
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares in HG Semiconductor Limited (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, stockbroker, registered dealer in securities or other agents through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



HG SEMICONDUCTOR LIMITED

宏光半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6908)

(I) ISSUE OF NEW SHARES AND UNLISTED WARRANTS UNDER SPECIFIC MANDATES; AND (II) NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an extraordinary general meeting of the Company (the “EGM”) to be held at 11:00 a.m. on Tuesday, 13 December 2022 at The North Side, 2nd Floor, No. 8 Pinggong Er Road, Nanping Technology Industrial Park, Zhuhai, People’s Republic of China is set out on pages 47 to 50 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.hg-semiconductor.com.

Whether or not you are able to attend the EGM, you are advised to read this circular and to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please refer to the notice of the EGM for measures being taken to prevent and control the spread of the Novel Coronavirus (“COVID-19”) at the EGM of the Company, including:

- compulsory body temperature checks and health declarations
- wearing of facial surgical mask for each attendee
- no provision of corporate gift or refreshment

Due to the constant COVID-19 pandemic situation, the Company may be required to change the EGM arrangements at short notice. Shareholders are advised to check the website of the Stock Exchange and the Company’s website for future announcements and updates on the EGM arrangements.

The Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person. Physical attendance is not necessary for the purpose of exercising Shareholders’ rights. Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish.

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DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 29 September 2022 in relation to, among other things, the Shares Subscription and the Warrants Subscription
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday or public holiday) on which no tropical cyclone warning No. 8 or above is hoisted, no “black rainstorm warning signal” is issued and no “extreme conditions” is announced in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. and on which licensed banks in Hong Kong are open for general banking business
“Company”	HG Semiconductor Limited (formerly known as HongGuang Lighting Holdings Company Limited), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“DD Investigations”	the due diligence investigations on legal, financial, commercial, corporate structure, regulatory compliance and such other respects of the Company as the Subscriber deems fit and appropriate
“Director(s)”	director(s) of the Company
“Effective Consideration per new Share”	initially receivable for such securities shall be the Total Effective Consideration divided by the maximum number of new Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial Warrants Exercise Price, in each case without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, among other things, and if thought fit, approving the Share Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder and the grant of the Shares Specific Mandate and the Warrants Specific Mandate to the Directors
”Fund Raising”	the Shares Subscription and the Warrants Subscription
“GaN”	Gallium Nitride
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Investment Agreement”	the conditional investment agreement entered into between the Company and the Investor dated 4 August 2022 in relation to (i) issue of new Shares under specific mandate; and (ii) issue of unlisted warrants under specific mandate
“Investor”	Mr. Zhu Gongshan
“Latest Practicable Date”	25 November 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertain certain information contained in this circular
“Listing Committee”	the listing committee appointed by the Stock Exchange for considering applications for listing and approving the listing of and dealing with securities on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	5:00 pm on 30 November 2022
“Party(ies)”	the Company and the Subscriber (each a “Party” and collectively, the “Parties”)
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“SFC”	the Securities and Futures Commission of Hong Kong

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shares Completion Date”	any Business Day within a period of ten (10) Business Days after the fulfilment and/or satisfaction (or waiver, as appropriate) of the conditions precedent of the Share Subscription Agreement
“Shares Specific Mandate”	the specific mandate granted by the Shareholders at the EGM for the Directors to allot, issue and deal with the Subscription Shares
“Shares Subscription”	the subscription and issue of the Subscription Shares pursuant to the Share Subscription Agreement under the Shares Specific Mandate
“Share Subscription Agreement”	the subscription agreement entered into between the Company and the Subscriber dated 29 September 2022 in relation to, among other things, the Shares Subscription
“Shares Subscription Price”	HK\$3.00 per Subscription Share
“Special Resolution”	a resolution passed at a meeting of the Warrantholder(s) duly convened and held and carried by a majority consisting of not less than three-fourths of the votes cast upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than three-fourths of the votes cast on a poll
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Cooperation Agreement”	the strategic cooperation framework agreement dated 7 September 2022 entered into between the Company and Golden Concord Group Limited (協鑫集團有限公司), details of which are set out in the announcement of the Company dated 7 September 2022
“Subscriber”	Profit Act Limited, a company incorporated in Hong Kong with limited liability

DEFINITIONS

“Subscription Share(s)”	the 60,000,000 new Shares to be allotted and issued by the Company to the Subscriber pursuant to the Share Subscription Agreement under the Shares Specific Mandate
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC
“Total Effective Consideration”	receivable for the relevant securities shall be deemed to be the aggregate consideration receivable by the issuer of such securities for the issue thereof plus the additional minimum consideration (if any) to be received by such issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto
“Warrantholder(s)”	in relation to any Warrant, Profit Act Limited or such other person(s) or party(ies) who is or are for the time being registered in the register of warrant holders pursuant to the instrument of the Warrants as the holder or joint holders of the Warrants or any number thereof
“Warrant(s)”	the 60,000,000 unlisted warrants to be issued by the Company pursuant to the Warrant Subscription Agreement, each entitles the Warrantholder to exercise the subscription rights on the terms set out in the instrument of the warrants
“Warrants Completion Date”	any Business Day within a period of ten (10) Business Days after the fulfilment and/or satisfaction (or waiver, as appropriate) of the conditions precedent of the Warrant Subscription Agreement
“Warrants Exercise Price”	HK\$3.68 per Warrant Share
“Warrant Share(s)”	up to initially 60,000,000 new Shares (subject to adjustment) to be allotted and issued by the Company upon the Warrantholders’ exercising the subscription rights attached to the Warrants under the instrument of the Warrants and the Warrant Subscription Agreement
“Warrants Specific Mandate”	the specific mandate granted by the Shareholders at the EGM for the Directors to allot, issue and deal with the Warrant Shares

DEFINITIONS

“Warrants Subscription”	the subscription and issue of the Warrants pursuant to the Warrant Subscription Agreement
“Warrant Subscription Agreement”	the subscription agreement entered into between the Company and the Subscriber dated 29 September 2022 in relation to, among other things, the Warrants Subscription
“Warrants Subscription Period”	a period of 18 months commencing on 6 months after the date of issue of the Warrants
“%”	per cent.

