
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares (as defined herein) in PFC Device Inc. (the “Company”), you should at once hand this circular (as defined herein) to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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MAJOR TRANSACTIONS IN RELATION TO THE PURCHASES OF EQUIPMENT

Capitalised terms used herein shall have the meanings set out in the section headed “Definitions” of this circular.

A letter from the Board is set out on pages 3 to 9 of this circular.

In lieu of a resolution to be passed at a general meeting of the Company pursuant to Rule 19.44 of the GEM Listing Rules, the Company has obtained a written Shareholders’ approval from Lotus Atlantic Limited, being the controlling Shareholder holding more than 50% of the issued share capital of the Company as at the Latest Practicable Date to approve the Main-you Purchase Orders and the Changxing Purchase Orders and the transactions contemplated thereunder. Accordingly, no general meeting will be convened for approving the Main-you Purchase Orders and the Changxing Purchase Orders and the transactions contemplated thereunder. This circular is being despatched to the Shareholders for information only.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“Announcement”	the announcement of the Company dated 23 September 2021 in relation to, amongst others, the Main-you Purchase Orders and Changxing Purchase Orders
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or a Sunday or public holiday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“Changxing”	Changxing International System Co., Ltd., a company established in Taiwan
“Changxing Purchase Orders”	the wafer fabrication equipment purchase orders entered into between PFC Device (HK) and Changxing on 26 May 2021 and 31 May 2021
“Company”	PFC Device Inc., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	the lawful currency for the time being of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Third Party(ies)”	person(s) or company(ies) and whose ultimate beneficial owner who/which is/are independent of the Directors, chief executive and substantial shareholders of the Company and its subsidiaries and any of their respective associates as defined in the GEM Listing Rules
“Latest Practicable Date”	23 October 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Main-you”	Main-You Technology Company, a company established in Taiwan
“Main-you Purchase Orders”	the wafer fabrication equipment purchase orders entered into between PFC Device (HK) and Main-you during the period from 22 March 2021 to 23 September 2021
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau special Administrative Region of the PRC and Taiwan
“PFC Device (HK)”	PFC Device (HK) Limited, a company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company
“Prospectus”	the prospectus of the Company dated 8 June 2021 in relation to the Rights Issue
“Rights Issue”	the Company’s rights issue on the basis of one (1) rights share for every two (2) shares held on the record date, details of which are set out in the Prospectus
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.2 each in the capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Shell Electric”	Shell Electric Holdings Limited, a company incorporated under the laws of Bermuda with limited liability, and a controlling shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States Dollars, the lawful currency of the United States of America and when translated, for ease of reference and unless otherwise specified, the exchange rate between US\$ and HK\$ is US\$1 = HK\$7.8 which is the same exchange rate used in the Announcement
“%”	per cent

LETTER FROM THE BOARD



PFC Device Inc.

節能元件有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8231)

Executive Directors:

Mr. Hong James Man-fai (*Chief Executive Officer*)

Mr. Chow Kai Chiu, David

Non-executive Directors:

Mr. Yung Kwok Kee, Billy (*Chairman*)

Mr. Tang Che Yin

Independent Non-executive Directors:

Mr. Lam, Peter

Mr. Leung Man Chiu, Lawrence

Mr. Fan Yan Hok, Philip

Registered Office:

Windward 3, Regatta Office Park,

PO Box 1350,

Grand Cayman KY1-1108,

Cayman Islands

*Head Office and Principal place of
business in Hong Kong:*

1/F, Shell Industrial Building,

12 Lee Chung Street,

Chai Wan, Hong Kong

26 October 2021

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTIONS IN RELATION TO THE PURCHASES OF EQUIPMENT

INTRODUCTION

Reference is made to the Announcement. During the period from 22 March 2021 to 23 September 2021, PFC Device (HK), an indirect wholly-owned subsidiary of the Company, entered into the Main-you Purchase Orders with Main-you, an Independent Third Party, for the purchases of wafer fabrication equipment at an aggregate consideration of approximately US\$9.4 million (equivalent to approximately HK\$73.5 million). On 26 May 2021 and 31 May 2021, PFC Device (HK) entered into the Changxing Purchase Orders with Changxing, an Independent Third Party, for the purchases of wafer fabrication equipment at an aggregate consideration of approximately US\$3.1 million (equivalent to approximately HK\$23.8 million).

