Kong Real Property Federation, the honorary president of the Hong Kong Kowloon City Industry and Commerce Association and the chairman of the Building Healthy Kowloon City Association.

SENIOR MANAGEMENT

Ms. QI Xiang Ling (綦香玲) ("Ms. Qi"), aged 53, is the financial controller of Zhuhai HongGuang Semiconductor Co. Ltd.* ("**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 67, is a director of Zhuhai HongGuang. Mr. Xu joined the Group as a general manager of Zhuhai HongGuang in March 2011 and was subsequently appointed as a director of the same company in November 2014. Mr. Xu is primarily responsible for the daily operation, administrative and productions management of Zhuhai HongGuang. Mr. Xu obtained an Assistant Engineer Practising Certificate from the Engineering Technology Professional Title Committee of Shantou Electronic Industry Corporation* (汕頭市電子工業總公司工程技術初級職務評審委員會) in December 1995.

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

* For identification purpose only

CORPORATE GOVERNANCE 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 C1 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 28), the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2023 (the "**Year**").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 of the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required Standard of Dealings"). The Company had also made specific enquiry of all the Directors and the Company is not aware of any non-compliance with the Required Standard of Dealings regarding securities transactions by the Directors for the Year.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2023, the Board comprised of four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The composition of the Board is as follows:

Executive Directors

Dr. Xu Zhihong *(Chairman)*
(Appointed as Executive Director and Vice Chairman on 6 February 2023 and as Chairman on 5 June 2023)
Mr. Zhao Yi Wen
Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong) *(Deputy Chief Executive Officer)*
(Appointed as Deputy Chief Executive Officer on 1 August 2023)
Mr. Leung Kin Pang

Non-executive Director

Dr. Wang David Nin-kou

Independent Non-executive Directors

Mr. Li Yang *(Re-designated as Executive Director on 9 February 2024)*
Mr. Zou Haiyan *(Appointed on 5 June 2023)*
Mr. Siu Miu Man, Simon, *MH (Appointed on 5 June 2023)*

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, they will provide advice on strategic direction for the Group.

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

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

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

BOARD/BOARD COMMITTEE MEETINGS

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

Upon reasonable request to the Board, the Directors can seek independent professional advice in performing their duties at the Company's expense, if necessary. According to the current Board's practice, should a potential conflict of interest involving a substantial shareholder or Director of the Company arise, the matter will be discussed in a Board meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no conflict of interest will be present at such meetings. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director 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						
Dr. Xu Zhihong *(Chairman)* *(Appointed as Executive Director and Vice Chairman on 6 February 2023 and as Chairman on 5 June 2023)*	11/11	N/A	2/2	1/1	1/1	2/2
Mr. Zhao Yi Wen	8/13	N/A	N/A	N/A	1/1	1/2
Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong) *(Deputy Chief Executive Officer)* *(Appointed as Deputy Chief Executive Officer on 1 August 2023)*	13/13	N/A	N/A	N/A	1/1	2/2
Mr. Leung Kin Pang	13/13	N/A	N/A	N/A	1/1	1/2
Dr. Cao Yu *(Chief Executive Officer)* *(Appointed on 6 February 2023 and resigned on 21 August 2023)*	9/9	N/A	N/A	N/A	1/1	1/1
Dr. Chen Zhen *(Appointed on 6 February 2023 and resigned on 6 November 2023)*	11/11	N/A	N/A	N/A	1/1	1/1
Ms. Liu Yang *(Resigned on 6 February 2023)*	0/2	N/A	N/A	N/A	N/A	N/A
Non-executive Directors						
Dr. Wang David Nin-kou	12/13	N/A	N/A	N/A	1/1	2/2
Mr. Wang Jie Chuan *(Resigned on 6 February 2023)*	0/2	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Li Yang *(Re-designated as Executive Director on 9 February 2024)*	13/13	3/3	4/4	3/3	1/1	2/2
Mr. Zou Haiyan *(Appointed on 5 June 2023)*	5/5	2/2	2/2	1/1	N/A	2/2
Mr. Siu Miu Man, Simon, *MH* *(Appointed on 5 June 2023)*	5/5	2/2	2/2	1/1	N/A	2/2
Professor Chow Wai Shing, Tommy *(Ceased on 2 December 2023)*	11/13	1/2	3/4	3/3	0/1	1/1
Mr. Wu Wing Kuen, *B.B.S* *(Resigned on 5 June 2023)*	7/7	1/1	2/2	2/2	1/1	N/A
Mr. Chan Chung Kik, Lewis *(Resigned on 5 June 2023)*	7/7	1/1	2/2	2/2	1/1	N/A

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

Code Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the Year, Mr. Zhao Yi Wen ("**Mr. Zhao**") was both the chairman of the Board and the Chief Executive Officer of the Company, between 1 January 2023 to 5 February 2023. In view of Mr. Zhao being one of the founders of the Group and having been operating and managing Zhuhai HongGuang Semiconductor Company Limited, a operating subsidiary of the Company, since 2010, the Board believes that it was in the best interest of the Group to have Mr. Zhao taking up both roles for effective management and business development during the abovementioned period.

Mr. Zhao resigned as Chief Executive Officer of the Company on 6 February 2023 and subsequently as Chairman of the Company on 5 June 2023, but remained as an Executive Director of the Company.

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

NON-COMPLIANCE WITH RULE 3.10(1) AND RULE 3.10A OF LISTING RULES

Mr. Li Yang, has been re-designated from an independent non-executive Director to an executive Director with effect from 9 February 2024. In light of the above re-designation, the Company is not in compliance with (i) Rule 3.10(1) of the Listing Rules, which stipulates that the Board must include at least three independent non-executive Directors; (ii) Rule 3.21 of Listing Rules, which requires that the Audit Committee shall comprise non-executive Directors only and have a minimum of three members; and (iii) Rule 3.10A of the Listing Rules, which stipulates that the number of independent non-executive Directors shall represent at least one-third of the Board. The Board is in the process of identifying a suitable candidate to fill the vacancy of an independent non-executive Director and will use its best endeavours to ensure that a suitable candidate is appointed as soon as practicable and, in any event, within three months from 9 February 2024 pursuant to Rule 3.11 of the Listing Rules. Further announcement will be made by the Company in relation to such appointment as and when appropriate.

CONTINUING PROFESSIONAL DEVELOPMENT

Pursuant to the Code Provision C.1.4 under Appendix C1 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 courses 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
Dr. Xu Zhihong *(Chairman) (Appointed as Executive Director and Vice Chairman on 6 February 2023 and as Chairman on 5 June 2023)*	A, B
Mr. Zhao Yi Wen *(Chairman and Chief Executive Officer) (Resigned as Chief Executive Officer on 6 February 2023)*	A, B
Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong) *(Deputy Chief Executive Officer) (Appointed as Deputy Chief Executive Officer on 1 August 2023)*	A, B
Mr. Leung Kin Pang	A, B
Dr. Cao Yu *(Chief Executive Officer) (Appointed on 6 February 2023 and resigned on 21 August 2023)*	A, B
Dr. Chen Zhen *(Appointed on 6 February 2023 and resigned on 6 November 2023)*	A, B
Ms. Liu Yang *(Resigned on 6 February 2023)*	A, B
Dr. Wang David Nin-kou	A, B
Mr. Wang Jie Chuan *(Resigned on 6 February 2023)*	A, B
Mr. Li Yang *(Re-designated as Executive Director on 9 February 2024)*	A, B
Mr. Zou Haiyan *(Appointed on 5 June 2023)*	A, B
Mr. Siu Miu Man, Simon, *MH (Appointed on 5 June 2023)*	A, B
Professor Chow Wai Shing, Tommy *(Ceased on 2 December 2023)*	A, B
Mr. Wu Wing Kuen, *B.B.S (Resigned on 5 June 2023)*	A, B
Mr. Chan Chung Kik, Lewis *(Resigned on 5 June 2023)*	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. As at 31 December 2023, the Audit Committee consisted of all the Independent Non-executive Directors, namely, Mr. Zou Haiyan, Mr. Siu Miu Man, Simon, *MH* and Mr. Li Yang. Mr. Zou Haiyan 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 3 meetings during the year ended 31 December 2023. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 27 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. As at 31 December 2023, the Remuneration Committee consisted of four members, namely, Mr. Zou Haiyan, Mr. Siu Miu Man, Simon, *MH*, Mr. Li Yang and Dr. Xu Zhihong. Mr. Zou Haiyan 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 4 meetings during the year ended 31 December 2023. Please refer to the paragraph entitled "Meetings Held and Attendance" on page 27 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. As at 31 December 2023, the Nomination Committee consisted of four members, namely, Dr. Xu Zhihong, Mr. Zou Haiyan, Mr. Siu Miu Man, Simon, *MH* and Mr. Li Yang. Dr. Xu Zhihong 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 3 meetings during the year ended 31 December 2023 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 27 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 2023, representation of Independent Non-executive Directors on the Board was 37.5%.

As at 31 December 2023, 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 would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

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

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

Name of Directors	Age Group 41–50	51–60	61–70	71 and above
Dr. Xu Zhihong *(Chairman)*			✓	
Mr. Zhao Yi Wen		✓		
Mr. Lu Kailin *(Deputy Chief Executive Officer)*	✓			
Mr. Li Yang		✓		
Mr. Leung Kin Pang	✓			
Dr. Wang David Nin-kou				✓
Mr. Zou Haiyan		✓		
Mr. Siu Miu Man, Simon, *MH*			✓	

Name of Directors	Professional Experience Accounting and Finance	Business Management	Investments and Assets Management	Production, Research and Development	Public Services	Surveying and Engineering	Teaching and Training
Dr. Xu Zhihong *(Chairman)*		✓	✓				
Mr. Zhao Yi Wen		✓					
Mr. Lu Kailin *(Deputy Chief Executive Officer)*			✓				
Mr. Li Yang		✓					
Mr. Leung Kin Pang			✓				
Dr. Wang David Nin-kou		✓		✓			
Mr. Zou Haiyan	✓						✓
Mr. Siu Miu Man, Simon, *MH*					✓	✓	

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 page 73 to 78 of this annual report.

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

Nature of services	For the year ended 31 December 2023 RMB'000
Audit services	1,394
Non-audit services	91

INTEGRITY AND CODE OF CONDUCT

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

COMMITMENT

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

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

WHISTLEBLOWING POLICY

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

ANTI-CORRUPTION POLICY

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Company has established and maintained procedures and internal controls for the handling and dissemination of inside information. The Company has adopted a code of conduct for dealing in the securities of the Company by the Directors in accordance with Appendix C3 of the Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the Listing Rules will be announced on the respective websites of the Stock Exchange and the Company.

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

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

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

COMPANY SECRETARY

Ms. Tsang Ngo Yin ("**Ms. Tsang**"), is the Company Secretary of the Company. Ms. Tsang joined the Company on 2 June 2023. She has over of 20 years of extensive experiences in regulatory compliance, corporate finance projects, internal control, auditing and financial management, including experience as the company secretary in Hong Kong listed companies. She graduated from Simon Fraser University in Canada with a Bachelor of Business Administration Degree, and further obtained a Bachelor of Laws Degree from Tsinghua University in the People's Republic of China and a Master of Laws Degree in International Corporate and Financial Law from University of Wolverhampton in the United Kingdom. She is a member of the Hong Kong Institute of Certified Public Accountants and also a member of the American Institute of Certified Public Accountants.

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

SUFFICIENCY OF PUBLIC FLOAT

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

SHAREHOLDERS' RIGHTS

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

Right to Convene EGMs and Procedures

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. Any one or more member(s) holding at the date of the deposit of the requisition not less than one tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong at Room 2607, 26/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the attention of the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

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

Right to Put Enquiries to the Board

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

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

Right to Put forward Proposals at General Meetings

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

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

Right to Propose a Person for Election as a Director

If a shareholder of the Company (the "**Shareholder**") wishes to propose a person other than a Director, for election as a new Director of the Company, the Shareholder must deposit a written notice (the "**Notice**") to the Company's principal place of business in Hong Kong at Room 2607, 26/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the attention of the Company Secretary of the Company.

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

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

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

INVESTOR RELATIONS

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

DIVIDEND POLICY

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

Factors to Consider for a Dividend Proposal

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

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

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

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

(d) the Group's liquidity position;

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

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

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

(h) other factors that the Board may 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, there had been no significant change in the Company's constitutional documents. The memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

We are pleased to present our sixth Environmental Social and Governance ("**ESG**") Report of HG Semiconductor Limited for the year ended 31 December 2023 ("**Reporting Period**"), in accordance with the Environmental, Social and Governance Reporting Guide in Appendix C2 of the Listing Rules and based on the material aspects of the Group and stakeholders.

SCOPE OF REPORT

For the purpose of this 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.

REPORTING PRINCIPLES

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

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

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

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

Stakeholders Engagement and Materiality Analysis

The Group also pays attention to the major issues of interest to shareholders, investors, staff, students, parents, governments, regulatory authorities, and communities ("**Stakeholders**"). The Group strives to maintain open and smooth communication channels for both internal and external stakeholders. Through the communication channels, it can 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 • 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
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	• Tendering 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 the consideration include the strategic objectives and policies of the businesses of the Group, industry standards, legal and regulatory responsibilities, environmental protection, resource utilisation, quality control and employee protection, etc. The Group has identified the following material ESG issues for inclusion in this ESG Report:

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

* Since water is not a primary input by the Group in our production process, hence disclosure on the water usage is not 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 the ESG-related risks. The management is responsible for the effectiveness of the ESG risk management and internal control systems and the management confirms that these systems are effective to mitigate our ESG-related risks. The Board organizes annual meetings to discuss the progress related to ESG goals and targets. The goal is to plan to switch 10% of our office's lightbulbs to LED lights to reduce the consumption of electricity by 2024. Electricity is one of the key KPI of our environmental performance as our business relies on electricity in our production and development of semiconductor products. The Board holds regular internal and external events to communicate closely with stakeholders, to identify and to evaluate important ESG issues, and to discuss and to address such issues. Both qualitative information and quantitative data have been collected for this ESG report to demonstrate the Group's commitment to sustainability and performance.

