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SUPPLEMENTAL ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF TENANCY AGREEMENTS AND SUBCONTRACTING AGREEMENT

Reference is made to the announcement of the Company dated 5 November 2020 (the “**Announcement**”) in relation to the continuing connected transactions regarding the renewal of tenancy agreements and subcontracting agreement of the Company. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Announcement.

Further to the information disclosed in the Announcement, the Company wishes to provide the Shareholders and the public with the additional information regarding the (i) basis of pricing of the New Subcontracting Agreement; (ii) basis of pricing of the Supply Agreement; and (iii) basis of the annual cap in respect of the New Subcontracting Agreement for the year ending 31 December 2021.

Basis of pricing of the New Subcontracting Agreement

The subcontracting fee shall be determined after arm’s length negotiations between the parties from time to time with reference to the then market price of similar services in the market and shall be no less favourable than the price the Group procure such services from its suppliers who are independent third parties. As the wafer backside process services from Guangdong Zhaoao are readily available in the market, the Group will obtain and compare the subcontracting fee offered by Guangdong Zhaoao with quotations from two other independent third parties. Based on the quotations provided by the suppliers who are independent third parties, the Group will be able to ensure that the subcontracting fee to be paid to Guangdong Zhaoao represents the market price on normal commercial terms.

Basis of pricing of the Supply Agreement

The selling price of the Group's power discrete semiconductors or other products to SMC Electric HK shall be determined after arm's length negotiations between the parties from time to time with reference to the then market price of similar products in the market available to independent third parties. The price at which the Group sells its power discrete semiconductors or other products to SMC Electric HK shall not be lower than the price charged by the Group to customers who are independent third parties for the sales of same type of power discrete semiconductors or other products. Hence, the Group will be able to ensure that the selling price of power discrete semiconductors or other products to SMC Electric HK represents the market price on normal commercial terms.

Basis of the annual cap in respect of the New Subcontracting Agreement for the year ending 31 December 2021

The basis of the annual cap in respect of the New Subcontracting Agreement is determined with the consideration of (i) the historical figures; and (ii) the expected demand for the relevant wafer backside process services by the Group from Guangdong Zhaoao driven by the anticipated increase in sales of power discrete semiconductors.

Wafer foundries are the Group's major suppliers of wafer backside process services. For nine months ended 30 September 2020, the subcontracting fees paid by PFC Device (GD) to Guangdong Zhaoao was approximately RMB1.3 million, representing an increase by approximately 9.3 times from that for the year ended 31 December 2019. Such significant increase was primarily attributable to the fact that wafer foundries were unable to satisfy the Group's demand for wafer backside process services, hence, the Group diversified its supply base and procured such services from Guangdong Zhaoao at a competitive price to meet its production needs. The Directors are of the view that the demand for wafer backside process services from Guangdong Zhaoao will continue to increase in 2021, which is due to the fact that (i) it enables the Group to expand its supply base and ensure stable supply of wafer backside process services; (ii) Guangdong Zhaoao can offer competitive price which is no less favourable than the price the Group procure such services from the external wafer foundries who are independent third parties; and (iii) it enables the Group to have better quality control over the wafer backside process.

Furthermore, the anticipated increase in sales of power discrete semiconductors for the year ending 31 December 2021 was primarily based on the Group's sales forecast and production plan for the respective year given that the expected increase in demand for the Group's power discrete semiconductors driven by the (i) gradual recovery of market demand after the global pandemic shock; and (ii) growing demand for computer, laptop, and TV related applications due to the COVID-19 lockdown and stay-at-home order in the United States and Europe.

Save as disclosed above, all other information and content set out in the Announcement remain unchanged and shall continue to be valid for all purposes. This supplemental announcement is supplemental to and should be read in conjunction with the Announcement.

By order of the Board
PFC Device Inc.
CHOW Kai Chiu, David
Executive Director

Hong Kong, 17 November 2020

As at the date of this announcement, the Board comprises two executive directors, namely, Mr. HONG James Man-fai and Mr. CHOW Kai Chiu, David; two non-executive directors, namely, Mr. YUNG Kwok Kee, Billy and Mr. TANG Che Yin; and three independent non-executive directors, namely, Mr. LAM, Peter, Mr. LEUNG Man Chiu, Lawrence and Mr. FAN Yan Hok, Philip.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this announcement misleading. This announcement will remain on the GEM's website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.pfc-device.com.