The purpose of this circular is to provide you with information regarding, among other things, details of the Main-you Purchase Orders and Changxing Purchase Orders and the transactions contemplated thereunder, financial information of the Group and other information as required by the GEM Listing Rules. As disclosed in the Announcement, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no Shareholder and their respective associates has a material interest in the Main-you Purchase Orders and the Changxing Purchase Orders, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general

LETTER FROM THE BOARD

meeting for approving the Main-you Purchase Orders and the Changxing Purchase Orders and the transactions contemplated thereunder. On 23 September 2021, the Company has obtained written approval from Lotus Atlantic Limited, the controlling Shareholder of the Company, beneficially holding 85,105,625 Shares, representing 70.13% of the entire issued Share capital of the Company as at the date of the Announcement and the Latest Practicable Date, for approving the Main-you Purchase Orders and the Changxing Purchase Orders and the transactions contemplated thereunder. Pursuant to Rule 19.44 of the GEM Listing Rules, such written shareholder's approval will be accepted in lieu of holding a general meeting of the Company, and accordingly, no general meeting of the Company will be convened for approving the Main-you Purchase Orders and the Changxing Purchase Orders and the transactions contemplated thereunder.

PURCHASES FROM MAIN-YOU

During the period from 22 March 2021 to 23 September 2021, PFC Device (HK) entered into the Main-you Purchase Orders with Main-you, an Independent Third Party, for the purchases of wafer fabrication equipment at an aggregate consideration of approximately US\$9.4 million (equivalent to approximately HK\$73.5 million). The principal terms of each of the Main-you Purchase Orders are set out as follows.

No.	Date of purchase order	Name of equipment	Consideration (US\$'000)	Settlement terms
1	22 March 2021	Photo Stepper (NSR-2205i12D)	2,575	US\$1,545,000 as deposit paid on 15 April 2021; and US\$1,030,000 to be paid upon delivery
2	3 May 2021	Ion Implanter (AMAT XR80 LEAP II)	1,980	US\$990,000 as deposit paid on 13 May 2021; US\$792,000 to be paid upon delivery; and US\$198,000 to be paid after installation
3	15 June 2021	Metal Deposition (AMAT/P5000 SACVD)	1,550	US\$775,000 as deposit paid on 25 June 2021; US\$620,000 to be paid upon delivery; and US\$155,000 to be paid after installation
4	18 June 2021	Metal Deposition (AMAT/P5000 PECVD)	1,280	US\$640,000 as deposit paid on 25 June 2021; US\$512,000 to be paid upon delivery; and US\$128,000 to be paid after installation
5	8 July 2021	Rapid Thermal Oxidation System (AG 8810 before metal)	840	US\$420,000 as deposit paid on 8 July 2021; US\$336,000 to be paid upon delivery; and US\$84,000 to be paid after installation

LETTER FROM THE BOARD

No.	Date of purchase order	Name of equipment	Consideration (US\$'000)	Settlement terms
6	8 July 2021	Rapid Thermal Annealing System (AG 8810 after metal)	680	US\$340,000 as deposit paid on 8 July 2021; US\$272,000 to be paid upon delivery; and US\$68,000 to be paid after installation
7	23 September 2021	Control Rack (Nikon I12D)	515	US\$257,500 as deposit to be paid in the fourth quarter of 2021; US\$206,000 to be paid upon delivery; and US\$51,500 to be paid after installation

The amount of consideration of each of the Main-you Purchase Orders includes fees in relation to, inter alia, the purchase and refurbishment of equipment, installation services and delivery and insurance costs. Each of the above considerations payable by the Group is on normal commercial terms and is agreed after arm's length negotiation principally with reference to the market price of each equipment and its corresponding installation. The management of the Group compared the price offered by Main-you with the estimated market price range of the equipment based on comparison with offers of similar used equipment received from other suppliers and discussion and information exchange with other market veterans, and further considered (i) the reasonableness of the price offered by Main-you through comparing to the price of a brand new equipment as the equipment purchased from Main-you was used equipment; (ii) the availability of the equipment in the market; (iii) the condition of the equipment offered by Main-you; and (iv) the installation cost with reference to the complexity of equipment and manpower required. The considerations shall be payable by telegraphic transfer, of which purchase orders 1 to 4 will be financed by internal cash resources of the Group and purchase orders 5 to 7 will be financed by net proceeds raised from the Rights Issue.