A. ENVIRONMENTAL

Emissions

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

No material non-compliance 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 2023	Amount 2022	Percentage Increase (+) or Decrease (–)
Benzene	Kilogram	**0.1**	0.1	—
Methylbenzene & Dimethylbenzene	Kilogram	**0.1**	0.1	—
VOCs	Kilogram	**13.1**	11.5	+9%

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

Greenhouse Gas Emission

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

Greenhouse Gas Emission	Unit	Amount 2023	Amount 2022	Percentage Increase (+) or Decrease (–)	Intensity per Employee 2023	Intensity per Employee 2022	Percentage Increase (+) or Decrease (–)
Scope 1[1] (Direct Emissions)	tCO_2e	**2**	2	—	**0.01**	0.01	—
Scope 2[2] (Other Indirect Emissions)	tCO_2e	**2,439**	1,823	+34%	**15.44**	7.69	+101%
Total Greenhouse Gas Emissions	tCO_2e	**2,441**	1,825	+34%	**15.45**	7.70	+101%

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

2 Scope 2 includes GHG emissions from electricity.

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

Hazardous and non-hazardous waste management

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

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

Waste	Unit	Amount 2023	Amount 2022	Percentage Increase (+) or Decrease (–)	Intensity per Employee 2023	Intensity per Employee 2022	Percentage Increase (+) or Decrease (–)
Waste organic solvent	Tonne	**1.10**	1.30	–15%	**0.007**	0.005	–40%
Organic solvent waste solution	Tonne	**1.60**	1.90	–16%	**0.010**	0.008	–25%
Cleaning chemical	Tonne	**0.10**	0.14	–29%	**0.0006**	0.001	–40%
Obsolete mineral oil	Tonne	**0.05**	0.06	–17%	**0.0003**	—	+100%
Obsolete light tubes	Tonne	**0.01**	0.01	—	**0.0001**	—	+100%

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

The Group attaches great importance to the management of solid waste, and we implement waste management guidelines to reduce the 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 impact to the environment. By 2035, we plan to upgrade our production facility with more advanced machinery to reduce our waste production.

Use of Resources

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

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

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

Type of Energy	Unit	Amount 2023	Amount 2022	Percentage Increase (+) or Decrease (–)	Intensity per Employee 2023	Intensity per Employee 2022	Percentage Increase (+) or Decrease (–)
Electricity	Megawatt hour ("mWh")	**6,010**	2,990	+101%	**38.04**	12.62	+201%
Gas	Megawatt hour ("mWh")	**13**	14	–7%	**0.08**	0.06	+33%
Petrol	Megawatt hour ("mWh")	**16**	2	+700%	**0.10**	0.01	+900%
Total	Megawatt hour ("mWh")	**6,039**	3,006	+101%	**38.22**	12.68	+201%

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

Type of Packaging Material	Unit	Amount 2023	Amount 2022	Percentage Increase (+) or Decrease (–)	Intensity per Employee 2023	Intensity per Employee 2022	Percentage Increase (+) or Decrease (–)
Cartoon Box	Tonne	**12.68**	6.34	+99%	**0.08**	0.03	+167%
Antistatic bag	Tonne	**5.99**	5.02	+19%	**0.04**	0.02	+100%

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

- High energy efficiency lighting equipment such as LED lighting has been installed to replace traditional light bulbs
- Proper behavioral measures are also communicated to 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 of its energy efficiency

We plan to switch 10% of our office's lightbulbs to LED lights to reduce the consumption of electricity by 2024

The Environment and Natural Resources

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

During the production process, mild noise is generated by our machineries. The noise may cause undesired nuisance to the surrounding neighborhood. To mitigate the noise nuisance, we maintained 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 increased the frequency of extreme weather, which in turn has a long-term 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 impact the Group's business activities.

Physical Risk

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

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

Transition Risk

Policy and legal risk: Even though the business environment may be affected by policy changes, the Group's business operations are flexible and able to adapt to policy changes. As the Group is principally engaged in the design, development, manufacturing, subcontracting service and sales of LED, the potential policy and legal risk are relatively low. In this Reporting Period, the Group 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 may 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 may 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 employees are valuable assets and the foundation for success and development of the Group. It is our policy to maintain a working 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 2023, the Group has a workforce of 158 full time employees in the PRC and Hong Kong.

Key Performance Indicator	Category	Number of Employees		Percentage Increase (+) or Decrease (–)
		2023	2022	
Gender	Male	111	167	–34%
	Female	47	70	–33%
Employment type	Full time	158	224	–29%
	Part time	—	13	–100%
Age group	Below 30	83	94	–12%
	Between 31 and 40	39	93	–58%
	Between 41 and 50	26	32	–19%
	Above 51	10	18	–44%
Geographical region	Mainland China	153	216	–29%
	Hong Kong	5	21	–76%

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

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

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

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

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

Employee Turnover

During the Reporting Period, the Group's overall employee turnover rate was approximately 11%. The employee turnover rate by (i) gender, (ii) age group, (iii) geographical region are presented in the table below:

	Category	Number of Employees 2023	2022	Percentage Increase (+) or Decrease (–)
By gender	Male	**14%**	8%	+75%
	Female	**10%**	12%	–17%
	Part time	**–**	8%	–
By age group	Below 30	**10%**	8%	+25%
	Between 31 and 40	**20%**	8%	+150%
	Between 41 and 50	**11%**	15%	–27%
	Above 51	**18%**	8%	+125%
By geographical region	Mainland China	**12%**	10%	+20%
	Hong Kong	**–**	–	–

Health and Safety

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

We have published booklets with occupational health and safety for circulation to our employees to raise their awareness of occupational health and safety. We have also established a series of safety guidelines, rules and procedures for different aspects of our production activities, including 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. the Group provided anti-pandemic supplies for 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 was noted in relation to health and safety laws and regulations in Hong Kong and the PRC. There were no work-related fatalities and the Group did not record any lost days during its manufacturing process due to work injury in the past three reporting periods.

Development and Training

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

The Company has provided trainings across different operational functions, including induction training for new employees, technical training, and training to enhance the employees' knowledge in safety measures when performing their duties. Safety training is crucial to enhance employees' safety awareness in order to mitigate the risk of work-related injury. The Group reminds the employees the importance of safe operation by posting safety warning signs and safety banners in the workplace, setting up safety knowledge column and distributing safety leaflets. The percentage of total employee who take part in training is 88% and the average training hours per employee is 24.75 hours.

Category	Key Performance Indicators	Percentage		Percentage Increase (+) or Decrease (–)	Average Training Hours		Percentage Increase (+) or Decrease (–)
		2023	2022		2023	2022	
Gender Category	Male	69%	74%	–7%	23.2	25.6	–9%
	Female	31%	26%	+19%	28.4	23.9	+19%
Employment category	Senior management	7%	6%	+17%	27	16.1	+68%
	Middle management	20%	27%	–26%	23.8	25.4	–6%
	Frontline and other employees	73%	67%	+9%	24.9	25.9	–4%

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 accepted under our human resources practices. We ensure our employment practices are in compliance with Labour Law of the PRC and Labour Contract Law of the PRC. For example, our recruiters check identity cards of job applicants to ensure that under-aged applicant would not be accepted.

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

Supply Chain Management

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

Suppliers' environmental and social performances, such as their choice of raw materials, use of natural resources, product health and safety, employment practices and occupational safety measures, are taken into account in our supplier selection process. On-going monitoring is also performed on their performance through our annual supplier appraisal. All 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 114 suppliers.

Product Responsibility

Products and Services Quality Assurance

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

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

During the Reporting Period, none of our products were recalled and the Group received 18 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 business operations and include relevant external stakeholders that may disclose sensitive information related to intellectual property. From the top level, different departments are required to amend, review and enhance their relevant intellectual property protection measures. They should also host regular training sessions for all the employees to raise awareness and to provide a guiding principle of intellectual property rights. The contracts which are entered into between the Group and employees, distributors and relevant parties should contain a confidentiality clause to prevent disclosure of sensitive information. In order to detect any breaches in the confidentiality clause, the Group has established a whistle-blowing platform for the employees to report any incident of sensitive information disclosure.

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

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

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

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

Data Privacy

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

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

Anti-Corruption

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

To enhance the governance of the Group, internal controls have been established to mitigate the risk of frauds. An Anti-fraud Policy has been established to govern the investigation and follow-up procedures of reported fraud incidents. The management is responsible for developing and ensuring the effectiveness of internal controls. Any abnormality should be reported to the management for investigation. Whistle-blowing channel have also been established for the reporting of violations of professional conducts. The Group advocates a confidentiality mechanism to protect the whistle-blowers against unfair dismissal or victimisation. During the Report Period, 2 directors and 57 employees have undergone 2 hours of anti-corruption training to strength our corporate governance. The percentage of total employee who take part in training is 37%.

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

Community Investment

We care for 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 seeking opportunity to enhance the sustainability of the community, such as regular social welfare activities.

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

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 34 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 18 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 79.

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 140. 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 82 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.

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

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 (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 2023, the Company's reserves available for distribution to the shareholders of the Company amounted to approximately RMB585.5 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 27.2% (2022: approximately 20.5%) of the total revenue. For the Year, the percentage of revenue derived from the five largest customers in aggregate was approximately 67.6% (2022: approximately 61.6%).

For the Year, the largest supplier accounted for approximately 29.1% (2022: approximately 22.6%) of the total purchases. For the Year, the five largest suppliers in aggregate accounted for approximately 68.8% (2022: approximately 73.4%) 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.

EQUITY-LINKED AGREEMENT

Other than the Share Option Scheme, the 2023 Share Award Scheme and the Employee Share Incentive Scheme as disclosed in this annual report, for the year ended 31 December 2023, the Company did not enter into any equity-linked agreement and there was no equity-linked agreement.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Research and Development ("R&D") Risk

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

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

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

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

Human Capital Risk

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

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

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

Industry Policies and Compliance Risk

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

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

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

ENVIRONMENTAL POLICY

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

The Group has been accredited with ISO 14001:2015 certification, an internationally recognised standard for an environmental management system, which aims at assisting organisations on identifying, managing, monitoring and controlling their environmental issues. Please refer to the ESG Report on pages 41 to 53 of this annual report for details.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

KEY RELATIONSHIPS

Employees

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

Suppliers

The Group selects suppliers based on a number of criteria including but not limited to their product quality, pricing, supply capability and business track record with the Group. The Directors take the view that due to their experience in the LED lighting industry, they strive to safeguard the safety and quality of the Group's production materials. Hence, the Directors are capable of identifying suitable suppliers based on the aforesaid criteria. The Group regularly conducts on-site inspections of the suppliers' production facilities, reviews their background information and licences, including their business licence(s) and requisite certifications. As such, the Group has compiled and maintained a list of approved suppliers. These suppliers or any one of them 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
Dr. Xu Zhihong *(Chairman)*
(Appointed as Executive Director and Vice Chairman on 6 February 2023 and as Chairman on 5 June 2023)
Mr. Zhao Yi Wen
Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong) *(Deputy Chief Executive Officer)*
(Appointed as Deputy Chief Executive Officer on 1 August 2023)
Mr. Li Yang *(Re-designated as Executive Director on 9 February 2024)*
Mr. Leung Kin Pang
Dr. Cao Yu *(Chief Executive Officer)*
(Appointed on 6 February 2023 and resigned on 21 August 2023)
Dr. Chen Zhen *(Appointed on 6 February 2023 and resigned on 6 November 2023)*
Ms. Liu Yang *(Resigned on 6 February 2023)*

Non-executive Directors
Dr. Wang David Nin-kou
Mr. Wang Jie Chuan *(Resigned on 6 February 2023)*

Independent Non-executive Directors
Mr. Li Yang *(Re-designated as Executive Director on 9 February 2024)*
Mr. Zou Haiyan *(Appointed on 5 June 2023)*
Mr. Siu Miu Man, Simon, *MH* *(Appointed on 5 June 2023)*
Professor Chow Wai Shing, Tommy *(Ceased on 2 December 2023)*
Mr. Wu Wing Kuen, *B.B.S* *(Resigned on 5 June 2023)*
Mr. Chan Chung Kik, Lewis *(Resigned on 5 June 2023)*

Pursuant to the Company's memorandum and articles of association, Mr. Leung Kin Pang, Dr. Wang David Nin-kou, Mr. Zou Haiyan and Mr. Siu Miu Man, Simon will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Directors' Service Contracts and Letters of Appointments

Dr. Xu Zhihong, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 6 February 2023, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, 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.

Mr. Zhao Yi Wen, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 30 December 2016, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, 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.

Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong), an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 1 August 2023, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, 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.

Mr. Li Yang, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 9 February 2024, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, 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.

Mr. Leung Kin Pang, an Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 22 June 2022, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, 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.

Dr. Wang David Nin-kou, a Non-executive Director, has entered into a letter of appointment with the Company for an initial term of three years commencing from 17 June 2021, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the letter of appointment.

Mr. Zou Haiyan, an Independent Non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 5 June 2023, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the service agreement.

Mr. Siu Miu Man, Simon, *MH*, an Independent Non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 5 June 2023, renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then term of employment, subject to retirement by rotation and eligible for re-election pursuant to the memorandum and articles of association of the Company and the termination provisions of the service agreement.

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)).

Change in Directors' Information

Mr. Lu Kailin (呂鎧麟) ("**Mr. Lu**") (formerly known as Mr. Lyu Xiangrong (呂向榮)), has been an Executive Director of the Company since 19 April 2022, then was appointed as Deputy Chief Executive Officer of the Company on 1 August 2023. The annual remuneration of Mr. Lu has been changed to HK$1.2 million under a service agreement signed with the Company on 1 August 2023.