* *For identification purposes only*

LETTER FROM THE BOARD



HG SEMICONDUCTOR LIMITED

宏光半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6908)

Executive Directors:

Mr. Zhao Yi Wen

(Chairman and Chief Executive Officer)

Mr. Lyu Xiangrong

Mr. Leung Kin Pang

Ms. Liu Yang

Registered office in the Cayman Islands:

Windward 3

Regatta Office Park

P.O. Box 1350

Grand Cayman KY1-1108

Cayman Islands

Non-executive Directors:

Dr. Wang David Nin-kou

Mr. Wang Jie Chuan

*Headquarter and principal place of
business in People's Republic of China:*

The North Side

2nd Floor

No. 8 Pinggong Er Road

Nanping Technology Industrial Park

Zhuhai

People's Republic of China

Independent non-executive Directors:

Professor Chow Wai Shing, Tommy

Mr. Wu Wing Kuen, *B.B.S.*

Mr. Chan Chung Kik, Lewis

Mr. Li Yang

28 November 2022

To the Shareholders,

Dear Sirs or Madams,

**(I) ISSUE OF NEW SHARES AND UNLISTED WARRANTS
UNDER SPECIFIC MANDATES;
AND
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 5 August 2022. The Company and the Investor entered into the Investment Agreement on 4 August 2022 in relation to the (i) possible issue of new Shares under specific mandate; and (ii) possible issue of unlisted warrants under specific mandate, pursuant to which the Company has agreed to allot and issue, and the Investor has agreed to subscribe for, 60,000,000 Subscription Shares and 60,000,000 Warrants. The Company and the Investor have agreed that the Investor will conduct the DD Investigations within

LETTER FROM THE BOARD

45 days commencing on the date of the Investment Agreement. If the results of the DD Investigations is to the satisfaction of the Investor, the Investor (through his designated beneficially owned entity, the Subscriber) will participate in the Shares Subscription and the Warrants Subscription.

References are also made to the announcement of the Company dated 26 September 2022 and the Announcement. The Board announced that the DD Investigations has been completed in accordance with the Investment Agreement and the Subscriber is reasonably satisfied with the results thereof, accordingly, on 29 September 2022 (after trading hours):

- (i) the Company entered into the Share Subscription Agreement with the Subscriber, pursuant to which the Company has agreed to allot and issue, and the Subscriber has agreed to subscribe for, the Subscription Shares at the Shares Subscription Price of HK\$3.00 per Subscription Share; and
- (ii) the Company also entered into the Warrant Subscription Agreement with the Subscriber, pursuant to which the Company agreed to issue to the Subscriber the Warrants conferring the rights to subscribe for up to initially 60,000,000 Warrant Shares at the Warrants Exercise Price of HK\$3.68 per Warrant Share.

The purpose of this circular is to provide you with, among other things, (i) further details of the Share Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder (including but not limited to, (a) the allotment and issue of the Subscription Shares; (b) the allotment and issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants; and (c) the Shares Specific Mandate and the Warrants Specific Mandate); and (ii) a notice convening the EGM.

(I) ISSUE OF NEW SHARES UNDER SHARES SPECIFIC MANDATE

The Company has entered into the Share Subscription Agreement with the Subscriber in relation to the Shares Subscription. The principal terms of the Share Subscription Agreement are as follows:

THE SHARE SUBSCRIPTION AGREEMENT

Date

29 September 2022 (after trading hours)

Issuer: the Company

Subscriber: the Subscriber

LETTER FROM THE BOARD

Number of Subscription Shares

As at the Latest Practicable Date, the Company has 581,601,000 Shares in issue. The 60,000,000 Subscription Shares represent:

- (i) approximately 10.32% of the existing issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 10.47% of the issued share capital of the Company as at the date of the Announcement;
- (iii) approximately 9.35% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there will be no change in the share capital of the Company from the Latest Practicable Date to the Shares Completion Date, save for the allotment and issue of the Subscription Shares); and
- (iv) approximately 8.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Warrant Shares (assuming there will be no change in the share capital of the Company from the Latest Practicable Date to the Shares Completion Date and the Warrants Completion Date, save for the allotment and issue of the Subscription Shares and the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants).

The aggregate nominal value of the Subscription Shares is HK\$600,000.

Consideration of the Shares Subscription

The consideration of the Shares Subscription of HK\$180,000,000 shall be settled on the Shares Completion Date by the Subscriber in cash by cashier's order or banker's draft to the Company.

Shares Subscription Price

The Shares Subscription Price of HK\$3.00 per Subscription Share was fixed on 4 August 2022, being the date of entering into of the Investment Agreement. The Shares Subscription Price represents:

- (i) a discount of approximately 16.43% to the closing price of HK\$3.59 per Share as quoted on the Stock Exchange on the last trading day prior to the date of the Investment Agreement;
- (ii) a discount of approximately 22.28% to the closing price of HK\$3.86 per Share as quoted on the Stock Exchange on the date of the Share Subscription Agreement;

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- (iii) a discount of approximately 16.20% to the average closing price of HK\$3.58 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Investment Agreement;
- (iv) a discount of approximately 23.47% to the average closing price of HK\$3.92 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Share Subscription Agreement;
- (v) a premium of approximately 177.78% to the unaudited consolidated net asset value of the Company per Share of approximately HK\$1.08 (based on the latest published unaudited consolidated net assets attributable to Shareholders of approximately RMB576,299,000 as set out in the interim report of the Company for the six months ended 30 June 2022 (equivalent to approximately HK\$629,318,508 based on the exchange rate of RMB1 to HK\$1.0920) and 581,601,000 Shares in issue as at the Latest Practicable Date); and
- (vi) a discount of approximately 8.26% to the closing price of HK\$3.27 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Shares Subscription Price was determined with reference to the prevailing market price of the Shares before entering into the Investment Agreement, the financial performance of the Company and was negotiated on an arm's length basis between the Parties.