Pursuant to the settlement terms of each of the Main-you Purchase Orders, the Group made non-refundable deposits to Main-you, which are on normal commercial terms, without any interest or collateral. As at the Latest Practicable Date, the aggregate amount of deposits made to Main-you was approximately US\$4.7 million (equivalent to approximately HK\$36.7 million). The equipment purchased under the Main-you Purchase Orders was planned to be delivered in the second quarter of 2022 based on the expected time for refurbishment of used equipment. As at the Latest Practicable Date, the exact delivery date of equipment has not been confirmed by Main-you. The Directors are of the view that the delivery arrangement of equipment under the Main-you Purchase Orders is generally in line with the market practice in the industry.

LETTER FROM THE BOARD

PURCHASES FROM CHANGXING

On 26 May 2021 and 31 May 2021, PFC Device (HK) entered into the Changxing Purchase Orders with Changxing, an Independent Third Party, for the purchases of wafer fabrication equipment at an aggregate consideration of approximately US\$3.1 million (equivalent to approximately HK\$23.8 million). The principal terms of each of the Changxing Purchase Orders are set out as follows.

No.	Date of purchase order	Name of equipment	Consideration (US\$'000)	Settlement terms
1	26 May 2021	Metal Etcher (Metal and Nitride etching)	1,650	US\$825,000 as deposit paid on 9 June 2021; US\$660,000 to be paid upon delivery; and US\$165,000 to be paid after installation
2	31 May 2021	Metal Etcher (Oxide and Poly etching)	1,400	US\$700,000 as deposit paid on 9 June 2021; US\$560,000 to be paid upon delivery; and US\$140,000 to be paid after installation

The amount of consideration of each of the Changxing Purchase Orders includes fees in relation to, inter alia, the purchase and refurbishment of equipment, installation services and delivery and insurance costs. Each of the above considerations payable by the Group is on normal commercial terms and is agreed after arm's length negotiation principally with reference to the market price of each equipment and its corresponding installation. The management of the Group compared the price offered by Changxing with the estimated market price range of the equipment based on comparison with offers of similar used equipment received from other suppliers and discussion and information exchange with other market veterans, and further considered (i) the reasonableness of the price offered by Changxing through comparing to the price of a brand new equipment as the equipment purchased from Changxing was used equipment; (ii) the availability of the equipment in the market; (iii) the condition of the equipment offered by Changxing; and (iv) the installation cost with reference to the complexity of equipment and manpower required. The considerations shall be payable by telegraphic transfer, which will be financed by internal cash resources of the Group.

The equipment purchased under the Changxing Purchase Orders was planned to be delivered in the second quarter of 2022 based on the expected time for refurbishment of used equipment. As at the Latest Practicable Date, the exact delivery date of equipment has not been confirmed by Changxing. The Directors are of the view that the delivery arrangement of equipment under the Changxing Purchase Orders is generally in line with the market practice in the industry.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF PURCHASES OF EQUIPMENT

The Group is principally engaged in design, manufacturing and sales of its own branded power discrete semiconductors namely Schottky and MOSFET.

As mentioned in the Prospectus, the Group currently outsources the wafer fabrication process for the production of all of its power discrete semiconductors to external wafer foundries. The Board believes that the increasing demand for high-speed wireless communications in various sectors will continue to raise the demand for 5G devices. Also, the Board is of the view that automotive manufacturers demand more 5G and AI computing devices for the development of more advanced and self-driving vehicles, therefore, 5G and AI computing devices will become the important electronic applications driving growth in semiconductors market in the coming years. As disclosed in the annual report of the Company for the year ended 31 December 2020, due to the strong growth of 5G and AI computing devices, the demand for wafer will continue to outstrip supplies. The Board expects that the global shortage of semiconductors caused by the COVID-19 was likely to be prolonged for years because of the (i) limited production capacity for power discrete semiconductors; and (ii) surge in demand of electronic products driven by the pandemic. As such, the major challenge for the Group is to ensure sufficient supply of wafer. The in-house fabrication capability can alleviate the Company's reliance on external wafer supply which has fallen short of demand globally since the outset of the pandemic. Therefore, as mentioned in the Prospectus, the Company intended to construct a wafer fabrication manufacturing facility at its factory in Shunde, the PRC. The wafer fabrication manufacturing facility will primarily carry out the fabrication process for the Group's MOSFET which is expected to commence operation in 2023.

The wafer fabrication equipment acquired under the Main-you Purchase Orders and Changxing Purchase Orders will be deployed at the Group's wafer fabrication manufacturing facility at its factory in Shunde, the PRC.