Mr. Li Yang (李陽) ("**Mr. Li**"), was re-designated from an Independent Non-executive Director to an Executive Director of the Company on 9 February 2024. The annual remuneration of Mr. Li has been changed to HK$1.2 million under a service agreement signed with the Company on 9 February 2024.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions disclosed in note 35 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 in connection with the independence criteria set out in 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 were entered into or existed during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EMOLUMENT POLICY FOR DIRECTORS

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

COMPETING INTERESTS

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

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 (i.e. 30 December 2016). The Company may refresh this limit at any time, subject to the shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for such purpose, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Group) previously granted under the Share Option Scheme and any other share option schemes of the Group will not be counted. The above is subject to the condition that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group shall not exceed 30% of the Share Capital of the Company in issue from time to time.

(6) Maximum entitlement of each Eligible Person

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

(7) Time of exercise of option

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

(8) Period of the Share Option Scheme

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

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

On 28 July 2023, the Company granted a total of 7,890,000 options, with exercise price of HK$1.4 per Share, to certain eligible employees of the Group. On the date immediately before the options were granted, the closing price was HK$1.27 per Share.

The total number of Shares available for issue under the Share Option Scheme is 40,000,000 Shares, representing approximately 5.3% of the total number of issued Shares (i.e. 751,054,785 Shares) as at the date of this annual report.

As at 31 December 2023, details of the interests of the Directors, chief executive, senior management and other employees of the Group in the Share Option Scheme are set out below:

Grantee	Date of grant	Vesting period	Exercisable period	Subscription price per Share (HK$)	Number of Shares in relation to outstanding options as at 1 January 2023	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed or forfeited during the Year	Number of Shares in relation to outstanding options as at 31 December 2023
Executive Directors:										
Mr. Zhao Yi Wen	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	480,000	–	–	–	–	480,000
Ms. Liu Yang (resigned as Executive Director on 6 February 2023)	17/6/2021	Nil (Note 2)	17/6/2021–16/6/2029	7.5	2,400,000	–	–	–	(2,400,000)	–
Non-executive Director:										
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	17/6/2022–16/6/2027	7.5	1,200,000	–	–	–	–	1,200,000
		17/6/2021–16/6/2024	17/6/2022–16/6/2028	7.5	1,200,000	–	–	–	–	1,200,000
		17/6/2021–16/6/2025	17/6/2022–16/6/2029	7.5	1,200,000	–	–	–	–	1,200,000
Independent Non-executive Directors:										
Professor Chow Wai Shing, Tommy (ceased as Independent Non-executive Director on 2 December 2023)	17/6/2021	Nil (Note 3)	17/6/2021–16/6/2024	7.5	120,000	–	–	–	(120,000)	–
Mr. Wu Wing Kuen, *B.B.S.* (resigned as Independent Non-executive Director on 5 June 2023)	17/6/2021	Nil (Note 4)	17/6/2021–16/6/2024	7.5	120,000	–	–	–	(120,000)	–
Mr. Chan Chung Kik, Lewis (resigned as Independent Non-executive Director on 5 June 2023)	17/6/2021	Nil (Note 5)	17/6/2021–16/6/2024	7.5	120,000	–	–	–	(120,000)	–
Subtotal					8,040,000	–	–	–	(2,760,000)	5,280,000
Senior management and other employees in aggregate	17/6/2021	Nil	17/6/2021–16/6/2024	7.5	11,520,000	–	–	–	(4,800,000)	6,720,000
		Nil	17/6/2021–16/6/2029	7.5	1,650,000	–	–	–	–	1,650,000
		17/6/2021–16/6/2022	17/6/2022–16/6/2026	7.5	1,637,500	–	–	–	–	1,637,500
		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	62,500	–	–	–	–	62,500
		17/6/2021–16/6/2023 (Note 1)	17/6/2023–16/6/2027	7.5	1,450,000	–	–	–	–	1,450,000
		17/6/2021–16/6/2024 (Note 1)	17/6/2024–16/6/2028	7.5	1,450,000	–	–	–	–	1,450,000
		17/6/2021–16/6/2025 (Note 1)	17/6/2025–16/6/2029	7.5	1,450,000	–	–	–	–	1,450,000
		17/6/2021–16/6/2029 (Note 1)	From vesting date–16/6/2029	7.5	6,500,000	–	–	–	–	6,500,000
	28/7/2023	28/7/2023–1/9/2024	1/9/2023–1/9/2024	1.4	–	775,000	–	–	(50,000)	725,000
		28/6/2024–30/6/2025	30/6/2024–30/6/2025	1.4	–	3,557,500	–	–	(621,250)	2,936,250
		28/6/2025–30/6/2026	30/6/2025–30/6/2026	1.4	–	3,557,500	–	–	(621,250)	2,936,250
Subtotal					26,470,000	7,890,000	–	–	(6,092,500)	28,267,500
Total					34,510,000	7,890,000	–	–	(8,852,500)	33,547,500

Notes:

1. Vesting of the Share Options is conditional upon achievement of certain performance targets by the Grantees.
2. Forfeit use of options due to Ms. Liu Yang resigning as Executive Director on 6 February 2023.
3. Forfeit use of options due to Professor Chow Wai Shing, Tommy ceasing to be an Independent Non-executive Director on 2 December 2023.
4. Forfeit use of options due to Mr. Wu Wing Kuen resigning as Independent Non-executive Director on 5 June 2023.
5. Forfeit use of options due to Mr. Chan Chung Kik, Lewis resigning as Independent Non-executive Director on 5 June 2023.

Share Award Scheme

The Company has adopted the Share Award Scheme (the "**2023 Share Award Scheme"**) on 29 December 2023 (the "**Adoption Date**"). Details of the 2023 Share Award Scheme can be referred to the circular of the Company dated 13 December 2023 and the announcement of the Company dated 29 December 2023. The following is a summary of the Share Award Scheme:

(1) Purposes and objectives

The objectives of the 2023 Share Award Scheme are (i) to recognise the contributions by certain Eligible Participants and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

(2) Eligible Participants

The Eligible Participants of the 2023 Share Award Scheme shall comprise:

(i) any director and employee (including full-time and part-time employee) of the Company or any of its subsidiaries (including any persons who are granted Awards under the 2023 Share Award Scheme as an inducement to enter into employment contracts with the Group) ("**Employee Participant**");

(ii) any director and employee of a related entity ("**Related Entity**"), being holding company(ies), fellow subsidiary(ies) or associated company(ies) of the Company ("**Related Entity Participant**"); and

(iii) any person who provided services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interest of long term growth of the Group (excluding placing agents or financial advisers providing advisory services to the Group for fundraising, mergers or acquisitions and professional service providers including auditors or valuers who provide assurance or are required to perform their services to the Group with impartiality and objectivity) ("**Service Provider**").

(3) Shares available for issue

The total number of Shares available for issue under the 2023 Share Award Scheme is 75,105,478 Shares, representing approximately 10% of the total number of issued Shares (i.e. 751,054,785 Shares) as at the date of this annual report.

(4) Maximum entitlement of each Eligible Participant

Scheme Mandate Limit

The maximum number of Shares which may be awarded under the 2023 Share Award Scheme is 75,105,478 Shares, which is approximately 10% of the Shares in issue as at the Adoption Date the ("**Scheme Mandate Limit**").

Service Provider Sublimit

The maximum number of Shares which may be awarded to Service Providers under the 2023 Share Award Scheme is 7,510,547 Shares, which is approximately 1% of the Shares in issue as at the Adoption Date the ("**Service Provider Sublimit**"). The Service Provider Sublimit was determined based on 10% of the Scheme Mandate Limit.

1% Individual Limit

No Award shall be granted to any selected participant under the 2023 Share Award Scheme (a "**Selected Participant**") which would result in the total number of (a) Shares issued and to be issued under the Awards granted or to be granted to such Selected Participant under the 2023 Share Award Scheme (excluding any Awards lapsed in accordance with the rules of the 2023 Share Award Scheme); (b) the Shares issued and to be issued upon exercise of all options or awards granted and proposed to be granted to such Selected Participant under any other (a) scheme(s) involving the grant of Shares by the Company (including the 2023 Share Award Scheme); and (b) scheme(s) involving the grant of options by the Company (including the Share Option Scheme) over Shares ("**Share Scheme(s)**") (including exercised and outstanding options but excluding any options or awards lapsed in accordance with the terms of such Share Scheme); and (c) any cancelled Shares which were the subject of Awards or options or awards under any other Share Scheme(s) which had been granted to and accepted by that Selected Participant, in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the total number of Shares in issue, subject to the rules of the 2023 Share Award Scheme.

(5) Vesting of the Awarded Shares

The Board is entitled to impose any terms and conditions (including a period of continued employment, engagement and/or service within the Group and/or any Related Entity after the Award shall become entitled and/or vested) as it deems appropriate in its absolute discretion with respect to the entitlement and/or vesting of the Awarded Shares on the Selected Participant and shall inform such Selected Participant the relevant conditions of the Award and the Awarded Shares provided that the vesting period for Awards shall not be less than 12 months unless under the specific circumstances as set out in the 2023 Share Award Scheme.

(6) Grant of Awards and acceptance of offers

A Selected Participant granted with an Award shall be responsible for paying up the aggregate nominal value of the awarded Shares being vested in such Selected Participant. An Award shall automatically lapse if the Selected Participant fails to sign and return the acceptance form attached to the grant notice within five (5) business days after the date of the grant notice (i.e. the acceptance period) or the Board does not receive the reply slip, the relevant duly signed documents and the remittance from the Selected Participant at least ten (10) business days prior to the Vesting Date.

(7) Period of the 2023 Share Award Scheme

The 2023 Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date, after which period no further Awards shall be granted but the rules of the 2023 Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to any Awards made before the expiry of such period.

During the Year, no Award has been granted, exercised, cancelled or lapsed under the 2023 Share Award Scheme.

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 2023, the interests and short positions of the Directors and chief executive of the Company in the shares (the "**Shares**"), underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 of the Listing Rules were as follows:

Long positions in the Shares and underlying Shares

Name	Capacity/Nature of interest	Number of Shares held/ interested (Note 1)	Approximate percentage of shareholding (Note 2)
Mr. Zhao Yi Wen	Interest in a controlled corporation (Note 3)	56,500,000 (L)	7.52%
	Beneficial owner (Note 4)	480,000 (L)	0.06%
Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong)	Beneficial owner	834,000 (L)	0.11%
Dr. Wang David Nin-kou	Beneficial owner (Note 5)	4,800,000 (L)	0.64%

Notes:

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

2. There were 751,054,785 Shares in issue as at 31 December 2023.

3. The 56,500,000 Shares in which Mr. Zhao Yi Wen is interested consist of 56,500,000 Shares held by First Global Limited, a company wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO.

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

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

Save as disclosed above, as at 31 December 2023, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO); (ii) entered in the register of the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2023, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the Shares or underlying Shares which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Name	Capacity/Nature of interest	Number of Shares held/ interested (Note 1)	Approximate percentage of shareholding (Note 2)
Jovial Star International Limited	Beneficial owner (Note 3)	129,453,785 (L)	17.24%
Zhan Haisu	Interest in a controlled corporation (Note 4)	129,453,785 (L)	17.24%
Wide Yield Investment Holding Limited	Beneficial owner (Note 5)	100,500,000 (L)	13.38%
Ms. Qin Anqi	Interest in a controlled corporation (Note 5)	100,500,000 (L)	13.38%
First Global Limited	Beneficial owner (Note 6)	56,500,000 (L)	7.52%
Ms. Zhuang Chan Ling	Interest of spouse (Note 7)	56,980,000 (L)	7.52%
GSR Capital Special Opportunity Fund L.P. ("**GSR**")	Beneficial owner (Note 8)	56,000,000 (L)	7.46%
GoldenSand Capital Ltd ("**GoldenSand**")	Interest in a controlled corporation (Note 8)	56,000,000 (L)	7.46%
Wu Sonny	Interest in a controlled corporation (Note 8)	56,000,000 (L)	7.46%
Qin Xiaolu	Beneficial owner	39,085,000 (L)	5.20%

Notes:

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

2. There were 751,054,785 Shares in issue as at 31 December 2023.

3. On 31 May 2023, the Company and its two wholly-owned subsidiaries, namely FastPower Holding Limited and Swift Power Limited (the "**Borrowers**") and Jovial Star International Limited (the "**Creditor**") entered into the debt settlement agreement (the "**Settlement Agreement**"), pursuant to which the Company has conditionally agreed to allot and issue, and the Creditor has conditionally agreed to subscribe for, a total of 129,453,785 new shares of the Company ("**New Share(s)**") at a price of HK$0.80 per Share for settlement of an indebted sum (the "**Indebted Sum**") in full. On 23 August 2023, completion of the Settlement Agreement took place and 129,453,785 New Shares have been allotted and issued by the Company to the Creditor at HK$0.80 per New Share and the Indebted Sum was fully settled accordingly. For details, please refer to the announcements of the Company dated 23 May 2023, 31 May 2023, 12 July 2023 and 23 August 2023 and circular dated 27 June 2023.

4. The 129,453,785 Shares in which Mr. Zhan Haisu is interested consist of 129,453,785 Shares in which Jovial Star International Limited is interested in. Jovial Star International Limited is a company wholly owned by Mr. Zhan Haisu, in which Mr. Zhan Haisu is deemed to be interested under the SFO.

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

6. The 56,500,000 Shares were held by First Global Limited, a company wholly owned by Mr. Zhao Yi Wen, in which Mr. Zhao Yi Wen is deemed to be interested under the SFO.

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

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

Save as disclosed above, as at 31 December 2023, 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.