In determining the Shares Subscription Price, the Company has also made reference to the comparison of the Shares Subscription Price to other fundraising activities involving the issue of new shares under specific mandate conducted by other listed companies (the “Listcos”) on the Stock Exchange for 3 months immediately prior to and including the date of the Investment Agreement (the “Review Period”). The Review Period is set on the basis to reflect the latest market practice, prevailing market condition and market sentiment to the Shares. A total of 10 fundraising activities conducted by the Listcos during the Review Period (the “Comparables”) have been analysed based on the key selection criteria of (i) publication of initial announcement of the respective fundraising activity is within the Review Period; (ii) the fundraising activity involves issuing new shares for the purpose of raising additional funds; and (iii) the fund raising activity is subject to the Shareholders' approval. However, one of the Comparables is deemed an outlier and is thus excluded from the calculation as the premiums of the subscription over the closing price on and the average closing price for the last five consecutive days immediately prior to the respective agreement are exceptionally high.

From the analysis, the discount of the subscription price to the closing price of the Comparables on the date of the respective agreements ranged from a premium of 26.61% to a discount of 20% and the discount of the subscription price to the average closing price for the last five consecutive trading days immediately prior to the date of the respective agreements ranged from a premium of 26.61% to a discount of 43.75%. As such, the discount of the Shares Subscription Price of 16.43% to the closing price on the last trading day prior to the date of the Investment Agreement and the discount of the Shares Subscription Price of approximately 16.20% to the average closing price for the last five consecutive trading days immediately prior to the date

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of the Investment Agreement are within the ranges of the abovementioned Comparables. In light of the net loss of RMB446,826,000 of the Company for the year ended 31 December 2021 and the Shares Subscription Price was determined after arm's length negotiation between the Company and the Subscriber, the Directors consider that the discount of the Shares Subscription Price is in line with the then market practice and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of the pessimistic market sentiments under the rising interest rate expectation, the global political and economic uncertainties and the financial performance of the Group, the Directors were of the view that the proceeds of HK\$180 million which can be ascertained from the Shares Subscription under the prevailing market conditions is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Conditions precedent of the Shares Subscription

Completion of the Shares Subscription shall be subject to the satisfaction and/or fulfilment of such conditions precedent as set out in the Share Subscription Agreement:

- (a) the Shares Specific Mandate and the Warrants Specific Mandate having been granted;
- (b) the Stock Exchange having approved the listing of and dealings with the Subscription Shares, and such approval not having been withdrawn, revoked or cancelled;
- (c) the Company having obtained the necessary consent, approval, authorisation, permission, or confirmation for the consummation of the transactions contemplated under the Share Subscription Agreement from any third party to which the Company or its subsidiaries have entered into any agreement or arrangement;
- (d) the Warrant Subscription Agreement having become unconditional;
- (e) trading of the Shares on the Stock Exchange not having been suspended for a continuous period of more than thirty (30) dealing days (save in respect of any suspension in trading of the Shares for the purposes of clearing the relevant announcement(s) or otherwise in relation to any transaction contemplated in the Share Subscription Agreement and/or the Warrant Subscription Agreement);
- (f) listing status of the Shares not having been revoked, cancelled, withdrawn or suspended, or further or in the alternative, threatened with any revocation, cancellation, withdrawal or suspension; and
- (g) all the representations and warranties of the Company pursuant to the Share Subscription Agreement remaining true, correct, valid, binding and effective up to and as of the Shares Completion Date.

LETTER FROM THE BOARD

Save and except that such conditions precedent as set out in condition precedent (g) above which may be waived by the Subscriber unilaterally at any time prior to the Long Stop Date by notice in writing to the Company, no other conditions precedent can be waived by any Party, and the Parties shall use their respective best endeavours to ensure that the conditions precedent (save and except such conditions precedent waived or to be waived pursuant to this paragraph) shall be fulfilled and satisfied as soon as possible after the execution of the Share Subscription Agreement, and in any event, no later than the Long Stop Date.

Save as otherwise stated, if any condition precedent set out in conditions precedent (a) to (g) above (save and except such conditions precedent waived or to be waived pursuant to the above paragraph) shall not have been fulfilled by the Long Stop Date, the Share Subscription Agreement shall, unless the Parties agree in writing to postpone the Long Stop Date to another date (being a Business Day), automatically terminate and cease to be of any effect except for certain clauses in the Share Subscription Agreement which shall remain in force, and none of the Parties shall have any claim of any nature or liabilities thereunder whatsoever against the other Party save for any antecedent breaches of the terms thereof.

Completion of the Shares Subscription

The completion of the Shares Subscription shall take place on the Shares Completion Date (or such other time as the Parties may otherwise agree in writing) when each Party shall perform its respective obligations pursuant to the Share Subscription Agreement.

For avoidance of any doubt, there shall not be any completion of the Shares Subscription on the date scheduled to be the Shares Completion Date unless the completion of the Shares Subscription and the completion of the transactions contemplated under the Warrant Subscription Agreement taking place simultaneously on the date scheduled to be the Shares Completion Date.

Upon the completion of the Shares Subscription, the Subscriber and the party(ies) acting in concert with it shall not hold Shares in such portfolio which may trigger any mandatory general offer obligation under Rule 26.1 of the Takeovers Code.

In the event that either Party shall without any reasonable ground fail to do anything required to be done by it under or pursuant to the Share Subscription Agreement, without prejudice to any other right or remedy available to the other Party, such other Party may:

- (a) defer the completion of the Shares Subscription to a day not more than ten (10) Business Days after the date initially fixed for the completion of the Shares Subscription (and so that the provision of this sub-paragraph shall apply to the completion of the Shares Subscription as so deferred); or
- (b) proceed to the completion of the Shares Subscription insofar as is practicable but without prejudice to such other Party's right *vis-a-vis* the Party in default; or
- (c) rescind the Share Subscription Agreement without liability on its part.

