HG SEMICONDUCTOR LIMITED
宏光半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6908)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

Year ended 31 December (RMB'000)	2023	2022	Percentage Change
Revenue	**88,600**	87,518	1.2%
Cost of sales	**(80,068)**	(71,087)	12.6%
Gross profit	**8,532**	16,431	–48.1%
Loss before income tax credit	**(160,509)**	(101,646)	57.9%
Net loss	**(157,573)**	(101,287)	55.6%
Loss per share (RMB)	**(0.2365)**	(0.1781)	32.8%
Total assets	**764,886**	718,308	6.5%
Total equity	**720,610**	609,945	18.1%
Key Financial Ratios			
Gross profit margin (%)	**9.6**	18.8	
Net margin (%)	**(177.8)**	(115.7)	
Return on equity (%)	**(21.9)**	(16.6)	
Return on assets (%)	**(20.6)**	(14.1)	
Current ratio	**8.2**	2.9	
Gearing ratio (%)	**1.4**	6.7	

ANNUAL RESULTS

The board (the "**Board**") of Directors (the "**Directors**") of HG Semiconductor Limited (the "**Company**") hereby announces the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022, as follows:

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	*5*	**88,600**	87,518
Cost of sales		**(80,068)**	(71,087)
Gross profit		**8,532**	16,431
Other income and gains	*5*	**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		**(11,690)**	—
Impairment loss of property, plant and equipment		**(6,371)**	—
Impairment loss of intangible assets		**(44,496)**	—
Finance costs	*7*	**(8,171)**	(2,008)
Loss before income tax credit	*6*	**(160,509)**	(101,646)
Income tax credit	*8*	**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)

	Note	**2023** RMB'000	2022 RMB'000
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)	*9*	**(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		**189,110**	108,897
Intangible assets		**5,202**	71,169
Financial assets at fair value through OCI		**224,439**	198,865
Prepayments and deposits	*12*	**15,888**	50,946
Deferred tax assets		**6,431**	2,047
		441,070	431,924
Current assets			
Inventories		**48,788**	58,949
Trade and bills receivables	*11*	**68,693**	77,265
Prepayments, deposits and other receivables	*12*	**106,056**	72,476
Financial assets at fair value through profit or loss		**34,440**	33,900
Cash and cash equivalents		**49,287**	43,794
		307,264	286,384
Assets classified as held for sale	*16*	**16,552**	—
		323,816	286,384
Current liabilities			
Trade payables	*13*	**11,018**	23,262
Other payables and accruals		**16,576**	25,247
Bank and other borrowings	*14*	**10,000**	41,139
Lease liabilities		**1,829**	7,520
Tax payable		**25**	—
		39,448	97,168
Net current assets		**284,368**	189,216

	Note	2023	2022
		RMB'000	*RMB'000*
Non-current liabilities			
Lease liabilities		**4,828**	11,195
		4,828	11,195
Net assets		**720,610**	609,945
EQUITY			
Equity attributable to owners of the Company			
Share capital	*15*	**6,664**	5,098
Reserves		**677,066**	588,656
		683,730	593,754
Non-controlling interests		**36,880**	16,191
Total equity		**720,610**	609,945

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

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.

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

The Hong Kong Institute of Certified Public Accountants (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.

4. 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, and fast charging products in the PRC. The Executive Directors determined there were two reportable and operating segments which are (i) LED products and (ii) GaN and other semiconductor products.

Segment revenue and results

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

	2023			2022		
	LED products	**GaN and other semiconductor products**	**Total**	LED products	GaN and other semiconductor products	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*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
Administrative expenses			**(35,912)**			(45,161)
Loss arising on financial liabilities extinguished			**(11,690)**			—
Finance costs			**(2,864)**			(617)
Loss before income tax			**(160,509)**			(101,646)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities 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 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.

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

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

5. 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	2022
	RMB'000	*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.

6. LOSS BEFORE INCOME TAX CREDIT

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

	2023	2022
	RMB'000	*RMB'000*
Cost of inventories sold	**66,888**	58,826
Depreciation charge:		
— Owned property, plant and equipment	**7,478**	5,359
— Right-of-use-assets included in property, plant and equipment	**6,247**	7,278
Amortisation of intangible assets	**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	**3,849**	10,954
Exchange loss/(gain), net	**206**	(159)
Loss on disposal of property, plant and equipment	**3,644**	—

7. FINANCE COSTS

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

8. 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).

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	2022
	RMB'000	*RMB'000*
Current income tax — USA		
— Under-provision in prior year	**6**	—
Deferred tax	**(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	2022
	RMB'000	*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)

9. 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	2022
	RMB'000	*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.

10. DIVIDEND

No dividend has been paid or declared by the Company for the years ended 31 December 2023 and 2022.

11. TRADE AND BILLS RECEIVABLES

The information about trade and bills receivables after expected credit losses are as follows:

	2023	2022
	RMB'000	*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. 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	2022
	RMB'000	*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	**(6,469)**	(5,144)
	68,693	77,265

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Other receivables	**68,172**	33,244
Prepayments and deposits *(Note i)*	**53,772**	90,178
	121,944	123,422
Less: non-current portion		
Prepayments and deposits *(Note ii)*	**(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 the prepayment to the independent third parties suppliers amounted to approximately RMB35,251,000 (2022: approximately RMB37,034,000) for purchase of raw material.

(ii) 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.

13. 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	2022
	RMB'000	*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

14. BANK AND OTHER BORROWINGS

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

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 rate 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 a 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 Settlement Agreement have been fulfilled and the Settlement Agreement have been completed. Jovial Star International Limited has become a substantial shareholder of the Company after the above share allotment.

15. 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.

16. 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"). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board hereby presents the annual results of the Group for the year ended 31 December 2023 (the "**Year**" or "**2023**"), together with the comparative figures for the corresponding year ended 31 December 2022 (the "**Previous Year**" or "**2022**").

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 Dévéloppment'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 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 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 RMB68.2 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 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 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 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). 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.

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.

Model Code for Securities Transactions by Directors

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.

Corporate Governance and Compliance with the Corporate Governance Code

The Company adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix C1 to the Listing Rules as its own code of corporate governance. Save for the provision C.2.1 of the CG Code, the Board is satisfied that the Company had complied with the CG Code for the Year.

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.

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.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the members' entitlement to attend and vote at the forthcoming annual general meeting of the Company proposed to be held on Wednesday, 29 May 2024, the register of members will be closed from Friday, 24 May 2024 to Wednesday, 29 May 2024, both days inclusive, during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 23 May 2024.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company (the "**Audit Committee**") has discussed and reviewed with management and the Group's auditor, BDO Limited, the annual consolidated financial statements of the Group for the Year. The Audit Committee comprises two Independent Non-executive Directors, namely Mr. Zou Haiyan and Mr. Siu Miu Man, Simon, *MH*, Mr. Zou Haiyan, is the chairman of the Audit Committee who has appropriate professional qualifications and experience as required by the Listing Rules.

REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income and the related notes thereto for the Year as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

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

Hong Kong, 28 March 2024

As at the date of this announcement, the executive Directors are Dr. Xu Zhihong, Mr. Zhao Yi Wen, Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong), Mr. Li Yang and Mr. Leung Kin Pang; the non-executive Director is Dr. Wang David Nin-kou; and the independent non-executive Directors are Mr. Zou Haiyan and Mr. Siu Miu Man, Simon, MH.

* *For identification purpose only*