OTHER CONNECTED TRANSACTIONS

The following transactions constituted the connected transactions and (as the case may be) continuing connected transactions of the Company under the Listing Rules during the financial year ended 31 December 2023:

References are made to the announcement of the Company dated 20 September 2023 (the "**Connected Transactions Announcement**"), unless otherwise stated herein, capitalised terms used below shall have the same meaning as those defined in the Connected Transaction Announcement. On 28 April 2023, Swift Power Limited ("**Swift Power**"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with Xuzhou Diheng Semiconductor Technology Partnership* (徐州地恆半導體科技合夥企業(有限合夥)), a proposed employee shareholding platform (the "**Employee Shareholding Platform**"), pursuant to which Swift Power transferred approximately 21.01% equity interests (the "**Equity Transfer**") in Jiangsu Jiahong Semiconductor Co., Ltd* 江蘇鎵宏半導體有限公司 (formerly known as Xuzhou GSR Semiconductor Co., Ltd.* 徐州金沙江半導體有限公司) ("**Jiangsu Jiahong Semiconductor**"), an indirect non wholly-owned subsidiary of the Company, to the Employee Shareholding Platform.

Following the completion of the Equity Transfer, as Jiangsu Jiahong Semiconductor, being an indirect non-wholly owned subsidiary of the Company, was held as to 21.01% by the Employee Shareholding Platform which is controlled by Dr. Xu Zhihong, an executive Director, Jiangsu Jiahong Semiconductor has since become a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules. Prior to the completion of the Equity Transfer, Jiangsu Jiahong Semiconductor had entered into the Fast Power Service Agreement and the Swift Power Service Agreement with Fast Power and Swift Power respectively, while Shenzhen Qianyan Technology Development Company Limited* (深圳前沿科技研發有限公司) ("**Shenzhen Qianyan**"), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company, maintained a current account with Jiangsu Jiahong Semiconductor in respect of other loan advances to Jiangsu Jiahong Semiconductor. Therefore, following the completion of the Equity Transfer, the transactions under the above agreements and the Loan Advances constituted continuing connected transactions between Shenzhen Qianyan, Fast Power, Swift Power (as the case may be) and Jiangsu Jiahong Semiconductor.

The Fast Power Service Agreement

On 1 August 2021, Fast Power entered into the Fast Power Service Agreement with Jiangsu Jiahong Semiconductor pursuant to which Fast Power would provide certain services to Jiangsu Jiahong Semiconductor. Salient terms of the Fast Power Service Agreement are set out below:

Date of the Fast Power Service Agreement:	1 August 2021
Parties:	(i) Fast Power (as service provider) (ii) Jiangsu Jiahong Semiconductor (as customer)
Scope of the Services:	Fast Power will provide management and administrative support services to Jiangsu Jiahong Semiconductor, including but not limited to (i) technology advisory services; (ii) technology development and promotion; (iii) investment consulting; (iv) enterprise management consulting; (v) business consulting; and (vi) economic information consulting
Term:	Three years, from 1 August 2021 to 31 July 2024 (the "**Fast Power Service Period**")
Management fee and payment:	A monthly management fee of USD100,000 (equivalent to approximately RMB0.7 million) is payable by Jiangsu Jiahong Semiconductor to Fast Power whereby the management fee for the initial month is payable within 30 days from the end of the initial month and thereafter the management fee shall be payable within 15 days after the end of each month during the Fast Power Service Period

The Swift Power Service Agreement

On 1 October 2021, Swift Power entered into the Swift Power Service Agreement with Jiangsu Jiahong Semiconductor pursuant to which Swift Power would provide certain services to Jiangsu Jiahong Semiconductor. Salient terms of the Swift Power Service Agreement are set out below:

Date of the Swift Power Service Agreement:	1 October 2021
Parties:	(i) Swift Power (as service provider) (ii) Jiangsu Jiahong Semiconductor (as customer)
Scope of the Services:	Swift Power will provide management and administrative support services to Jiangsu Jiahong Semiconductor, including but not limited to (i) technology advisory services; (ii) technology development and promotion; (iii) investment consulting; (iv) enterprise management consulting; (v) business consulting; and (vi) economic information consulting
Term:	Three years, from 1 October 2021 to 30 September 2024 (the "**Swift Power Service Period**")
Management fee and payment:	A monthly management fee of USD100,000 (equivalent to approximately RMB0.7 million) is payable by Jiangsu Jiahong Semiconductor to Swift Power whereby the management fee for the initial month is payable within 30 days from the end of the initial month and thereafter the management fee shall be payable within 15 days after the end of each month during the Swift Power Service Period

The Intercompany Loan Advances

Since 1 April 2023, Shenzhen Qianyan has maintained a current account with Jiangsu Jiahong Semiconductor whereby Shenzhen Qianyan has granted Loan Advances in the amount of RMB64 million to Jiangsu Jiahong Semiconductor. The Loan Advances obtained by Jiangsu Jiahong Semiconductor were used as additional working capital of Jiangsu Jiahong Semiconductor.

The Loan Advances provided by Shenzhen Qianyan under the current account with Jiangsu Jiahong Semiconductor are unsecured and the term of the Loan Advances shall end on 30 April 2026. The Loan Advances shall be repaid by Jiangsu Jiahong Semiconductor to Shenzhen Qianyan in three instalments of which (i) RMB12.8 million shall be repaid by 30 April 2024; (ii) RMB19.2 million shall be repaid by 30 April 2025; and (iii) the remaining RMB32 million shall be repaid by 30 April 2026. Shenzhen Qianyan shall be entitled to an interest payment calculated at the rate of 5% per annum (the "**Interest Rate**") on the outstanding amount of the Loan Advances which shall be accrued on the basis of the outstanding amount of the Loan Advances multiplied by the number of days during the term of the Loan Advances, multiplied by the Interest Rate and divided by 360 days.

Annual review

The independent non-executive Directors have confirmed that the internal control procedures put in place by the Company are adequate and effective and the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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 35 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 24 to 40 of this annual report.

AUDIT COMMITTEE

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

AUDITORS

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 auditors of the Company.

By order of the Board
HG Semiconductor Limited
Xu Zhihong
Chairman and Executive Director

Hong Kong, 28 March 2024

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

OPINION

We have audited the consolidated financial statements of HG Semiconductor Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 79 to 139 which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, 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 material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 38 to the consolidated financial statements and the accounting policies on Note 4(d)(ii).

As at 31 December 2023, the Group's gross trade and bills receivables balance amounted to approximately RMB75,162,000, of which approximately RMB21,809,000 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 37(b) to the consolidated financial statements and the accounting policies on Note 4(d)(i).

The Group held unlisted equity investments as at 31 December 2023, the fair value of which was estimated by management to be approximately RMB224,439,000. 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 2023. 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 non-financial assets

Refer to Note 15 and 16 to the consolidated financial statements and the accounting policies on Notes 4(h).

Segment loss of the LED product business, recorded for the year ended 31 December 2023, indicates that the property, plant and equipment, intangible assets and right-of-use assets of the LED product business may be impaired. As at 31 December 2023, the carrying amount of property, plant and equipment, intangible assets and right-of-use assets of this cash-generating unit ("CGU") was approximately RMB25,536,000, RMB6,632,000 and RMB407,000 respectively.

In this regard, the Group engaged an independent professional valuer to assist in the estimation of recoverable amount of assets allocated to the CGU, determined by assessing the value in use ("VIU") by preparing a discounted cash flow forecast. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate. Based on such assessment, impairment loss of RMB6,271,000, RMB1,629,000 and RMB100,000 was recognised on property, plant and equipment, intangible assets and right of use asset for the year ended 31 December 2023 respectively.

We identified the assessment of impairment relating to the LED product business as a key audit matter because the carrying value of property, plant and equipment, intangible assets and right-of-use assets are material to the consolidated financial statements of the Group and also because management's assessment of the value of the future cash flows expected to be derived from the LED product business involves certain critical judgements in respect of the assumptions made which are inherently uncertain and could be subject to management bias.

Our response:

Our procedures in relation to management's impairment assessment included:

- Assessing the appropriateness of the valuation methodology;
- Assessing the appropriateness of the management's identification of CGUs based on our understanding of the Group's business;
- Assessing the reasonableness of key assumptions and estimations used;
- Reconciling the key input data to supporting evidence such as historical financial information, approved budgets and considering the reasonableness of these budgets;
- Engaging an auditor's expert to assist our assessment on the appropriateness of the methodologies and the reasonableness of the assumptions and estimations adopted in the valuation for estimating the recoverable amounts of CGU and non-financial assets; and
- Evaluation of the competence, capabilities and objectivity of management's expert and auditor's expert.

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, 28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	7	88,600	87,518
Cost of sales		(80,068)	(71,087)
Gross profit		8,532	16,431
Other income and gains	7	4,838	1,224
Selling and distribution expenses		(5,178)	(2,966)
Administrative and other expenses		(96,648)	(112,732)
Provision on expected credit losses on trade and bills receivables		(1,325)	(1,595)
Loss arising on financial liabilities extinguished	26	(11,690)	—
Impairment loss of property, plant and equipment	15	(6,371)	—
Impairment loss of intangible assets	16	(44,496)	—
Finance costs	9	(8,171)	(2,008)
Loss before income tax credit	8	(160,509)	(101,646)
Income tax credit	12	2,936	359
Loss for the year		(157,573)	(101,287)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Exchange difference on translation to presentation currency		(3,516)	3,265
Item that may be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		25,574	12,532
Tax related to items that may be reclassified		1,442	—
Total comprehensive income for the year		(134,073)	(85,490)
Loss for the year attributable to:			
Owners of the Company		(150,723)	(101,287)
Non-controlling interests		(6,850)	—
		(157,573)	(101,287)
Total comprehensive income attributable to:			
Owners of the Company		(126,278)	(85,490)
Non-controlling interests		(7,795)	—
		(134,073)	(85,490)
Loss per share attributable to owners of the Company			
— Basic and diluted (RMB cents)	13	(23.65)	(17.81)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	189,110	108,897
Intangible assets	16	5,202	71,169
Financial assets at fair value through OCI	17	224,439	198,865
Prepayments and deposits	20	15,888	50,946
Deferred tax assets	25	6,431	2,047
		441,070	431,924
Current assets			
Inventories	18	48,788	58,949
Trade and bills receivables	19	68,693	77,265
Prepayments, deposits and other receivables	20	106,056	72,476
Financial assets at fair value through profit or loss	17	34,440	33,900
Cash and cash equivalents	21	49,287	43,794
		307,264	286,384
Assets classified as held for sale	31	16,552	—
		323,816	286,384
Current liabilities			
Trade payables	22	11,018	23,262
Other payables and accruals	23	16,576	25,247
Bank and other borrowings	24	10,000	41,139
Lease liabilities	28	1,829	7,520
Tax payable		25	—
		39,448	97,168
Net current assets		284,368	189,216

	Notes	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Lease liabilities	28	**4,828**	11,195
		4,828	11,195
Net assets		**720,610**	609,945
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**6,664**	5,098
Reserves	27	**677,066**	588,656
		683,730	593,754
Non-controlling interests		**36,880**	16,191
Total equity		**720,610**	609,945

On behalf of the Directors

Xu Zhihong	**Lu Kailin**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Equity attributable to owners of the Company											
	Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 27(a))	Share option reserve RMB'000 (Note 27(f))	Statutory reserve RMB'000 (Note 27(b))	Other reserve RMB'000 (Note 27(c))	Capital reserve RMB'000 (Note 27(d))	Investment revaluation reserve RMB'000 (Note 27(h))	Exchange reserve RMB'000 (Note 27(e))	Accumulated losses RMB'000 (Note 27(g))	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2022 and 1 January 2023	5,098	927,821	64,953	15,498	580	35,972	13,841	(5,572)	(464,437)	593,754	16,191	609,945
Loss for the year	–	–	–	–	–	–	–	–	(150,723)	(150,723)	(6,850)	(157,573)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	(3,516)	–	(3,516)	–	(3,516)
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	26,833	–	–	26,833	(1,259)	25,574
Tax related to items that will not be reclassified	–	–	–	–	–	–	1,128	–	–	1,128	314	1,442
Total comprehensive income for the year	–	–	–	–	–	–	27,961	(3,516)	(150,723)	(126,278)	(7,795)	(134,073)
Placing of new shares (Note 26)	1,566	139,323	–	–	–	–	–	–	–	140,889	–	140,889
Disposal of equity interests to non-controlling interests	–	–	–	–	–	–	–	–	71,516	71,516	28,484	100,000
Forfeit of share options (Note 29)	–	–	(21,626)	–	–	–	–	–	21,626	–	–	–
Recognition of equity-settled share-based payment expenses (Note 29)	–	–	3,849	–	–	–	–	–	–	3,849	–	3,849
At 31 December 2023	6,664	1,067,144	47,176	15,498	580	35,972	41,802	(9,088)	(522,018)	683,730	36,880	720,610
At 31 December 2021 and 1 January 2022	4,937	877,632	53,999	15,498	580	35,972	1,309	(8,837)	(371,749)	609,341	–	609,341
Loss for the year	–	–	–	–	–	–	–	–	(101,287)	(101,287)	–	(101,287)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	3,265	–	3,265	–	3,265
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	12,532	–	–	12,532	–	12,532
Total comprehensive income for the year	–	–	–	–	–	–	12,532	3,265	(101,287)	(85,490)	–	(85,490)
Placing of new shares (Note 26)	161	50,189	–	–	–	–	–	–	–	50,350	–	50,350
Disposal of equity interests to non-controlling interests	–	–	–	–	–	–	–	–	8,599	8,599	16,191	24,790
Recognition of equity-settled share-based payment expenses (Note 29)	–	–	10,954	–	–	–	–	–	–	10,954	–	10,954
At 31 December 2022	5,098	927,821	64,953	15,498	580	35,972	13,841	(5,572)	(464,437)	593,754	16,191	609,945