In view of the above, the Board is of the view that the terms of each of the Main-you Purchase Orders and Changxing Purchase Orders are on normal commercial terms and are fair and reasonable. The Board also considers that the Main-you Purchase Orders and Changxing Purchase Orders are in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES

Main-you is a privately owned company established in Taiwan. Its principal business is selling and refurbishment of used semiconductor equipment in Taiwan. Main-you sold used wafer fabrication equipment to the Group in its ordinary and usual course of business pursuant to the Main-you Purchase Orders. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Main-you and its ultimate beneficial owner(s) are Independent Third Parties to the Company and its connected persons.

Changxing is a privately owned company established in Taiwan. Its principal business is selling and refurbishment of used semiconductor equipment in Taiwan. Changxing sold used wafer fabrication equipment to the Group in its ordinary and usual course of business pursuant to the Changxing Purchase Orders. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Changxing and its ultimate beneficial owner(s) are Independent Third Parties to the Company and its connected persons.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATIONS

As the Group entered into the Main-you Purchase Orders with Main-you within a 12-month period, the transactions contemplated under the Main-you Purchase Orders are considered and aggregated as a series of transactions under Chapter 19 of the GEM Listing Rules. As one or more of the applicable percentage ratio(s) (as defined under the GEM Listing Rules) in respect of the transactions contemplated under the Main-you Purchase Orders in aggregate exceed(s) 25% but is/are less than 100%, the transactions contemplated under the Main-you Purchase Orders in aggregate constituted a major transaction of the Company and is thus subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

As the Group entered into the Changxing Purchase Orders with Changxing within a 12-month period, the transactions contemplated under the Changxing Purchase Orders are considered and aggregated as a series of transactions under Chapter 19 of the GEM Listing Rules. As one or more of the applicable percentage ratio(s) (as defined under the GEM Listing Rules) in respect of the transactions contemplated under the Changxing Purchase Orders in aggregate exceed(s) 25% but is/are less than 100%, the transactions contemplated under the Changxing Purchase Orders in aggregate constituted a major transaction of the Company and is thus subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

COMPLIANCE WITH THE GEM LISTING RULES AND REMEDIAL MEASURES

As mentioned in the Announcement, the Company acknowledged that the reporting, announcement, circular and shareholders' approval requirements under the GEM Listing Rules in respect of the Main-you Purchase Orders and Changxing Purchase Orders had been delayed due to the misinterpretation of Chapter 17 and Chapter 19 of the GEM Listing Rules by the management of the Company. Particularly, the revenue exemption under Rule 19.04(1)(g) of the GEM Listing Rules was misinterpreted in such a way that it would be applicable with respect to the Group's purchases of equipment in its ordinary and usual course of business. The Company would like to stress that the late disclosure was inadvertent and the Company had no intention to withhold any information from disclosure.

In order to prevent the recurrence of similar incidents and ensure timely compliance with the relevant requirements of the GEM Listing Rules in the future, the Company has taken the following remedial measures:

- (i) the Company is engaging an external legal adviser to provide training to the executive Directors and relevant staff responsible for purchase of equipment in relation to the requirement of the GEM Listing Rules, especially the requirements under Chapter 17 and 19 of the GEM Listing Rules. The training is expected to be held in November 2021;
- (ii) the Company has circulated the compliance guidance and materials in relation to the requirement of the GEM Listing Rules to the executive Directors and relevant staff responsible for purchase of equipment;

LETTER FROM THE BOARD

- (iii) the Company has updated its internal policies with specific guidelines regarding (a) purchase of equipment; (b) monitoring the aggregated transaction amounts within a 12-month period for any transactions to be conducted with same supplier; and (c) monitoring the Group's aggregated amount of advance to other parties, to ensure that better coordination and reporting arrangements of purchase of equipment will be carried out among various departments of the Company responsible for reporting, monitoring and handling such transaction;
- (iv) the Company will, as and when appropriate and necessary, appoint financial advisers and/or legal advisers to advise on compliance matters under the GEM Listing Rules, especially the requirements under Chapter 17 and 19 of the GEM Listing Rules, if necessary; and
- (v) the Company will consult the Stock Exchange at an early stage before entering into any proposed transactions if the Company was in doubt as to what disclosure requirements should be applied to the proposed transactions.

Going forward, the Company will make such disclosure in a timely manner to ensure compliance with the GEM Listing Rules.