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Ranking of the Subscription Shares

The Subscription Shares will rank, upon allotment and issue, *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Subscription Shares.

Lock-up period

The Subscription Shares shall be subject to a period of 18 months commencing on the date of issuing of the Subscription Shares during which the Subscription Shares cannot be sold or transferred.

Shares Specific Mandate

The Subscription Shares will be allotted and issued under the Shares Specific Mandate to be sought from the Shareholders at the EGM.

Listing Application

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange

(II) ISSUE OF UNLISTED WARRANTS UNDER WARRANTS SPECIFIC MANDATE

The Company has entered into the Warrant Subscription Agreement with the Subscriber in relation to the Warrants Subscription. The principal terms of the Warrant Subscription Agreement are as follows:

THE WARRANT SUBSCRIPTION AGREEMENT

Date

29 September 2022 (after trading hours)

Issuer: the Company

Subscriber: the Subscriber

Consideration of the Warrants Subscription

The consideration of the Warrants Subscription is HK\$1 and the Warrants have an exercise price of HK\$3.68 per Warrant Share.

LETTER FROM THE BOARD

The Company has engaged an independent valuer (the “**Valuer**”) to assess the fair value of the Warrants (the “**Valuation**”) by using binomial option pricing model based on (i) the terms of the Warrants, (ii) the expected stock price volatility, (iii) the risk free rate and (iv) the dividend yield. According to the Valuation, the unit Warrant value was HK\$0.93 and the total value of the Warrants is approximately HK\$55.8 million.

Considering the terms and conditions of the Warrants, the Valuer have adopted the binomial option pricing model to estimate the fair value of the Warrants. The details of the model are described below:

- Constructing a binomial tree to model the price evolution of the underlying asset of the Warrants (i.e., the issuer’s stock) over the validity period of the Warrants (i.e., from the subscription date to the maturity date of the Warrants) with the assumption that the stock follows geometric Brownian motion;
- Calculating the value of the Warrants at the final nodes based on any conversion option that the Subscriber has at the moment; and
- Starting from the final nodes, the Valuer then work backwards through the binomial tree towards the first node.

The value computed at each node throughout the binomial tree is the optimal value of the Warrants at that point in time. The formula is shown below:

Value of the Warrants at each node = Max (C, RB)

Where,

C = The value that the Subscriber exercises the Warrants

RB = The value given by the rollback (i.e., the Subscriber of the Warrants does nothing and keeps holding the Warrants)

Then, the fair value of the Warrants is derived from the value of the first node in the binomial tree.

LETTER FROM THE BOARD

In the Valuation, the key parameters was adopted as at the date of the Investment Agreement are as follows:

Parameters	As at 4 August 2022
a) Adjusted spot price	HKD3.00
b) Exercise price	HKD3.68
c) Expected life	2 years
d) Expected volatility	71.73%
e) Risk-free rate	2.68%
f) Expected dividend yield	0.00%

Notes:

- a) With reference to the Shares Subscription Price stated in Investment Agreement;
- b) Stated in the Investment Agreement;
- c) The contractual life to maturity of the Warrants;
- d) Determined with reference to the historical volatility of the underlying security;
- e) Determined with reference to the Hong Kong Sovereign Curve Index; and
- f) Determined with reference the historical dividend yield of the underlying security.

The Valuer, while assessing the fair value of the Warrants has adopted the following major assumptions:

- There will be no material change in the political, legal, fiscal, technological, market and economic conditions that will materially affect the operation of the issuer and the share price of the underlying security of the Warrants;
- The interest rates and exchange rates will not differ materially from those of present or expected;
- The information (i.e., the terms and conditions of the Warrants and the financial statement of the Company) provided by the management of the Company is true and accurate; and
- The Shares Subscription Price of HK\$3 for the Shares Subscription of 60,000,000 Shares has reflected the discount for the lock-up period compared to the market spot price of HK\$3.68, which similar to the lock-up period restriction and issued size of the Warrants.

LETTER FROM THE BOARD

Actual cash inflow from the Fund Raising vs. non-cashflow loss of the Warrants value

The Group has been developing its business by leveraging its industrial expertise on semiconductors manufacturing and has been expanding its business to various kinds of semiconductors including GaN related products. The latest development of the GaN business of the Group was set out under the paragraph headed “*The development of the GaN business*” on page 34 of this circular. At present, the Group has commenced its GaN business in the Xuzhou Factory and the Group has recently started manufacturing its own 6-inch GaN power device epitaxial wafers. The Company is in the progress of procuring machines and related production equipment and the full production of GaN chip in Xuzhou Factory is expected to commence by early 2024.

In order to meet with the timeline and working capital requirement for the production of GaN chip, the Company has used its best endeavour to explore different opportunities for fund raising of up to approximately HK\$400 million in the coming 2 years.

As disclosed in the section headed “**REASONS FOR AND BENEFITS OF THE SHARES SUBSCRIPTION AND THE WARRANTS SUBSCRIPTION**”, the Company has considered to raise the required new capital of approximately HK\$400 million by conducting other equity fund raising by way of rights issue, open offer or placing of new shares or by debt financing before entering into the Investment Agreement.

In the negotiation between the Company and the Subscriber, the Company has emphasised the total funding needs of HK\$400 million and the Subscriber has indicated interest to provide investment up to the same amount. However, in view of the unfavorable market sentiments under the rising interest rate environment, the global political and economic uncertainties and the financial performance of the Group, the Subscriber was only willing to first commit HK\$180 million in the Shares Subscription and further possible injection of working capital to the Company will be materialised in later stage.

After arm’s length negotiations, it was mutually agreed between the Subscriber and the Company to enter into the Share Subscription Agreement, and the completion of which is inter-conditional with the completion of the Warrant Subscription Agreement. As such, upon completion of the Shares Subscription, HK\$180 million will be obtained by the Company for the development of the first stage of the GaN business which is crucial to the Group and further capital will be raised upon the exercise of Warrants. No Warrant will be issued if the Shares Subscription is not completed, and vice versa. Issue of the Warrants will only take place upon the Company receiving HK\$180 million from the Shares Subscription.