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Loss before income tax		**(160,509)**	(101,646)
Adjustments for:			
Depreciation of property, plant and equipment	8, 15	**13,458**	12,637
Amortisation of intangible assets	8, 16	**5,068**	714
Interest income	7	**(71)**	(84)
Finance costs	9	**8,171**	2,008
Provision on expected credit losses on trade and bills receivables	38	**1,325**	1,595
Loss on disposal of property, plant and equipment	8	**3,644**	—
Gain on lease modification		**(1,009)**	—
Impairment loss of property, plant and equipment	15	**6,371**	—
Impairment loss of intangible assets	16	**44,496**	—
Write down on inventories	8	**1,908**	—
Change in fair value of financial assets at fair value through profit or loss	37(b)	**311**	468
Loss arising on financial liabilities extinguished	26	**11,690**	—
Share-based payment	8, 29	**3,849**	10,954
Operating loss before working capital changes		**(61,298)**	(73,354)
Decrease/(increase) in inventories		**8,253**	(23,334)
Decrease in trade and bills receivables		**7,247**	18,518
Increase in prepayments, deposits and other receivables		**44,710**	(40,206)
(Decrease)/increase in trade payables, other payables and accruals		**(22,123)**	23,533
Cash used in operations		**(23,211)**	(94,843)
Income tax refund		**19**	—
Net cash flows used in operating activities		**(23,192)**	(94,843)
Cash flows from investing activities			
Purchases of property, plant and equipment (Note)		**(108,490)**	(61,660)
Purchase of financial assets at fair value through profit or loss, net		**—**	(8,985)
Acquisition of intangible assets		**(149)**	(7,932)
Proceed from disposal of equity interest to non-controlling interests		**55,000**	24,790
Interest received		**71**	84
Net cash flows used in investing activities		**(53,568)**	(53,703)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from financing activities			
Interest paid	9	**(8,171)**	(2,008)
Proceeds from placing of new shares		**32,542**	50,350
Repayments of bank borrowings	36(b)	**(10,000)**	(7,000)
Proceeds from bank and other borrowings	36(b)	**74,000**	41,139
Repayments of principal portion of the lease liabilities	36(b)	**(6,207)**	(6,937)
Net cash flows generated from financing activities		**82,164**	75,544
Net increase/(decrease) in cash and cash equivalents		**5,404**	(73,002)
Effect of exchange rate changes on cash and cash equivalents		**89**	3,156
Cash and cash equivalents as at the beginning of the year		**43,794**	113,640
Cash and cash equivalents as at the end of the year		**49,287**	43,794

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

1. GENERAL AND CORPORATE INFORMATION

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

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

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

In the opinion of the Directors, as at 31 December 2023, the Company's ultimate parents are Jovial Star International Limited, a company incorporated in the British Virgin Islands (the "BVI") and Wide Yield Investment Holding Limited, a company incorporated in the BVI.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2023

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules
HKFRS 17	Insurance Contracts

Except for the Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies as summarised below, the other new or amended HKFRSs has no material impact on the Group's results and financial position for the current or prior period and on accounting policies The Group has not applied any new and revised HKFRSs that are not yet effective for the current period.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2023 (Continued)

Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements (Disclosure of Accounting Policies)

The HKICPA issued HKFRS Practice Statement 2 Making Materiality Judgements in March 2021 to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with HKFRS. In April 2021, the HKICPA issued amendments to HKAS 1 and HKFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose "significant accounting policies" with "material accounting policy information". The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments have no effect on the measurement or presentation of any items in the consolidated financial statements of the Group but affect the disclosure of accounting policies of the Group. The Group has revisited the accounting policy information it has been disclosing and removed certain immaterial accounting policies.

(b) Amendments to HKFRSs that have been issued but are not yet effective

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

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to HKAS 1	Non-current Liabilities with Covenants[1]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[1]
Amendments to HKAS 21	Lack of Exchangeability[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 2024.
2 Effective for annual periods beginning on or after 1 January 2025.
3 Effective for annual periods beginning on or after a date to be determined.

The Group is in the process of making an assessment of the impact of these amendments to HKFRSs upon initial application. Up to now, the Group considers that these amendments to HKFRSs will not have a significant impact on the Group's financial performance and financial position.

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.

(d) Changes in accounting policies

New guidance on accounting for the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA

In June 2022, Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 ("the Amendment Ordinance") was enacted. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers' mandatory contributions under the mandatory provident fund ("MPF") scheme to offset severance payment ("SP") and long service payments ("LSP") ("the Abolition"). Subsequently, the Government of HKSAR announced that the Abolition will take effect on 1 May 2025 ("the Transition Date").

The following key changes will take effect since the Transition Date:

— Accrued benefits derived from employers' mandatory MPF contributions cannot be used to offset the LSP/SP in respect of the employment period after the Transition Date.

— The pre-transition LSP/SP is calculated using the last month's salary immediately preceding the Transition Date, instead of using the last month's salary of employment termination date.

3. BASIS OF PREPARATION (Continued)

(d) Changes in accounting policies (Continued)

New guidance on accounting for the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA (Continued)

Due to the complexities of the accounting for the offsetting of accrued benefits derived from an employer's mandatory MPF contributions and its LSP obligation and the accounting for the offsetting mechanism could become material in light of the Abolition, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" ("the Guidance") in July 2023 to provide guidance to account for the offsetting mechanism and the Abolition. The HKICPA concluded that there are two acceptable accounting approaches for the offsetting mechanism, being:

— Approach 1: Account for the amount expected to be offset as a deemed employee contribution towards that employee's LSP benefits in terms of HKAS 19.93(a)

— Approach 2: Account for the employer MPF contributions and the offsetting mechanism as a funding mechanism for the LSP obligation

For the years ended 31 December 2022 and 2023, the Group's LSP liability before the expected offsetting under the MPF-LSP offsetting mechanism is immaterial. Application of the Guidance had no material effect on the consolidated financial statements of the Group.

4. 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.

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.

(b) 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. ACCOUNTING POLICIES (Continued)

(b) Property, plant and equipment (Continued)

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

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

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

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

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

(c) Intangible assets

(i) Acquired intangible assets

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

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

4. ACCOUNTING POLICIES (Continued)

(c) Intangible assets (Continued)

(ii) 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.

(d) 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.

Debt instruments

The Group's investments in debt instruments are categories as follows:

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

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

FVTPL: Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model.

4. ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(i) Financial assets (Continued)

Equity instruments

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

(ii) Impairment loss on financial assets

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

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

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

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

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

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

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.

4. ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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 amortised cost

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

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

(iv) Equity instruments

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

(v) 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.

(e) 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. ACCOUNTING POLICIES (Continued)

(f) 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.

Revenue is recognised at a point in time when the customer obtains control of the goods or service.

Sales of goods

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

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

(g) 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.

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.

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.

4. ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

(i) 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.

(j) 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.

4. ACCOUNTING POLICIES (Continued)

(j) Income tax expense (Continued)

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.

(k) 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.

(l) 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.

(m) Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible asset is no longer amortised.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgments in applying accounting policies

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

The Group has an investment in unlisted preferred share of a Company in Israel (the "Israel Company"), in which it holds 18.7% (FY2022: 18.8%) 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 5 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.

(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 RMB48,788,000 (2022: RMB58,949,000). The write down on inventories amount to approximately RMB1,908,000 for the year ended 31 December 2023 (2022: Nil).

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

(b) Key Sources of estimation uncertainty (Continued)

(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 RMB136,865,000 (2022: RMB110,509,000) and the provision on expected credit losses on trade and bill receivables and other receivables was approximately RMB1,325,000 (2022: RMB1,595,000). For the detail credit policy and credit risk arising from trade and other receivables are set out in Note 38.

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

(iii) Fair value measurement

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

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

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

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.

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

(b) Key Sources of estimation uncertainty (Continued)

(iv) Useful life of the intangible assets

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

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

During the year ended 31 December 2023, the technology know-how have been classified to assets classified held for sale.

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

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(vi) Leases — Estimating the incremental borrowing rate

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

6. SEGMENT INFORMATION

The chief operating decision makers are identified as Executive Directors of the Company. The Group has identified its operating segment based on the regular internal financial information reported to the Company's Executive Directors for their decisions about resources allocation and review of performance. The Group's operating segment is design, development, manufacturing and sales of semiconductor products, including LED beads, GaN chips, GaN components and related application 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:

	2023			2022		
	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	85,646	2,954	88,600	87,185	333	87,518
Segment result	(14,126)	(96,926)	(111,052)	(2,799)	(53,156)	(55,955)
Other unallocated						
Income and gains			1,009			87
Loss arising on financial liabilities extinguished			(11,690)			—
Administrative expenses			(35,912)			(45,161)
Finance costs			(2,864)			(617)
Loss before income tax			(160,509)			(101,646)

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:

	2023 LED products RMB'000	2023 GaN and other semiconductor products RMB'000	2023 Total RMB'000	2022 LED products RMB'000	2022 GaN and other semiconductor products RMB'000	2022 Total RMB'000
Segment assets	185,365	551,966	737,331	216,819	485,203	702,022
Corporate and other unallocated assets (Note)			27,555			16,286
Total assets			764,886			718,308
Segment liabilities	(22,762)	(9,695)	(32,457)	(40,142)	(48,678)	(88,820)
Corporate and other unallocated liabilities (Note)			(11,819)			(19,543)
Total liabilities			(44,276)			(108,363)
Other segment information:						
Depreciation charge						
— Owned property, plant and equipment	(3,674)	(3,530)	(7,204)	(3,706)	(1,086)	(4,792)
— Right-of-use-assets	(326)	(1,334)	(1,660)	(326)	(1,334)	(1,660)
Amortisation of intangible assets	(1,022)	(4,046)	(5,068)	(372)	(342)	(714)
Provision of expected credit loss on trade and bills receivables	(1,325)	—	(1,325)	(1,595)	—	(1,595)
Write down on inventories	—	(1,908)	(1,908)	—	—	—
Impairment loss of property, plant and equipment	(6,371)	—	(6,371)	—	—	—
Impairment loss of intangible assets	(1,629)	(42,867)	(44,496)	—	—	—
Fair value loss on financial asset	—	(311)	(311)	—	(468)	(468)

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

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

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

	2023 RMB'000	2022 RMB'000
Client A	24,092	17,945
Client B	21,967	11,272
Client C	N/A*	9,931

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

7. REVENUE, OTHER INCOME AND GAINS

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

The sales contract terms do not allow rebate, discount, warranties and return on revenue. During the years ended 31 December 2023 and 2022, there were no rebate, discount, warranties and return on revenue.

	2023 RMB'000	2022 RMB'000
LED products		
Revenue recognised at a particular point in time		
Sales of LED beads	85,646	87,185
Sales of GaN and fast-charging products	2,954	333
	88,600	87,518
Other income and gains		
Bank interest income	71	84
Government grants (Note)	3,037	777
Other income	1,730	363
	4,838	1,224

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

8. LOSS BEFORE INCOME TAX CREDIT

The Group's loss before income tax credit is arrived at after crediting:

	2023 RMB'000	2022 RMB'000
Cost of inventories sold	**66,888**	58,826
Depreciation charge (Note 15):		
— Owned property, plant and equipment	**7,211**	5,359
— Right-of-use-assets included in property, plant and equipment	**6,247**	7,278
Amortisation of intangible assets, included in cost of sales (Note 16)	**5,068**	714
Write down on inventories	**1,908**	—
Auditor's remuneration	**1,419**	1,244
Fair value loss of financial assets at fair value through profit or loss	**311**	468
Research and development costs, included in administrative and other expenses	**19,620**	28,472
Employee costs (including Directors' remuneration)		
— Wages, salaries and other benefits	**28,436**	27,201
— Contribution to defined contribution pension plans	**2,760**	3,074
— Share-based payment (Note 29)	**3,849**	10,954
Exchange loss/(gain), net	**206**	(159)
Loss on disposal of property, plant and equipment	**3,644**	—

9. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on borrowings	**6,982**	373
Interest on lease liabilities	**1,189**	1,635
	8,171	2,008

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 ix) RMB'000	Total RMB'000
Year ended 31 December 2023					
Executive Directors:					
Mr. Zhao Yi Wen	325	—	—	—	325
Dr. Xu Zhihong (Note vi)	—	1,655	15	—	1,670
Dr. Cao Yu (Note v)	—	2,032	1	—	2,033
Mr. Lu Kailin (formerly known as Lyu Xiangrong)	—	957	7	—	964
Ms. Liu Yang (Note i)	—	54	—	—	54
Mr. Leung Kin Pang	—	325	16	—	341
Dr. Chen Zhen (Note vii)	—	495	—	—	495
Non-executive Directors:					
Dr. Wang David Nin-kou	722	—	—	3,819	4,541
Mr. Wang Jie Chuan (Note i)	11	—	—	—	11
Independent Non-executive Directors:					
Professor Chow Wai Shing, Tommy (Note ii)	130	—	—	—	130
Mr. Wu Wing Kuen, B.B.S. (Note iii)	60	—	—	—	60
Mr. Chan Chung Kik, Lewis (Note iii)	60	—	—	—	60
Mr. Li Yang (Note iv)	141	—	—	—	141
Mr. Siu Miu Man, Simon (Note viii)	81	—	—	—	81
Mr. Zou Haiyan (Note viii)	81	—	—	—	81
Total	1,611	5,518	39	3,819	10,987

10. DIRECTORS' REMUNERATION (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to defined contribution pension plans RMB'000	Share-based payment (Note ix) RMB'000	Total RMB'000
Year ended 31 December 2022					
Executive Directors:					
Mr. Zhao Yi Wen	309	90	13	—	412
Mr. Lin Qi Jian	98	90	13	—	201
Mr. Chan Wing Kin	—	394	8	—	402
Mr. Lyu Xiangrong	—	577	—	—	577
Ms. Liu Yang (Note i)	—	325	9	—	334
Mr. Leung Kin Pang	—	162	8	—	170
Non-executive Directors:					
Dr. Wang David Nin-kou	687	—	—	6,526	7,213
Mr. Chiu Kwai San	7	—	—	—	7
Mr. Wang Jie Chuan (Note i)	87	90	—	—	177
Independent Non-executive Directors:					
Professor Chow Wai Shing, Tommy (Note ii)	134	—	—	—	134
Mr. Wu Wing Kuen, B.B.S. (Note iii)	134	—	—	—	134
Mr. Chan Chung Kik, Lewis (Note iii)	134	—	—	—	134
Mr. Li Yang (Note iv)	94	—	—	—	94
Total	1,684	1,728	51	6,526	9,989

Notes:

(i) On 6 February 2023, Ms. Liu Yang resigned as an executive director and Mr. Wang Jie Chuan resigned as a non-executive director of the Company.