RECOMMENDATION

The Board considers that the terms of each of the Main-you Purchase Orders and Changxing Purchase Orders are fair and reasonable and the Main-you Purchase Orders and Changxing Purchase Orders are in the interest of the Company and the Shareholders as a whole. Although a general meeting will not be convened by the Company to approve the Main-you Purchase Orders and Changxing Purchase Order, if such a general meeting was to be convened by the Company, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Main-you Purchase Orders and Changxing Purchase Order and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board of
PFC Device Inc.
Yung Kwok Kee, Billy
Chairman

1. FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for the three years ended 31 December 2018, 2019 and 2020 and unaudited financial information of the Group for the six months ended 30 June 2021 are disclosed in the annual reports of the Company for the three years ended 31 December 2018, 2019 and 2020 and the interim report of the Group for the six months ended 30 June 2021. The aforesaid annual reports and interim report of the Company are available on both the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://www.pfc-device.com>).

Set out below are links to the relevant annual reports and interim report of the Company:

- (a) Annual report of the Company for the year ended 31 December 2018 (pages 62 to 155):

<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0328/gln20190328125.pdf>

- (b) Annual report of the Company for the year ended 31 December 2019 (pages 40 to 95):

<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0327/2020032700794.pdf>

- (c) Annual report of the Company for the year ended 31 December 2020 (pages 49 to 99):

<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0329/2021032900452.pdf>

- (d) Interim report of the Company for the six months ended 30 June 2021 (pages 3 to 19):

<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0812/2021081200802.pdf>

2. INDEBTEDNESS STATEMENT

As at 31 August 2021, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, details of the Group's outstanding indebtedness were set out as follows:

	As at 31 August 2021
	<i>US\$'000</i>
	(unaudited)
Current liabilities	
Amounts due to fellow subsidiaries	116
Lease liabilities	82
	<hr/>
	198
	<hr/> <hr/>

The outstanding indebtedness as at 31 August 2021 were primarily denominated in Taiwan dollar and Renminbi.

Amounts due to fellow subsidiaries

The amounts due to fellow subsidiaries are unsecured and unguaranteed, interest-free and repayable on demand.

Lease liabilities

Lease liabilities are secured by rental deposits and unguaranteed. These lease liabilities related to certain production workshop, warehouse, office premises and staff dormitory leased by the Group as a lessee.

Contingent liabilities

As at 31 August 2021, the Group did not have any significant contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Group did not have any other loan capital, bank overdrafts, loans, debt securities and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding as at 31 August 2021.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 August 2021 up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that, after taking into account the existing cash and bank balances, and the available shareholder's loan facility, the Group has sufficient working capital for its present requirements and for at least 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL EFFECTS OF ENTERING INTO THE MAIN-YOU PURCHASE ORDERS AND CHANGXING PURCHASE ORDERS ON THE GROUP

The aggregate consideration under the Main-you Purchase Orders and Changxing Purchase Orders were approximately US\$9.4 million (equivalent to approximately HK\$73.5 million) and US\$3.1 million (equivalent to approximately HK\$23.8 million), respectively. The purchases under the Main-you Purchase Orders and Changxing Purchase Orders will be financed by internal cash resources of the Group and net proceeds raised from the Rights Issue.

Upon completion of the Main-you Purchase Orders and Changxing Purchase Orders, such purchases of equipment will result in an increase in the non-current assets of the Group of approximately HK\$97.3 million and a decrease in cash and cash equivalents of the Group of approximately HK\$97.3 million. No change in the total liabilities of the Group will be noted as the Main-you Purchase Orders and Changxing Purchase Orders will be fully financed by internal cash resources of the Group and net proceeds raised from the Rights Issue.

Given that the wafer fabrication facility is under construction, it is expected that the purchases of equipment under the Main-you Purchase Orders and Changxing Purchase Orders will not have any immediate material impact on the earnings of the Group.

6. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaged in design, manufacturing and sales of its own branded power discrete semiconductors namely Schottky and MOSFET.

As disclosed in the annual report of the Company for the year ended 31 December 2020, revenue from the Group's operations for the year ended 31 December 2020 amounted to approximately US\$21.1 million, representing an increase of approximately US\$3.1 million or 17.2% as compared to approximately US\$18 million for 2019. Profit attributable to the owners of the Company for the year ended 31 December 2020 was approximately US\$0.6 million as compared to a loss attributable to owners of the Company of approximately US\$1.4 million in 2019. The turnaround from loss to profit was mainly attributable to the increase in gross profit of the Company of approximately US\$2.3 million for the year ended 31 December 2020 as compared to which for 2019.

As disclosed in the annual report of the Company for the year ended 31 December 2020, as at 31 December 2020, the total assets and total liabilities of the Group amounted to approximately US\$27.0 million and US\$3.8 million, respectively.