The Valuation is for the purpose of ascertaining the book value of the Warrants and has no impacts on the cashflow position of the Company. On the contrary, the first tranche of proceeds from the Fund Raising, i.e. the Shares Subscription will be HK\$180 million which represents an immediate cash inflow for the Company to apply in the operation. The Warrants Subscription represents a channel for the Investor to further increase its investment in the Company and strengthen the relationship between the Group and the group companies associated with the Investor. If the Investor opts to exercise the subscription right attaching to the Warrants, it will

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enable the Company to obtain additional working capital of up to HK\$220.8 million. The potential proceeds from the exercise of the Warrants will also bring in another actual cash inflow to the Company in the future.

The impact of the COVID-19 pandemic and political and geographical uncertainties severely affects the fundraising ability of the capital market in Hong Kong. Although the Company has recently completed the placing of new Shares under general mandate, gross proceeds of only approximately HK\$29.4 million were raised in such placing which demonstrated the Company's difficulty in obtaining sufficient funds for the Group's business development through placing of new Shares. The business plan of the GaN business of the Group is a promising development despite the difficult business environment in recent years. The immediate proceeds of HK\$180 million from the Fund Raising and the readily available opportunity for obtaining additional working capital up to HK\$220.8 million (in aggregate up to HK\$400.8 million) far outweigh the non-cashflow loss in book value of the Warrants of approximately HK\$55.8 million even the Warrants are issued at the nominal consideration. The Fund Raising represents the Investor's commitment to the Strategic Cooperation Agreement as the Group's third generation semiconductor business, in particular the GaN chips business is complimentary to the new energy business of the Investor and the Cooperating Party Group (as defined below).

Finance cost vs. value of the Warrants

To satisfy the needs of working capital for the development of the GaN business, the Board has considered raising capital through debts if and when possible. Notwithstanding debt financing would increase the gearing of the Company, the Company did approach its principal bankers and financial institutions when seeking for possible debt financing opportunity. But the response has been unfavourable given the financial performance of the Group and the tightened loan granting policies of banks.

Nevertheless, even if any bank or institution agreed to provide financing of the target funding needs of approximately HK\$400 million to the Company, the finance cost would be burdensome to the Company.

Based on the latest local prime rate of 5.375%, upon enquiry by the Company, lending rate (without any security) offered to the Company would not be lower than 10%. The potential finance cost of HK\$180 million (being the amount of proceeds from the Shares Subscription) and HK\$220.8 million (being the maximum amount of proceeds from the exercise of the Warrants) would amount to HK\$18 million and HK\$22.08 million respectively and in aggregate of HK\$40.08 million per annum.

As aforesaid, HK\$400 million is the expected funding needs of the Group for the coming two years. Based on the above lending rate, the aggregate finance cost for two years will be more than HK\$80 million. In view of the recent and expected surge of the interest rate, the issue of the Warrants, even at the nominal consideration, will not only provide a readily opportunity for the

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Group to obtain funding for the Group to further develop the GaN business but will also save substantial finance cost to the Group. The advantages of reducing finance cost, again, far outweigh the non-cashflow loss in book value of the Warrants of HK\$55.8 million.

Premium of the Warrants Exercise Price to the Shares Subscription Price

In negotiation of the terms of the Fund Raising, the Company considered the maximum number of new Shares to be issued under the Shares Subscription, the Warrants Subscription, the Shares Subscription Price, the Warrants Exercise Price as well as the Warrants Subscription Period all together.

The number of the Subscription Shares is 60,000,000 and the Shares Subscription Price is HK\$3.00 per Subscription Share. The number of the Warrant Shares is also 60,000,000 Shares but the Warrants Exercise Price is HK\$3.68 per Warrant Share.

The Warrants Exercise Price represents a premium of approximately 22.67% over the Shares Subscription Price.

After the completion of the Shares Subscription and assuming full exercise of the Warrants during the Warrants Subscription Period, an aggregate of 120,000,000 new Shares will be issued and its average issue price for the Subscription Shares and Warrant Shares will be HK\$3.34 per Share, representing approximately 11.33% premium over the Shares Subscription Price.

The Warrants Subscription Period falls within the period of 18 months commencing on 6 months after the date of issue of the Warrants and the Warrant Shares are subject to a lock-up period of 18 months commencing on the date of issuing the Warrant Shares. In view of fluctuation of the stock market in recent months and the uncertainties of the price of the Shares during the Warrants Subscription Period, the more than 22% premium of the Warrants Exercise Price over the Shares Subscription Price serves as a buffer if the price of the Shares goes up (if any) in the future. Considering the aforementioned and the readily available opportunity for the Company to obtain additional working capital of up to HK\$220.8 million, the nominal consideration of the Warrants Subscription is to the interest of the Company and the Shareholders as a whole.

Save for the abovementioned consideration of the value and substance of the Warrants Subscription, the Company has also considered the following factors:

1. The Fund Raising can strengthen the capital base of the Company and strengthen the Company's financial position to better equip the Group with financial flexibility and enable the Group to further develop its GaN business;
2. Under the impact of the COVID-19 pandemic, the fundraising ability of the capital market has been severely impacted. The issue of Warrants to the Subscriber who agreed to invest in the Company by way of the Shares Subscription first may have higher chance to invest further capital by way of exercising the Warrants when comparing with finding other investors;

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3. The GaN Chip fabrication business of the Group not only rely on its self-manufactured epitaxial wafers but also the high quality of the silicon wafers supplied by the Cooperating Party Group;
4. The adoption of the GaN chips in the solar inverters can achieve an enhancement in the efficiency of the energy conversion. It is expected that the demand for the Group's sales to the Cooperating Party Group will be significant. Given the needs of the GaN chips of the Cooperating Party Group, the chance for the Group to obtain the proceeds from exercise of the Warrants by the Subscriber for the implementation of the second stage of the development of the GaN business may be higher;
5. The benefits of introducing the Investor, being a reputable investor, as a strategic investor of the Company and strengthening the investor portfolio of the Company, are to provide a positive image of the Group and confidence to the public in the long run, thereby attracting other reputable institutional or individual investors to invest into the Company, bringing in the necessary funding essential for the Company's expansion in the GaN Business; and
6. The Investor's confidence in the Group's promising future prospects and the synergy with the Investor as the Fund Raising represents a further commitment of the Cooperating Party Group in its long-term strategic cooperation in the Group's third generation semiconductor business and the Cooperating Party Group's new energy business, details of which are set out in the section headed "REASONS FOR AND BENEFITS OF THE SHARES SUBSCRIPTION AND THE WARRANTS SUBSCRIPTION — The synergy with the Investor" of this circular.