(ii) On 2 December 2023, Professor Chow Wai Shing, Tommy ceased as an independent non-executive director of the Company.

(iii) On 5 June 2023, Mr. Wu Wing Kuen and Mr. Chan Chung Kik, Lewis resigned as an independent non-executive director of the Company.

(iv) On 9 February 2024, Mr. Li Yang was re-designed as an executive director of the Company.

(v) On 6 February 2023, Dr. Cao Yu was appointed as an executive director of the Company and resigned as an executive director of the Company on 21 August 2023.

(vi) On 6 February 2023, Dr. Xu Zhihong was appointed as an executive director of the Company.

(vii) On 6 February 2023, Dr. Chen Zhen was appointed as an executive director of the Company and resigned as an executive director of the Company on 6 November 2023.

(viii) On 5 June 2023, Mr. Siu Miu Man, Simon and Mr. Zou Haiyan were appointed as an independent non-executive director of the Company.

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

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group for the year included 3 (2022: 1) Directors whose emoluments are reflected in the disclosures in Note 10. The emoluments of the remaining 2 (2022: 4) highest paid individuals for the year are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	2,185	4,935
Contribution to defined contribution pension plans	94	206
Share-based payment (Note 29) (Note)	—	1,258
	2,279	6,399

Their remuneration fell within the following bands:

	2023 No. of individuals	2022 No. of individuals
HKD1,000,001 to HKD1,500,000	2	1
HKD1,500,001 to HKD2,000,000	—	2
HKD2,000,001 to HKD2,500,000	—	1

During the years ended 31 December 2023 and 2022, 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(l).

12. INCOME TAX CREDIT

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

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 subsidiaries incorporated in Hong Kong are 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 2023 and 2022. For the year ended 31 December 2023, 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 subsidiaries had no estimated assessable profits for the year (2022: Nil).

12. INCOME TAX CREDIT (Continued)

Corporate income tax is charged on a subsidiary operating in United States of America ("USA") at a rate of 21% (2022: 21%) on taxable income for the year ended 31 December 2023.

In 2022, the Group's wholly-owned subsidiary, Zhuhai HongGuang Semiconductor Company Limited ("Zhuhai hongguang") has successfully renewed the "New and High Technology Enterprise Certificate" (高新技術企業證書) for three years commencing from 1 January 2022. Pursuant to the relevant PRC enterprise income tax law, regulations and implementation guidance notes, Zhuhai HongGuang is entitled to a tax preference with a reduction of the enterprise income tax ("EIT") rate from 25% to 15%. The expiry date of Zhuhai HongGuang's New and High Technology Enterprise Certificate is 31 December 2024.

	2023 RMB'000	2022 RMB'000
Current income tax — USA		
— Under-provision in prior year	**6**	—
Deferred tax (Note 25)	**(2,942)**	(359)
	(2,936)	(359)

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

	2023 RMB'000	2022 RMB'000
Loss before income tax credit	**(160,509)**	(101,646)
At the PRC's statutory enterprise income tax rate of 25% (2022: 25%)	**(40,127)**	(25,412)
Effect of preferential of EIT rate to 15% (2022: 15%)	**1,413**	280
Effect of different tax rates of subsidiaries operating in other jurisdiction	**8,524**	2,081
Effect of non-deductible expenses	**15,967**	23,798
Effect of non-taxable income	**(759)**	(747)
Under provision in respect of prior year	**6**	—
Tax loss not recognised	**12,040**	—
Effect of temporary difference	**—**	(359)
Income tax credit	**(2,936)**	(359)

13. LOSS PER SHARE

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

	2023 RMB'000	2022 RMB'000
Loss		
Loss for the year attributable to owners of the Company	**(150,723)**	(101,287)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**637,195,914**	568,597,433
Effect of dilutive potential ordinary shares in respect of the Company's share option schemes (Note (ii))	**—**	—
Weighted average number of ordinary shares for the purpose of diluted loss per share	**637,195,914**	568,597,433

Notes:

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

(ii) For the years ended 31 December 2023 and 2022, 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 2023 and 2022.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Property (Note) RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost							
At 1 January 2022	—	26,042	66,140	447	4,398	200	97,227
Additions	54,508	—	6,080	77	995	—	61,660
Exchange adjustment	—	1,328	339	—	20	—	1,687
At 31 December 2022 and 1 January 2023	54,508	27,370	72,559	524	5,413	200	160,574
Additions	106,063	569	2,196	116	115	—	109,059
Disposals	—	—	(19,635)	—	(1,129)	—	(20,764)
Lease modification	—	(17,719)	—	—	—	—	(17,719)
Transfer	(49,400)	—	49,400	—	—	—	—
Exchange adjustment	—	390	99	—	26	—	515
At 31 December 2023	111,171	10,610	104,619	640	4,425	200	231,665
Accumulated depreciation and impairment							
At 1 January 2022	—	2,921	34,805	135	620	114	38,595
Depreciation charge for the year	—	7,278	4,019	79	1,243	18	12,637
Exchange adjustment	—	288	140	—	17	—	445
At 31 December 2022 and 1 January 2023	—	10,487	38,964	214	1,880	132	51,677
Depreciation charge for the year	—	6,247	5,855	94	1,244	18	13,458
Disposals	—	—	(16,145)	—	(975)	—	(17,120)
Lease modification	—	(12,058)	—	—	—	—	(12,058)
Impairment (Note 16)	—	100	5,769	—	502	—	6,371
Exchange adjustment	—	168	47	—	12	—	227
At 31 December 2023	—	4,944	34,490	308	2,663	150	42,555
Net book value							
At 31 December 2023	111,171	5,666	70,129	332	1,762	50	189,110
At 31 December 2022	54,508	16,883	33,595	310	3,533	68	108,897

Note:

As at 31 December 2023, the carrying amount of the Group's property, mainly representing the lease of Xuzhou plant, is right-of-use asset. The property includes an amount of approximately RMB0.3 million (2022: approximately RMB0.8 million) leased from 珠海經濟特區利佳電子發展有限公司, a related party of the Group which is beneficially owned by the shareholder of the Company, Mr. Zhao Yi Wen, who is also Director of the Company, with lease term of 10 years from 1 April 2015 to 31 March 2025.

16. INTANGIBLE ASSETS

	Patent sublicense RMB'000	Computer software RMB'000	Technology know-how RMB'000	Total RMB'000
Cost				
At 1 January 2022	3,600	465	63,734	67,799
Additions	7,810	122	—	7,932
At 31 December 2022 and 1 January 2023	11,410	587	63,734	75,731
Additions	—	149	—	149
Transfer to asset classified as held for sale (Note 31)	—	—	(63,734)	(63,734)
At 31 December 2023	11,410	736	—	12,146
Accumulated amortisation				
At 1 January 2022	3,600	248	—	3,848
Amortisation charge for the year	325	57	332	714
At 31 December 2022 and 1 January 2023	3,925	305	332	4,562
Amortisation charge for the year	976	109	3,983	5,068
Impairment (Note)	1,629	—	42,867	44,496
Transfer to asset classified as held for sale (Note 31)	—	—	(47,182)	(47,182)
At 31 December 2023	6,530	414	—	6,944
Net Book Value				
At 31 December 2023	4,880	322	—	5,202
At 31 December 2022	7,485	282	63,402	71,169

16. INTANGIBLE ASSETS (Continued)

Note:

Impairment of LED product cash-generating unit ("LED CGU")

The Group's LED product business recorded net loss during the year ended 31 December 2023 due to the China's economic recovery was slow due to the sharp tightening of monetary policies in the European and American countries, which indirectly affected the Group LED product business. To support the management to determine the recoverable amount of the LED product cash-generating unit (the "Recoverable Amount of CGU"), the Group engaged an independent professional valuer, Ravia Global Appraisal Advisory Limited, to perform a valuation.

The Recoverable Amount of CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period with budgeted revenue growth rates, the budgeted gross margins, the discount rate and the terminal growth rate applied in the cash flow projections. As at 31 December 2023, based on the LED CGU impairment assessment results, the Recoverable Amount of CGU and the carrying amount of the LED CGU, comprising the property, plant and equipment, intangible assets and right of use assets of the Group that generate cash flows together in respective cash generating unit for the purpose of impairment assessment, is approximately RMB24,383,000 and RMB32,575,000 respectively. The impairment loss of approximately RMB8,000,000 was recorded for the year ended 31 December 2023 as the carrying amount of CGU exceeds its recoverable amount, which includes the net carrying amount of property, plant and equipment, intangible assets and right of use assets is approximately RMB6,271,000, RMB1,629,000 and RMB100,000 respectively.

Assumption use in the value in use calculation for LED product business cash generating unit for 31 December 2023. The following describes each key assumption on which management has based its cash flow projections to undertake impairment test:

Budget revenue growth rates — The budgeted revenue growth rates are based on the market outlook perceived by management. The five-year period with estimated revenue growth rate applied at 31 December 2023 is 3% per annum.

Discount rate — The discount rates used are before tax and reflect specific risks relating to the relevant unit. The discount rate applied at 31 December 2023 is 17.34%.

Long term growth rate — The long term growth rate is based on market data and management's expectation on the future development of the LED product business. The long term growth rate applied at 31 December 2023 is 2%.

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

17. FINANCIAL ASSETS AT FAIR VALUE

	2023 RMB'000	2022 RMB'000
Non-current assets		
Financial assets at FVTOCI		
— Unlisted equity securities (Note i)	224,439	198,865
Current assets		
Financial assets at FVTPL		
— Investment in unlisted fund (Note ii)	34,440	33,900

Notes:

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

The Group invested 7.73% (FY2022: 8.65%) 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 2023 is RMB10,570,000 (FY2022: RMB16,338,000).

The Group acquired 206,367 non-redeemable preference shares, which representing 0.37% of total equity share in a Canadian company at the consideration of approximately US$1,750,000 (equivalents to approximately RMB11,135,000). The fair value as at 31 December 2023 is US$1,500,000 (equivalents to approximately RMB17,201,000).

The Group acquired 1,749,961 non-redeemable series E preferred shares, which representing 18.67% (FY2022: 18.76%) of an unlisted company in the Israel Company principally engaged in developing GaN related products including high-power transistors and modules at the consideration of approximately USD25,000,000 (equivalents to approximately RMB158,889,000). The fair value as at 31 December 2023 is USD$27,818,000 (equivalents to approximately RMB196,668,000).

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

The Company engaged an independent professional valuer to measure the fair value of the unlisted equity securities as at 31 December 2023. Fair value gain of approximately RMB25,574,000 was recognised in other comprehensive income during the year ended 31 December 2023. Refer Note 37(b) for detail.

(ii) The Group subscripted approximately the 5,000 shares (2022: 5,000 shares) in the unlisted fund as at 31 December 2023. Fair value loss of approximately RMB311,000 was recognised in profit or loss during the year ended 31 December 2023, refer Note 37(b) for detail.

18. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	31,288	46,036
Finished goods	17,500	12,913
	48,788	58,949

19. TRADE AND BILLS RECEIVABLES

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

	2023 RMB'000	2022 RMB'000
Trade receivables	61,529	68,327
Bills receivable	7,164	8,938
	68,693	77,265

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 38. The business model of the Group related to the bills receivable is "hold to collect".

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

	2023 RMB'000	2022 RMB'000
0 to 30 days	25,067	32,681
31 to 60 days	6,718	8,503
61 to 90 days	7,115	8,504
91 to 120 days	8,420	6,815
121 to 365 days	7,025	5,243
Over 1 year	20,817	20,663
	75,162	82,409
Less: Impairment of trade and bills receivables (Note 38)	(6,469)	(5,144)
	68,693	77,265

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000
Other receivables (Note i)	68,172	33,244
Prepayments and deposits (Note ii)	53,772	90,178
	121,944	123,422
Less: non-current portion		
Prepayments and deposits (Note iii)	(15,888)	(50,946)
Current portion	106,056	72,476

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

Notes:

(i) The amount includes receivables from non-controlling interests amounted to approximately RMB64,407,000 (2022: approximately RMB24,449,000).

(ii) The amount includes the prepayment to the independent third parties suppliers amounted to approximately RMB35,251,000 (2022: approximately RMB37,034,000) for purchase of raw material.

(iii) The amount includes the prepayment of approximately RMB15,888,000 for purchase of machinery (2022: RMB49,138,000 for purchase of machinery). The machinery was delivered to the Company subsequent to the year ended.

21. CASH AND CASH EQUIVALENTS

	2023 RMB'000	2022 RMB'000
Bank balances and cash	49,287	43,794
Denominated in RMB	36,116	40,509
Denominated in HK$	4,592	2,813
Denominated in US$	8,579	472

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

22. TRADE PAYABLES

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

	2023 RMB'000	2022 RMB'000
0 to 30 days	**4,088**	5,197
31 to 60 days	**3,088**	5,000
61 to 90 days	**1,830**	4,174
91 to 120 days	**1,140**	2,642
121 to 365 days	**644**	5,533
Over 1 year	**228**	716
	11,018	23,262

23. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000
Accrued payroll	**2,476**	3,230
Deposits received	**9**	9
Other payables and accruals	**13,649**	20,430
Other tax payables	**442**	1,578
	16,576	25,247

24. BANK AND OTHER BORROWINGS

	2023 RMB'000	2022 RMB'000
Bank loans — unsecured (Note i)	**10,000**	10,000
Other loans — secured (Note ii)	**—**	31,139
	10,000	41,139

24. BANK AND OTHER BORROWINGS (Continued)

Notes:

(i) As at 31 December 2023, the effective interest rates of the unsecured interest — bearing bank loans were 3.75% (2022: 3.75%) per annum.