As disclosed in the interim report of the Company for the six months ended 30 June 2021, revenue from the Group's operations for the six months ended 30 June 2021 amounted to approximately US\$11.7 million, representing an increase of US\$2.3 million or around 24.8% as compared to approximately US\$9.4 million for the corresponding period in 2020. Such increase was primarily attributable to the increase in sales volume of power discrete semiconductors as the market demand continued to increase.

The Group's gross profit for the six months ended 30 June 2021 amounted to approximately US\$2.6 million, representing an increase of US\$0.2 million as compared to approximately US\$2.4 million for the corresponding period in 2020. The gross profit margin for the six months ended 30 June 2021 was approximately 21.8%, representing a decrease of 3.4 percentage points compared to approximately 25.2% for the corresponding period in 2020. It was mainly attributable to the increase in wafer fabrication and other raw materials costs. In addition, the appreciation of Renminbi against US\$ over the period resulted in an increase in the Group's PRC production costs in US dollar terms. These impacts were partly offset by the increased in average selling price along with higher utilization rate of the Group's factory during the period. Looking ahead, the Group will continue to adjust the average selling price to improve margin and continue to reduce costs through automation.

For the remaining of 2021, the Group expects to see strong demand across all sectors including PC, TV, mobile, automotive, etc. The Directors consider the business environment to remain challenging. In addressing the adverse impact resulted from any uncertainties, the Group will endeavor to identify areas for cost savings and devote resources to enhance productivity and operating efficiencies.

1. RESPONSIBILITY STATEMENT

This circular, 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 circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company or their associates in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long Position in the Shares and underlying Shares

Name of the Directors	Nature of interest	Number of Shares held/ interested in	Number of underlying Shares held/ interested in	Total interest	Approximate percentage of issued share capital
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	Interest in a controlled corporation (<i>Note 1</i>)	85,105,625	–	85,105,625	70.13%
Mr. Hong James Man-fai ("Mr. Hong")	Beneficial interest	453,582	280,692 (<i>Note 2</i>)	734,274	0.61%
Mr. Chow Kai Chiu, David ("Mr. Chow")	Beneficial interest	135,191	–	135,191	0.11%
Mr. Tang Che Yin ("Mr. Tang")	Beneficial interest	–	145,320 (<i>Note 3</i>)	145,320	0.12%

Notes:

1. Mr. Yung is interested in 100% of the issued share capital of Red Dynasty Investments Limited. Red Dynasty Investments Limited holds 80.5% interest in Shell Electric. Lotus Atlantic Limited is wholly and beneficially owned by Sybond Venture Limited, and Sybond Venture Limited is wholly and beneficially owned by Shell Electric. Mr. Yung is therefore deemed to be interested in 85,105,625 Shares held by Lotus Atlantic Limited which is an indirect wholly-owned subsidiary of Shell Electric for the purpose of the SFO.
2. These underlying Shares represent 280,692 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Hong on 22 March 2017 pursuant to the share option scheme under which the said options can be exercised by Mr. Hong from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK\$3.179 per Share.
3. These underlying Shares represent 145,320 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Tang on 22 March 2017 pursuant to the share option scheme under which the said options can be exercised by Mr. Tang from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK\$3.179 per Share.

Save as disclosed above, so far as the Directors were aware, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, so far as the Directors were aware, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests and short positions of substantial Shareholders

As at the Latest Practicable Date, so far as the Directors were aware, the following persons (other than the Directors and the chief executive of the Company) had, or were deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company or had any options in respect of such Shares:

Long position in Shares

Name of Shareholder	Nature of interest	Number of Shares held/ interested in	Approximate percentage of issued share capital
Lotus Atlantic Limited	Beneficial owner	85,105,625 (Note 1)	70.13%
Sybond Venture Limited	Interest in a controlled corporation	85,105,625 (Note 1)	70.13%
Shell Electric	Interest in a controlled corporation	85,105,625 (Note 1)	70.13%
Red Dynasty Investments Limited	Interest in a controlled corporation	85,105,625 (Note 1)	70.13%
Mr. Yung	Interest in a controlled corporation	85,105,625 (Note 1)	70.13%
Ms. Vivian Hsu	Interest of spouse	85,105,625 (Note 2)	70.13%

Notes:

1. Lotus Atlantic Limited is an indirectly wholly-owned subsidiary of Shell Electric, which is owned as to approximately 80.5% by Red Dynasty Investments Limited. Mr. Yung, the chairman and the non-executive Director of the Company, is interested in 100% of the issued share capital of Red Dynasty Investments Limited.
2. These Shares represent the interest held by Lotus Atlantic Limited which is a controlled corporation of Mr. Yung. Ms. Vivian Hsu (“**Mrs. Yung**”) is the spouse of Mr. Yung. Under the SFO, Mr. Yung is deemed to be interested in all of the Shares owned by Lotus Atlantic Limited and Mrs. Yung is deemed to be interested in all the Shares in which Mr. Yung is interested.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company or had any options in respect of such Shares.