Further details can be found under the section headed "REASONS FOR AND BENEFITS OF THE SHARES SUBSCRIPTION AND THE WARRANTS SUBSCRIPTION".

After considering the above factors, and the importance of introducing the Subscriber as a strategic investor and the synergy with the Investor in the business aspect of the Group significantly outweighs the potential dilution impact and despite the consideration of the Warrants is in a nominal value, the Directors (including all independent non-executive Directors) are of the view that the Warrants Subscription is fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The consideration of the Warrants Subscription of HK\$1.00 shall be settled and discharged by the Subscriber in cash by cashier order or banker's draft at the completion of the Warrants Subscription.

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Conditions precedent of the Warrants Subscription

Completion of the Warrants Subscription shall be subject to the following conditions precedent:

- (a) the Warrants Specific Mandate and the Shares Specific Mandate having been granted;
- (b) the Stock Exchange having approved the issue of the Warrants;
- (c) the Stock Exchange having approved the listing of and dealings with the Warrant Shares, and such approval not having been withdrawn, revoked or cancelled;
- (d) (if required) the Company having obtained the necessary consent, approval, authorisation, permission, or confirmation for the consummation of the transactions contemplated under the Warrant Subscription Agreement from any third party to which the Company or its subsidiaries have entered into any agreement or arrangement;
- (e) the Share Subscription Agreement having become unconditional;
- (f) trading of the Shares on the Stock Exchange not having been suspended for a continuous period of more than thirty (30) dealing days (save in respect of any suspension in trading of the Shares for the purposes of clearing the relevant announcement(s) or otherwise in relation to any transaction contemplated in the Warrant Subscription Agreement and/or the Share Subscription Agreement);
- (g) listing status of the Shares not having been revoked, cancelled, withdrawn or suspended, or further or in the alternative, threatened with any revocation, cancellation, withdrawal or suspension; and
- (h) all the representations and warranties of the Company pursuant to the Warrant Subscription Agreement remaining true and correct, valid, binding and effective up to and as of the Warrants Completion Date.

Save and except that such conditions precedent as set out in condition precedent (h) which may be waived by the Subscriber unilaterally at any time prior to the Long Stop Date by notice in writing to the Company, no other conditions precedent can be waived by any Party, and the Parties shall use their respective best endeavours to ensure that the conditions precedent (save and except such conditions precedent waived or to be waived pursuant to this paragraph) shall be fulfilled and satisfied as soon as possible after the execution of the Warrant Subscription Agreement, and in any event, no later than the Long Stop Date.

Save as otherwise stated, if any condition precedent set out in conditions precedent (a) to (h) above (save and except such conditions precedent waived or to be waived pursuant to the above paragraph) shall not have been fulfilled by the Long Stop Date, the Warrant Subscription Agreement shall, unless the Parties agree in writing to postpone the Long Stop Date to another date (being a Business Day), automatically terminate and cease to be of any effect except for certain

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clauses in the Warrant Subscription Agreement which shall remain in force, and none of the Parties shall have any claim of any nature or liabilities thereunder whatsoever against the other Party save for any antecedent breaches of any term therein.

Completion of the Warrants Subscription

The completion of the Warrants Subscription shall take place on the Warrants Completion Date (or such other time as the Parties may otherwise agree in writing) when each Party shall perform its respective obligations pursuant to the Warrant Subscription Agreement.

For avoidance of any doubt, there shall not be any completion of the Warrants Subscription on the date scheduled to be the Warrants Completion Date unless the completion of the Warrants Subscription and the completion of the transactions contemplated under the Share Subscription Agreement taking place simultaneously on the date scheduled to be the Warrants Completion Date.

Without prejudice to any other remedies available to the Company or the Subscriber, if in any respect the provisions of the Warrant Subscription Agreement are not complied with by the Company or the Subscriber on the Warrants Completion Date, the Company (in case of default by the Subscriber) or the Subscriber (in case of default by the Company) may:

- (a) defer the completion of the Warrants Subscription to a date not more than ten (10) Business Days after the Warrants Completion Date (and so that the provisions of this sub-paragraph shall apply to the completion of the Warrants Subscription as so deferred);
- (b) proceed to the completion of the Warrants Subscription insofar as shall be practicable (without prejudice to its rights under the Warrant Subscription Agreement); or
- (c) terminate the Warrant Subscription Agreement, upon which the Warrant Subscription Agreement shall cease to be of any effect except for certain clauses of the Warrant Subscription Agreement which shall remain valid, binding and effective and save in respect of claims arising out of any antecedent breach of the Warrant Subscription Agreement.

Ranking of the Warrant Shares

The Warrant Shares will rank, upon allotment and issue, *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Warrant Shares.

Lock-up period

The Warrant Shares shall be subject to a lock-up period of 18 months commencing on the date of issuing the Warrant Shares during which the Warrant Shares cannot be sold or transferred.

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Warrants Specific Mandate

The Warrant Shares will be allotted and issued under the Warrants Specific Mandate to be sought from the Shareholders at the EGM.