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

(ii) As at 31 December 2022, the other loan was secured by the share capital of certain subsidiaries of the Group, FastPower Holding Limited, FastSemi Holding Limited and Swift Power Limited, with the effective interest rates of 12% per annum.

The other loan balance of approximately HK$103,563,000 (equivalent to RMB94,508,000) have been due on 30 April 2023. On 31 May 2023, the Group and Jovial Star International Limited (the “Creditor”), entered into the debt settlement agreement (“Settlement Agreement”) pursuant to which the Group has conditionally agreed to allot and issue a total of 129,453,785 shares of the Company at the price of HK$0.80 per share to the Creditor for the settlement of the other loan with the Creditor in full.

On 23 August 2023, all the conditions precedent set out in the debt settlement agreement have been fulfilled and Settlement Agreement have been completed. The Creditor has become a substantial shareholder of the Company after the above share allotment. Refer to Note 26 for detail.

25. DEFERRED TAX ASSETS

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

	Impairment of trade and bills receivables RMB’000	Write off of inventories RMB’000	Depreciation in excess of related depreciation allowances RMB’000	Impairment of assets RMB’000	Change in fair value through other comprehensive income RMB’000	Total RMB’000
At 1 January 2022	886	4	798	—	—	1,688
Credited/(charged) to profit or loss (Note 12)	399	—	(40)	—	—	359
At 31 December 2022 and 1 January 2023	1,285	4	758	—	—	2,047
Credited to other comprehensive income	—	—	—	—	1,442	1,442
Credited to profit or loss (Note 12)	331	477	134	2,000	—	2,942
At 31 December 2023	1,616	481	892	2,000	1,442	6,431

25. DEFERRED TAX ASSETS (Continued)

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 2023 and 2022, 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 RMB123,489,000 (2022: RMB137,616,000). It is because in the opinion of the Directors, it is not probable that the subsidiaries will distribute its earnings accrued from the date of operation to 31 December 2022 in the foreseeable future. Accordingly, no deferred tax liabilities have been recognised as at 31 December 2023 and 2022.

No deferred tax asset has been recognised in respect of deductible temporary differences of RMB170,791,000 (2022: RMB95,968,000) as the deductible temporary differences have arisen in subsidiaries that have been loss-making for years and it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised. The unused tax losses of the PRC subsidiaries will expire in five years.

26. SHARE CAPITAL

	Number of ordinary shares	RMB'000
Issued and fully paid:		
At 1 January 2022	563,591,000	4,937
Placement of new shares (Note (i))	18,010,000	161
At 31 December 2022 and 1 January 2023	581,601,000	5,098
Placement of new shares (Note (ii))	40,000,000	367
Issued for debt settlement (Note (iii))	129,453,785	1,199
At 31 December 2023	751,054,785	6,664

Notes:

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

(ii) An aggregate of 40,000,000 shares have been successfully placed on 13 June 2023 to not less than six placees at the share price of HK$0.90 per share.

(iii) On 31 May 2023, the Group entered into the Settlement Agreement with the Creditor, pursuant to which the Group allotted and issued a total of 129,453,785 shares of the Company (the "New Shares") at the price of HK$0.80 per share to extinguish the entire loan balance with the Creditor of approximately HK$103,563,000 (equivalent to approximately RMB95,899,000) (the "Indebted Sum"). The completion of the Settlement Agreement and the issuance of the New Shares for the capitalisation of the Indebted Sum took place on 23 August 2023 (the "Completion Date") and the aggregate outstanding principal and the interests were fully settled accordingly.

Based on the closing price of the Share of the Company on the Completion Date, the total cost of the New Shares issued by the Company was approximately HK$116,508,000 (equivalent to approximately RMB107,886,000). The difference between the total cost of the New Shares issued by the Company and the Indebted Sum was recognised as a loss arising on financial liabilities extinguished of approximately RMB11,690,000 in the profit or loss for the Year.

27. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2023 and 2022 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	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	877,632	53,999	(474,697)	456,934
Loss for the year	—	—	(86)	(86)
Total comprehensive income for the year	—	—	(86)	(86)
Placing to new shares (Note 26)	50,189	—	—	50,189
Recognition of equity settled share-based payment expenses (Note 29)	—	10,954	—	10,954
At 31 December 2022 and 1 January 2023	927,821	64,953	(474,783)	517,991
Loss for the year	—	—	(75,633)	(75,633)
Total comprehensive income for the year	—	—	(75,633)	(75,633)
Placing to new shares (Note 26)	139,323	—	—	139,323
Forfeit of share options	—	(21,626)	21,626	—
Recognition of equity settled share-based payment expenses (Note 29)	—	3,849	—	3,849
At 31 December 2023	1,067,144	47,176	(528,790)	585,530

(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.

27. RESERVES (Continued)

The Company (Continued)

(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) Accumulated Losses

Accumulated losses represents cumulative net gains and losses recognised in profit or loss.

(h) Investment revaluation reserve

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

28. LEASES

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 2023 RMB'000	31 December 2022 RMB'000
Properties leased for own use, carried at depreciated cost	5,666	16,883

Lease liabilities

Future lease payments are due as follows:

	Minimum lease payments 31 December 2023 RMB'000	Future Interest 31 December 2023 RMB'000	Present-value 31 December 2023 RMB'000
Not later than one year	2,533	704	1,829
Later than one year and not later than two years	4,212	783	3,429
Later than two years and not later than five years	1,455	56	1,399
	8,200	1,543	6,657

28. LEASES (Continued)

Lease liabilities (Continued)

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

The present value of future lease payments are analysed as:

	31 December 2023 RMB'000	31 December 2022 RMB'000
Current liabilities	**1,829**	7,520
Non-current liabilities	**4,828**	11,195
	6,657	18,715

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

No short term and low value lease which the Group has elected to recognise right-of-use asset and lease liabilities for the years ended 31 December 2023 and 2022.

29. SHARE-BASED PAYMENT

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

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

29. SHARE-BASED PAYMENT (Continued)

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

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

On 28 July 2023, the Company granted 7,890,000 options to 48 grantees to subscribe for an aggregate of 7,890,000 shares under the Share Option Scheme ("2023 Share Options") for a consideration of HK$1 per option granted.

The following tables disclose details of movements of the Company's 2021 Share Options held by directors and employees during the year:

Date of grant	Vesting period	Exercisable period	Subscription price per Share HK$	Outstanding at 1 January 2023	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Forfeited during the Year	Outstanding at 31 December 2023	Vested and exercisable at 31 December 2023
Directors of the Company											
17/6/2021	Nil (Note 5)	17/6/2021–16/6/2024	7.50	840,000	–	–	–	–	(360,000)	480,000	480,000
	Nil (Note 5)	17/6/2021–16/6/2029	7.50	2,400,000	–	–	–	–	(2,400,000)	–	–
	17/6/2021–16/6/2022 (Note 6)	17/6/2022–16/6/2026	7.50	1,200,000	–	–	–	–	–	1,200,000	1,200,000
	17/6/2021–16/6/2023 (Note 6)	17/6/2023–16/6/2027	7.50	1,200,000	–	–	–	–	–	1,200,000	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	–
				8,040,000	–	–	–	–	(2,760,000)	5,280,000	2,880,000
Senior management and other employees											
17/6/2021	Nil (Note 5)	17/6/2021–16/6/2024	7.50	11,520,000	–	–	–	–	(4,800,000)	6,720,000	6,720,000
	Nil (Note 5)	17/6/2021–16/6/2029	7.50	1,650,000	–	–	–	–	–	1,650,000	1,650,000
	17/6/2021–16/6/2022 (Note 6)	17/6/2022–16/6/2026	7.50	1,637,500	–	–	–	–	–	1,637,500	1,637,500
	17/6/2021–16/6/2023 (Note 6)	17/6/2023–16/6/2027	7.50	250,000	–	–	–	–	–	250,000	250,000
	17/6/2021–16/6/2024 (Note 6)	17/6/2024–16/6/2028	7.50	250,000	–	–	–	–	–	250,000	–
	17/6/2021–16/6/2025 (Note 6)	17/6/2025–16/6/2029	7.50	250,000	–	–	–	–	–	250,000	–
	17/6/2021–16/6/2022 (Note 7 & 6)	17/6/2022–16/6/2026	7.50	62,500	–	–	–	–	–	62,500	62,500
	17/6/2021–16/6/2023 (Note 7 & 6)	17/6/2022–16/6/2027	7.50	62,500	–	–	–	–	–	62,500	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	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	–
				26,470,000	–	–	–	–	(4,800,000)	21,670,000	11,770,000
				34,510,000	–	–	–	–	(7,560,000)	26,950,000	14,650,000

29. SHARE-BASED PAYMENT (Continued)

During the year ended 31 December 2023, the Company recognised expense for the services rendered during the vesting period under the 2021 Share Option of approximately RMB2,995,000 (2022: RMB10,954,000).

The following tables disclose details of movements of the Company's 2023 Share Options held by directors and employees during the year:

Date of grant	Vesting period	Exercisable period	Subscription price per Share HK$	Outstanding at 1 January 2023	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Forfeited during the Year	Outstanding at 31 December 2023	Vested and exercisable at 31 December 2023
Senior management and other employees											
28/7/2023	28/7/2023–1/9/2023 (Note 6)	1/9/2023–1/9/2024	1.40	–	775,000	–	–	–	(50,000)	725,000	725,000
	28/7/2023–30/6/2024 (Note 6)	30/6/2024–30/6/2025	1.40	–	3,557,500	–	–	–	(621,250)	2,936,250	–
	28/7/2023–30/6/2025 (Note 6)	30/6/2025–30/6/2026	1.40	–	3,557,500	–	–	–	(621,250)	2,936,250	–
				–	7,890,000	–	–	–	(1,292,500)	6,597,500	725,000

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.

The fair values of the 2023 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:

2023 Share Options granted on 28 July 2023:

Closing share price at date of grant	HK$1.25
Exercise price	HK$1.40
Fair value per share option	HK$0.38–HK$0.65
Risk free rate	4.033%–4.605%
Time to Maturity	1–3 years
Time to vest	0–3 years
Expected dividend yield	0%
Expected volatility	71%–86%

29. SHARE-BASED PAYMENT (Continued)

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 2023 Share Option on grant dates is approximately HK$4,177,000. During the year ended 31 December 2023, the Company recognised expense for the services rendered during the vesting period under the 2023 Share Option of approximately RMB854,000.

30. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2023	2022
Percent of equity interest held by non-controlling interests:		
Shenzhen Gallium Semiconductor Co., Ltd. ("Shenzhen Gallium")	**21.81%**	13.99%

The following tables illustrate the summarized financial information of the above subsidiary.

	2023 **RMB'000**	2022 RMB'000
Loss for the year allocated to non-controlling interests:		
Shenzhen Gallium	**(6,850)**	—
Accumulated balances of non-controlling interests at the reporting date:		
Shenzhen Gallium	**36,880**	16,191

30. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

	2023 RMB'000	2022 RMB'000
Revenue	2,634	254
Total expenses, net	(44,935)	(38,951)
Loss for the year	(42,301)	(38,697)
Total comprehensive income for the year	(46,628)	(37,358)
Current assets	104,089	95,344
Non-current assets	181,809	83,294
Current liabilities	(112,291)	(57,141)
Non-current liabilities	(4,502)	(5,764)
Net cash flows used in operating activities	(40,266)	(52,354)
Net cash flows used in investing activities	(106,327)	(60,543)
Net cash flows from financing activities	158,639	82,186
Net increase/(decrease) in cash and cash equivalent	12,046	(30,711)

31. ASSETS CLASSIFIED AS HELD FOR SALE

On December 30, 2023, the Group entered into a memorandum of understanding to dispose entire equity interest in Fast Charging Limited. Fast Charging held the only assets, which were technology know-how, with a carrying amount of approximately RMB 59,419,000, to an independent third party for cash consideration. The technology know-how comprises 6 patents currently under registration in the PRC, specifically focused on fast charging solutions for battery systems. Substantial progress has been made towards completing the sale by the end of 2023, and it is expected that the disposal will be completed by the end of the first half of 2024. As a result, the technology know-how, previously classified as an intangible asset, has now been reclassified as held for sale in the consolidated statement of financial position.

An impairment loss of RMB42,867,000 on the measurement of the technology know-how to fair value less cost of disposal has been recognised (Note 16). As at 31 December 2023, the carrying amount of the assets classified as held for sale is approximately RMB16,552,000.

31. ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

The fair value of the technology know-how is categorised as level 3 non-recurring fair value measurements. The valuation techniques and significant unobservable inputs used in determining the fair value of assets classified as held for sale:

Valuation technique(s) and key input(s)	Fair value hierarchy	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Discounted cash flows — future cash flows are estimated based on expected return, discounted at a rate that reflects the risk of underlying assets	Level 3	Discount rate Growth rate	The higher the discount rate, the lower the valuation The higher the growth rate, the higher the valuation

The following describes each key assumption on which management has based its cash flow projections to undertake valuation:

Budget revenue growth rates — The budget revenue growth rates are based on the market outlook perceived by management. The five-year period with estimated revenue growth rate applied at 31 December 2023 is 25.02% to 177.86% per annum.

Discount rate — The discount rates used are before tax and reflect specific risks relating to the relevant unit. The discount rate applied at 31 December 2023 is 29.70%.