3. COMPETING INTERESTS

On 30 August 2018, SMC Multi-Media Products Company Limited (“**MM Products**”), a wholly-owned subsidiary of Shell Electric and controlled by Mr. Yung, notified the Company (the “**Notice**”) that MM Products was approached by a potential customer which expressed interest in placing order with MM Products for the production of a semi-conductor product, MOSFET, for automobile industrial use. The production of MOSFET was considered to constitute competition with the business of the Group and accordingly was regarded as a competing business opportunity and the Group shall be provided with information for its independent non-executive Directors’ consideration to come to an informed assessment of such competing business opportunity. The Notice further suggested that MM Products and the Company to form a joint venture to capture the competing business opportunity as MM Products owned certain idle machinery that could contribute towards producing such products while the Group has other necessary machinery, manpower and other resources to contribute in the production. Having taken into account the information provided by Mr. Yung in relation to the competing business opportunity and considering that (i) the customer has requested the controlling shareholder of the joint venture to be a company owned by Mr. Yung, (ii) the Company does not need to buy certain additional machineries for the production of the required MOSFET parts since MM Products already has such machinery, and (iii) the relevant machinery of the Group and that of MM Products are located in the same production plant in Shunde, China. All the independent non-executive Directors approved the setting up of the joint venture to capture the competing business opportunity. A shareholders agreement was approved to be entered into between PFC Device Holdings Limited (a wholly-owned subsidiary of the Company) and MM Products for the setting up of a joint venture under the name of SMC Micro-Tech (BVI) Limited, with registered capital of HK\$1.0 million to be contributed and owned as to 49.0% and 51.0% by the Group and MM Products, respectively. The joint venture is engaged in the manufacturing, researching, developing and marketing of industrial use semi-conductor products under its own brand.

For further details, please refer to the paragraph headed “Compliance of Non-Competition Undertaking” on pages 54-55 of the Company’s annual report for the year ended 31 December 2018.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, none of the Directors, the substantial shareholders of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflict of interest which any such person has or may have with the Group which would be required to be disclosed pursuant to the GEM Listing Rules.

4. INTERESTS OF DIRECTORS IN ASSETS AND CONTRACTS

On 5 November 2020, the Group entered into five tenancy agreements with companies indirectly owned by Mr. Yung in relation to the lease of production workshop, factory, office and staff dormitory currently operated by the Group for its business for a term of one year from 1 January 2021 to 31 December 2021. The aggregate annual cap in respect of consideration to be paid by the Group to the companies indirectly owned by Mr. Yung under the five tenancy agreements for the year ending 31 December 2021 is approximately HK\$2.2 million.

On 5 November 2020, the Group entered into a subcontracting agreement with a company indirectly owned by Mr. Yung in relation to the provision of wafer backside process services to the Group for a term of one year from 1 January 2021 to 31 December 2021. The annual cap in respect of consideration to be paid by the Group to the company indirectly owned by Mr. Yung under the subcontracting agreement for the year ending 31 December 2021 is approximately HK\$7.2 million.

On 7 January 2019, the Group entered into a supply agreement with a company indirectly owned by Mr. Yung in relation to the sale of power discrete semiconductors or other products by the Group for a term of three years from 1 January 2019 to 31 December 2021. The annual cap in respect of consideration to be received by the Group from the company indirectly owned by Mr. Yung under the supply agreement for the year ending 31 December 2021 is approximately HK\$234,000.

On 31 December 2018, the Group entered into a catering service agreement with a company indirectly owned by Mr. Yung in relation to the provision of catering services to the Group's staff for a term of three years from 1 January 2019 to 31 December 2021. The annual cap in respect of consideration to be paid by the Group to the company indirectly owned by Mr. Yung under the catering service agreement for the year ending 31 December 2021 is approximately HK\$36,000.

On 31 December 2019, the Group entered into a dormitory rental agreement with a company indirectly owned by Mr. Yung in relation to the lease of staff dormitory for the Group's staff for a term of three years from 1 January 2020 to 31 December 2022. The annual cap in respect of consideration to be paid by the Group to the company indirectly owned by Mr. Yung under the dormitory rental agreement for the year ending 31 December 2021 is approximately HK\$206,000.