Listing Application

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares on the Stock Exchange. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

Principal terms of the Warrants

- Issuer:** the Company
- Number of Warrants:** 60,000,000 Warrants, which are exercisable up to initially 60,000,000 Warrant Shares (subject to adjustment)
- Exercise period of the Warrants:** The Warrants may be exercised in whole or in part at any time during the Warrants Subscription Period.
- Subscription rights:** Upon exercise of any subscription rights attaching to the Warrants, each Warrant shall entitle the Warrantholder to subscriber for one Warrant Share at the Warrants Exercise Price. Each Warrant shall rank *pari passu* with the other Warrants.
- The Company shall not, and shall not be required to, issue any Warrant Share if, as a result of the relevant exercise of subscription rights attaching to the Warrants,
- (a) less than 25% or the prescribed minimum percentage as set out in the Listing Rules of the Company's issued Shares would be held by the public immediately after the relevant exercise of subscription rights attaching to the Warrants; or
 - (b) the Warrantholder concerned and/or parties acting in concert with it will be interested in 30% or more of the Company's issued Shares or such amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer under the Takeovers Code; or

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- (c) the Company would otherwise be in breach of the Listing Rules, the Takeovers Code and/or any requirement or condition imposed by relevant regulatory authorities including the SFC and the Stock Exchange.

Warrants Exercise Price:

The Warrants Exercise Price of HK\$3.68 per Warrant Share was fixed on 4 August 2022, being the date of entering into of the Investment Agreement. The Warrants Exercise Price represents:

- (i) a premium of approximately 2.51% over the closing price of HK\$3.59 per Share as quoted on the Stock Exchange on the last trading day prior to the date of the Investment Agreement;
- (ii) a discount of approximately 4.66% to the closing price of HK\$3.86 per Share as quoted on the Stock Exchange on the date of the Warrant Subscription Agreement;
- (iii) a premium of approximately 2.79% over the average closing price of HK\$3.58 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Investment Agreement;
- (iv) a discount of approximately 6.12% to the average closing price of HK\$3.92 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Warrant Subscription Agreement; and
- (v) a premium of approximately 12.54% over the closing price of HK\$3.27 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Warrants Exercise Price was determined with reference to the prevailing market price of the Shares before entering into the Investment Agreement, the financial performance of the Company and was negotiated on an arm's length basis between the Parties.

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As disclosed in the annual report of the Company for the year ended 31 December 2021, the Company recorded a net loss of RMB446,826,000 for the financial year ended 31 December 2021. The Directors have also considered the market price of the Shares traded on the Stock Exchange during the Relevant Period, as a benchmark to reflect the prevailing market conditions and sentiment to the Shares. As quoted from the Stock Exchange, the closing price of the Company during the Relevant Period dropped for approximately 10.02% from 4 May 2022 to 4 August 2022. The average closing price of the Company during the Relevant Period was approximately HK\$3.727 per Share. The Warrants Exercise Price of HK\$3.68 per Warrant Share represents a discount of approximately 1.26% to the three-month average closing price.

In view of the pessimistic market sentiments under the rising interest rate expectation, the global political and economic uncertainties and the financial performance of the Group, the Directors were of the view that the Warrants Exercise Price being at a premium of approximately 2.51% over the closing price of HK\$3.59 per Share prior to the date of the Investment Agreement and only a discount of approximately 1.26% to the average closing price of the Relevant Period is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Warrant Shares:

Assuming full exercise of the subscription rights attaching to the Warrants, the 60,000,000 Warrant Shares represent:

- (a) approximately 10.32% of the existing issued share capital of the Company as at the Latest Practicable Date;
- (b) approximately 10.47% of the issued share capital of the Company as at the date of the Announcement;
- (c) approximately 9.35% of the issued share capital of the Company as enlarged by the allotment and issue of the Warrant Shares (assuming there is no other change in the share capital of the Company from the Latest Practicable Date to the Warrants Completion Date, save for the allotment and issue of the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants); and

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- (d) approximately 8.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Warrant Shares (assuming there will be no change in the share capital of the Company from the Latest Practicable Date to the Shares Completion Date and the Warrants Completion Date, save for the allotment and issue of the Subscription Shares and the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants).

The aggregate nominal value of the Warrant Shares is HK\$600,000.

Rights on liquidation:

If an effective resolution is passed during the Warrants Subscription Period for the voluntary winding-up of the Company, then:

- (a) if such winding-up is for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholder, or some person designated by them for such purpose by Special Resolution, shall be a party or in conjunction with which a proposal is made to the Warrantholder and is approved by Special Resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all Warrantholder; and

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- (b) in any other case, every Warrantholder (or, in the case of joint Warrantholders, the Warrantholder whose name stands first in the register of the Warrantholders required to be maintained pursuant to the Warrant Subscription Agreement in respect of the Warrant held by such joint Warrantholder) shall be entitled by irrevocable surrender of his Warrant certificate(s) to the registrar of the Company with the subscription form(s) duly completed, together with payment of the exercise moneys (or the relative portion thereof), to elect to be treated as if he had immediately prior to the commencement of such winding-up exercised such of the subscription rights attaching to the Warrants represented by his Warrant(s) as are specified in the subscription form(s) submitted by him and had on such date been the holder of the Warrant Shares to which he would have become entitled pursuant to such exercise and the Company and the liquidator of the Company shall give effect to such election accordingly. The Company shall give notice to the Warrantholder of the passing of any such resolution within seven days after the passing thereof and such notice shall contain a reminder to Warrantholder with respect to their rights under this sub-paragraph (to the extent applicable).

Subject to the above sub-paragraphs (a) and (b), if the Company is wound up, all subscription rights attaching to the Warrants which have not been exercised at the date of the passing of such resolution shall lapse and Warrant certificate shall cease to be valid for any purpose.

Transferability:

The Warrants shall be in registered form and will be transferrable in integral multiples of 1,000,000 Warrants (or the whole but not part of the outstanding Warrants if the number of outstanding Warrants are less than 1,000,000 Warrants) by instrument or transfer in any usual or common form or such other form as may be approved by the Directors.