Long Term growth rate — The long term growth rate is based on market data and management's expectation on the future development of the related business. The long term growth rate applied at 31 December 2023 is 3%.

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

On 26 March 2024, the Group received deposit to secure the transaction of RMB1,000,000.

32. CAPITAL COMMITMENTS

	2023 RMB'000	2022 RMB'000
Commitments for the acquisition of property, plant and equipment	5,311	64,527

33. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2023 RMB'000	2022 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		7	7
Amounts due from subsidiaries (Note)		458,483	429,024
Intangible assets (Note 16)		—	63,402
		458,490	492,433
Current assets			
Prepayments		131	—
Amounts due from subsidiaries (Note)		119,691	41,553
Cash and cash equivalents		3,922	2,649
		123,744	44,202
Assets classified as held for sale (Note 31)		16,552	—
		140,296	44,202
Current liabilities			
Other borrowings		—	6,139
Other payables		6,592	7,407
		6,592	13,546
Net assets		592,194	523,089
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	6,664	5,098
Reserves	27	585,530	517,991
Total equity		592,194	523,089

Note: For the amounts due from subsidiaries, the Directors make periodic individual assessment on the recoverability of the subsidiaries. No provision on expected credit loss on amount due from subsidiaries recognised during the year ended 31 December 2023 (2022: Nil).

On behalf of the Directors

Xu Zhihong	**Lu Kailin**
Director	*Director*

34. INVESTMENT IN SUBSIDIARIES

Details of the subsidiaries as at 31 December 2023 and 2022 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			
				2023		2022	
				Direct %	Indirect %	Direct %	Indirect %
HongGuang Lighting Group Company Limited	Corporation	BVI Investment holding	1 ordinary share of United State Dollar ("US$") 1 each	100	–	100	–
HongGuang Lighting (International) Limited	Corporation	BVI Investment holding	1,000 ordinary shares of US$1 each	100	–	100	–
FastPower Holding Limited	Corporation	BVI Investment holding	1 ordinary shares of US$1	100	–	100	–
FastSemi Holding Limited	Corporation	BVI Investment holding	1 ordinary shares of US$1	100	–	100	–
GSR Go Holding Corporation	Corporation	BVI Investment holding	1,000 ordinary shares of US$1 each	100	–	100	–
HongGuang Lighting (Hong Kong) Holdings Limited	Corporation	Hong Kong Investment holding	1,000 ordinary shares of HK$1 each	–	100	–	100
Zhuhai HongGuang Semiconductor Company Limited*	Corporation	The PRC Design, development, manufacturing, subcontracting service and sales of LED products	RMB 36,000,000	–	100	–	100
Fast Charging Limited	Corporation	Hong Kong Research and development of fast charging solutions for battery system	10,000 ordinary shares of HK$1 each	–	100	–	100
西安速充半導體有限公司* (Deregistered on 15 March 2023)	Corporation	The PRC Research and development	Nil**	–	–	–	100
FastPower Inc.	Corporation	United States of America Research and development	1,000,000 ordinary shares with no par value	–	100	–	100
Swift Power Limited	Corporation	Hong Kong Investment holding	1 ordinary share of HK$1 each	–	100	–	100

34. 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			
				2023		2022	
				Direct %	Indirect %	Direct %	Indirect %
Ganhonor Semiconductor Co., Ltd, previously known as Xuzhou GSR Semiconductor Co., Ltd	Corporation	The PRC Design, development, manufacturing and sales of GaN and other semiconductor products	US$25,254,215	–	78.19	–	86.01
Shenzhen Jiahong Semiconductor Company Limited	Corporation	The PRC Manufacturing and sales of semiconductor products and related equipment, provision of technical development services, consultation and promotional services	US$14,386,518	–	78.19	–	–
Xuzhou Diheng Semiconductor Technology Partnership	Limited Partnership	The PRC Investment holing	Nil**	–	100	–	–
蘇州金沙江半導體有限公司* (Deregistered on 31 March 2023)	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	–	100
HG Semiconductor (Hong Kong) Limited	Corporation	Hong Kong Sale of semiconductor products	1,000 ordinary shares of HK$1 each	–	100	–	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.

35. 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 2023 RMB'000	2022 RMB'000
珠海經濟特區利佳電子發展有限公司	Utility expense (Note (ii))	2,130	1,972
珠海經濟特區利佳電子發展有限公司	Rental expense (Note (iii))	345	248
珠海經濟特區利佳電子發展有限公司	Interest on lease liability (Note (iii))	27	123
		2,502	2,343

Notes:

(i) The related party is beneficially owned by the shareholders of the Company, Mr. Zhao Yi Wen, who is also Director of the Company.

(ii) The utility expense was first paid by the related party based on the actual amount of utility expense incurred, which was subsequently reimbursed by the Group.

(iii) The rental expense and interest on lease liability are relating to the property lease from the related party (Note 15).

(b) Compensation of key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Executive Directors as disclosed in Note 10, is as follows:

	2023 RMB'000	2022 RMB'000
Short-term employee benefits	5,843	2,045
Pension scheme contributions	39	54
	5,882	2,099

36. NOTES SUPPORTING CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise

	2023 RMB'000	2022 RMB'000
Bank balances and cash available on demand	**49,287**	43,794

(b) Reconciliation of liabilities arising from financing activities

	Borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2022	7,000	24,519
Change from cash flow:		
Proceed from borrowings	41,139	—
Repayment of borrowings	(7,000)	—
Repayment of principal portion of the lease liabilities	—	(6,937)
Interest paid	(373)	(1,635)
Total change from cash flow	33,766	(8,572)
Other change:		
Exchange realignment	—	1,133
Interest expenses	373	1,635
Total other change	373	2,768
At 31 December 2022 and 1 January 2023	41,139	18,715
Change from cash flow:		
Proceed from borrowings	74,000	—
Repayment of borrowings	(10,000)	—
Repayment of principal portion of the lease liabilities	—	(6,207)
Interest paid	(6,982)	(1,189)
Total change from cash flow	57,018	(7,396)
Other change:		
Exchange realignment	138	16
Repayment upon issuance of ordinary share	(95,277)	—
Addition on lease liabilities	—	569
Lease modification	—	(6,436)
Interest expenses	6,982	1,189
Total other change	(88,157)	(4,662)
At 31 December 2023	10,000	6,657

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	2023 RMB'000	2022 RMB'000
Financial assets		
Measured at amortised cost	186,435	155,060
Fair value through profit or loss	34,440	33,900
Fair value through other comprehensive income	224,439	198,865
Financial liabilities		
Measured at amortised cost	43,809	105,635

The fair value of all these financial assets and financial liabilities are not materially different from their carrying amounts.

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include bank balances and cash, trade and bills receivables, other receivables, trade payables and other payables and accruals.

Due to their short term nature, the carrying value of bank balances and cash, trade and bills receivables, other receivables, trade payables, other payables and accruals, bank and other borrowings and lease liabilities approximates fair value.

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instrument, as well as the relationship between key observable inputs and fair value are set out below.

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).

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

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

Financial assets	31 December 2023 RMB'000	31 December 2022 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	213,869	182,527	Level 3	Latest transaction prices/consideration for shares transfer in similar equity interest	Consideration due to timing, condition of sale and terms of agreement	The higher the value of similar transactions, the higher the valuation
					Change in the market capitalisation of the comparable companies	The higher the percentage change in the market capitalisation, the higher the valuation
					Israel market return adjustment	The higher the Israel market return adjustment, the higher the valuation
Unlisted equity investments at fair value	10,570	16,338	Level 3	Latest transaction prices/consideration for shares transfer in similar equity interest	Consideration due to timing, condition of sale and terms of agreement	The higher the value of similar transactions, the higher the valuation
					Change in the market capitalisation of the comparable companies	The higher the percentage change in the market capitalisation, the higher the valuation
			Level 3	(2022: Discounted cash flows — future cash flows are estimated based on management budget, 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	34,440	33,900	Level 3	Fair value of underlying investments	Fair value of investment	The higher the fair value, the higher the valuation

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

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

Significant unobservable inputs

	2023	2022
Discount rate	Nil	25%
Growth rate	Nil	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
As at 1 January 2022	186,333	25,383
Acquisitions	—	8,985
Change in fair value	12,532	(468)
As at 31 December 2022 and 1 January 2023	198,865	33,900
Change in fair value	25,574	(311)
Exchange realignment	—	851
As at 31 December 2023	224,439	34,440

There were no transfers between levels during the year 2023 and 2022.

38. FINANCIAL RISK MANAGEMENT

The Group's activities expose itself to variety of financial risks: interest rate risk, equity price 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.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of reporting period, the Group is exposed to equity price risk mainly through its investment in equity securities classified as financial assets at FVTPL (Note 17) and financial asset at FVTOCI (Note 17). The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. For financial assets at FVTPL, equity price risk is mainly concentrated on equity price in the unlisted fund. For financial asset at FVTOCI, the equity price risk is mainly derived from latest transaction prices/consideration for shares transfer in similar equity interest.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices of financial assets at FVTPL and financial assets at FVTOCI had been 10% higher/lower (2022: 10% higher/lower), with all other variables held constant, the loss before tax would have decrease/increase by approximately RMB3,484,000 (2022: decrease/increase by approximately RMB3,390,000) and the other comprehensive income would have increase/decrease by RMB22,444,000 (2022: increase/decrease by approximately RMB19,887,000) respectively, arising from the fair value gain/loss of the financial assets at FVTPL and financial assets at FVTOCI.

38. FINANCIAL RISK MANAGEMENT (Continued)

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:

	2023 RMB'000	2022 RMB'000
USD	**8,579**	472
HKD	**4,592**	2,813

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.

	2023		2022	
	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after tax and decrease/ (increase) in accumulated losses RMB'000	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after tax and decrease/ (increase) in accumulated losses RMB'000
USD	**5%**	**365**	5%	20
	(5%)	**(365)**	(5%)	(20)
HKD	**5%**	**195**	5%	120
	(5%)	**(195)**	(5%)	(120)

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.

38. 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 2023, the Group has a certain concentration of credit risk as approximately 44.74% (2022: 61.6%) 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 loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. 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 2023

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.39%	22,290	87
Past due for less than 30 days	0.39%	7,233	28
Past due for more than 30 days but less than 90 days	0.39%	1,170	5
		30,693	120

38. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

31 December 2023 (Continued)

Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	3.46%	11,507	383
Past due for less than 30 days	3.46%	1,016	35
Past due for more than 30 days but less than 90 days	3.46%	2,201	76
Past due for more than 90 days but less than 120 days	5.61%	772	43
Past due for more than 120 days but less than 365 days	5.61%	1,438	81
Over 365 days	15.13%	17,913	3,499
		34,847	4,117

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	90.80%	2,458	2,232
		2,458	2,232

31 December 2022

Grade 1

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.32%	29,011	94
Past due for less than 30 days	0.32%	6,021	20
Past due for more than 30 days but less than 90 days	0.32%	3,195	10
Past due for more than 90 days but less than 120 days	1.57%	60	1
Past due for more than 120 days but less than 365 days	1.57%	6	—
		38,293	125

38. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

31 December 2022 (Continued)

Grade 2

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	2.91%	10,997	320
Past due for less than 30 days	2.91%	863	21
Past due for more than 30 days but less than 90 days	2.91%	951	28
Past due for more than 90 days but less than 120 days	4.71%	477	22
Past due for more than 120 days but less than 365 days	4.71%	2,529	119
Over 365 days	17.22%	16,903	2,910
		32,720	3,420

Grade 3

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Past due for more than 365 days	65%	2,458	1,599
		2,458	1,599

Summary

Movement in the loss allowance account in respect of trade and bills receivables during the year is as follows:

	2023 RMB'000	2022 RMB'000
Balance at 1 January	**5,144**	3,549
Provision on expected credit losses	**1,325**	1,595
Balance at 31 December	**6,469**	5,144

The following significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in the loss allowance during 2023:

— Increase in long overdue trade receivable resulted in an increase in loss allowance at approximately RMB1,325,000 (2022: Increase RMB1,595,000).

38. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's non-derivative and derivative financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000
At 31 December 2023						
Trade payables	11,018	11,018	11,018	—	—	—
Other payables and accruals	16,134	16,134	16,134	—	—	—
Borrowings	10,000	10,130	10,130	—	—	—
Lease liabilities	6,657	8,199	2,532	4,212	1,455	—
	43,809	45,481	39,814	4,212	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 2022						
Trade payables	23,262	23,262	23,262	—	—	—
Other payables and accruals	23,670	23,670	23,670	—	—	—
Borrowings	41,139	45,251	45,251	—	—	—
Lease liabilities	18,715	21,548	8,748	7,374	5,426	—
	106,786	113,731	100,931	7,374	5,426	—

39. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. Net debt includes trade payables, other payables and accruals and bank borrowings less Bank balances and cash. The net debt-to-equity ratio as at the end of each of the financial year is as follows:

	2023 RMB'000	2022 RMB'000
Trade payables	11,018	23,262
Other payables and accruals	16,576	25,247
Borrowings	10,000	41,139
Less: Bank balances and cash	(49,287)	(43,794)
Net (assets)/debt	(11,693)	45,854
Equity	720,610	609,945
Net debt-to-equity ratio	–	8%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2024.

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

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	**88,600**	87,518	126,137	121,995	243,260
(Loss)/profit before income tax expense	**(160,509)**	(101,646)	(447,624)	6,394	23,078
Income tax credit/(expense)	**2,936**	359	798	(1,831)	(5,800)
(Loss)/profit for the year	**(157,573)**	(101,287)	(446,826)	4,563	17,278

ASSETS AND LIABILITIES

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	**764,886**	718,308	665,873	220,575	246,096
Total liabilities	**44,276**	108,363	56,532	48,418	78,500
Total equity	**720,610**	609,945	609,341	172,157	167,596