For further details of related party transactions entered into with the companies indirectly owned by Mr. Yung, please refer to the Company's announcements dated 5 November 2020 and 17 November 2020.

Save as disclosed above, as at the Latest Practicable Date:

- (a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting and is significant in relation to the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which was not determinable within one year without payment of compensation, other than statutory compensation.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

There were no material contracts (being contracts not entered into in the ordinary course of business of the Group) which had been entered into by any member of the Group within two years immediately preceding the Latest Practicable Date, and are or may be material.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://www.pfc-device.com>) for a period of 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2018, 2019 and 2020;
- (c) the interim report of the Company for the six months ended 30 June 2021; and
- (d) this circular.

9. GENERAL

- (a) The registered office of the Company is at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (b) The Company's head office and principal place of business in Hong Kong is at 1/F, Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The secretary of the Company is Ms. Lee Ka Man, who is an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (e) The compliance officer of the Company is Mr. Chow Kai Chiu, David who is also an executive Director.

- (f) The business address of the Directors is the same as the Company's head office and principal place of business in Hong Kong at 1/F, Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.
- (g) In case of inconsistency, the English text of this circular shall prevail over their respective Chinese text.
- (h) The Company's audit committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Leung Man Chiu, Lawrence, Mr. Fan Yan Hok, Philip and Mr. Yung. The audit committee is primarily responsible to (i) make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor; (ii) review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process; (iii) monitor integrity of the Company's financial statements and financial reports and review significant financial reporting judgements contained in them; (iv) maintain the effectiveness of risk management and internal control systems; (v) review the financial and accounting policies and practices of the Group; (vi) review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response; (vii) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and (viii) report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board.

Mr. Leung Man Chiu, Lawrence, aged 73, was appointed as an independent non-executive Director on 19 September 2016. He is also the chairman of the Audit Committee of the Company. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has been in public practice for over 47 years and is now practicing as a partner in Tang and Fok, certified public accountants. Mr. Leung is currently an independent non-executive director of Safety Godown Company Limited (stock code: 237), Pak Fah Yeow International Limited (stock code: 239) and SMC Electric Limited (stock code: 2381), shares of which are listed on the Main Board of the Stock Exchange. Mr. Leung ceased to be a non-executive director of World Super Holdings Limited with effect from 21 July 2020, shares of which are listed on the GEM of the Stock Exchange (stock code: 8612).

Mr. Fan Yan Hok, Philip, aged 72, was appointed as an independent non-executive Director on 19 September 2016. He is also the chairman of the Remuneration Committee and a member of both the Audit Committee and the Nomination Committee of the Company. Mr. Fan is also an independent non-executive director of the following Hong Kong listed public companies, namely China Everbright Environment Group Limited (formerly known as China Everbright International Limited), Hysan Development Company Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited.

Mr. Yung Kwok Kee, Billy, aged 67, was appointed as a Director on 2 March 2016 and was re-designated as a non-executive Director and Chairman of the Board on 19 September 2016. Mr. Yung is primarily responsible for the strategic direction and overall management of the strategic planning of the Group. Mr. Yung is the Chairman of the Nomination Committee and a member of both the Audit Committee and the Remuneration Committee of the Company. He is a substantial shareholder of the Company. Mr. Yung is also a director of a number of the subsidiaries of the Group.

Mr. Yung obtained a bachelor degree in Electrical Engineering from University of Washington, USA and a master degree in Industrial Engineering from Stanford University, USA. Mr. Yung has over 40 years of experience in managing manufacturing, transportation, property investment and development, semiconductor and computer hardware and software businesses in China, Hong Kong and USA.

Prior to founding the Group, Mr. Yung had been the executive director of Shell Electric Mfg. (Holdings) Co. Ltd., now known as China Overseas Grand Oceans Group Ltd. from 1973 to 2010, shares of which are listed on the Main Board of the Stock Exchange (stock code: 0081). Since 27 February 2010, Mr. Yung has become a non-executive director and vice chairman of the board of that company. Mr. Yung has been the chairman and the chief executive of Shell Electric since 2009. Mr. Yung is currently a non-executive director and chairman of the board of directors of SMC Electric Limited, shares of which are listed on the Main Board of the Stock Exchange (stock code: 2381). Mr. Yung is currently the Permanent Honorary President of Friends of Hong Kong Association Ltd., the Honorary President of Shun Tak Fraternal Association, a member of Senior Police Call Central Advisory Board and was awarded the Honorary Citizen of the City of Guangzhou and the Honorary Citizen of the City of Foshan.