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The Warrants may, subject to the lock-up period as well as other terms and conditions contained in the instrument of the Warrants, be transferred by a Warrantholder to any person (and the transferee shall then become a Warrantholder of the Warrants thus transferred) provided that where the Warrants (or any part thereof) are intended to be transferred to a connected person (as defined in the Listing Rules), such transfer shall comply with the requirements under the Listing Rules and/or the requirements imposed by the Stock Exchange, if any.

**Adjustments to the
Warrants Exercise Price:**

Subject as hereinafter provided, the Warrants Exercise Price shall from time to time be adjusted in accordance with the following provisions (but shall however not be adjusted below the nominal value of the Shares until the subscription right reserve is maintained pursuant to the instrument of the Warrants) and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of the following sub-paragraphs (1) to (6) inclusive appearing immediately thereunder it shall be taken to fall within the first of the applicable sub-paragraph to the exclusion of the remaining sub-paragraphs below:

- (1) If and whenever there shall be an alteration to the nominal amount of each of the Shares by reason of any consolidation or subdivision, the Warrants Exercise Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the nominal amount of one (1) Share immediately after such alteration; and

B = the nominal amount of one (1) Share immediately before such alteration.

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Each such adjustment shall be effective from the close of business on the Business Day immediately preceding the date on which the relevant consolidation or subdivision (as the case may be) becomes effective, provided that, where the subscription date in respect of a particular exercise of any of the subscription rights attaching to a Warrant shall fall on or before the said Business Day but the Company shall not by the close of business on the said Business Day have allotted the relative Shares in accordance with its obligations hereunder, such adjustment shall, for the purpose of determining the number of Shares to be allotted to the Warrantholder exercising the said subscription rights, be deemed to have become effective before such subscription date.

- (2) If and whenever the Company shall issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Warrants Exercise Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{C + D}$$

where:

C = the aggregate nominal amount of the Shares in issue immediately before such issue; and

D = the aggregate nominal amount of the ordinary capital issued in connection with and as a result of such capitalisation,

Provided that if the relevant issue of Shares is made as part of an arrangement involving a reduction of capital, the Warrants Exercise Price shall be adjusted in such manner as the auditors or the financial adviser certify to be appropriate, having regard to the relative interests of the persons affected thereby taken as a whole and such other matters as the auditors or the financial adviser shall consider relevant.

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Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

- (3) If and whenever the Company shall make (whether on a reduction of capital or otherwise) any capital distribution to all holders of Shares (in their capacity as such) (including, but not limited to, such a distribution pursuant to a reduction or redemption of share capital, share premium account or capital redemption reserve fund or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Warrants Exercise Price in force immediately prior to such capital distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the closing price per Share on the Stock Exchange on the dealing day immediately preceding the date on which the capital distribution or, as the case may be, the grant is announced (whether or not such capital distribution or grant is subject to the approval of the holders of Shares or other persons) or (if there is no such announcement) immediately preceding the date on which the Share is traded ex such capital distribution or, as the case may be, the grant (or, where there is no closing price on such dealing day, the closing price on the dealing day on which there was a closing price immediately preceding the relevant date); and

F = the amount calculated by dividing the fair market value on the day of such announcement or (as the case may require) the day immediately preceding the date on which the Share is traded ex such capital distribution or, as the case may be, the grant, as determined in good faith by the auditors or the financial adviser, of such capital distribution or of such rights by the number of Shares participating in such capital distribution or, as the case may be, in the grant of such rights,

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Provided that:

- (a) if in the opinion of the auditors or the financial adviser, the use of the fair market value as aforesaid produces a result which, having regard to the relative interests of the persons affected thereof taken as a whole, is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the portion of the said closing price which should, in its opinion, properly be attributed to the value of the relevant capital distribution or rights in question; and
- (b) the provisions of this sub-paragraph (3) shall not apply in relation to the issue of Shares credited as fully paid or partly paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant capital distribution or grant.

- (4) If and whenever the Company shall offer to all holders of Shares new Shares for subscription by way of rights, or shall grant to all holders of Shares any options or warrants to subscribe for new Shares, at a price per new Share which is less than 60 per cent. of the market price on the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Shares or other persons), the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + I}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

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H = the number of Shares which the aggregate of the two following amounts would purchase at such market price:

- (a) the total amount (if any) payable for the rights, options or warrants being offered or granted by the Company; and
- (b) the total amount payable for all of the new Shares being offered for subscription by way of rights or comprised in the options or warrants being granted; and

I = the aggregate number of Shares being offered for subscription or comprised in the options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant. For the avoidance of doubt, no adjustment shall take effect in accordance with this sub-paragraph (4) should such offer or grant fail to become effective or unconditional.

- (5)(a) If and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of subscription for new Shares, and the total Effective Consideration per new Share initially receivable for such securities is less than 60 per cent. of the market price on the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Shares or other persons), the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately prior to such issue by the following fraction:

$$\frac{J + K}{J + L}$$

J = the number of Shares in issue immediately before the date of the issue of such securities;

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K = the number of Shares which the Total Effective Consideration receivable for such securities would purchase at such market price (exclusive of any disbursements incurred in connection therewith); and

L = the maximum number of new Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative initial conversion or exchange rate or the Warrants Exercise Price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business on the Business Day immediately preceding the date on which the issuer of the relevant securities determines the conversion or exchange rate or the Warrants Exercise Price in respect of such securities or, to the extent that the relevant issue is announced (whether or not subject to the approval of holders of Shares or other persons) and the date of such announcement is earlier than the said date, the Business Day immediately preceding the date of such announcement.

- (b) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (5)(a) above are modified so that the total Effective Consideration per new Share initially receivable for such securities shall be less than 60 per cent. of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately prior to such modification by the following fraction:

$$\frac{M + N}{M + O}$$

where:

M = the number of Shares in issue immediately before the date of such modification;

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N = the number of Shares which the Total Effective Consideration receivable for such securities at the modified conversion or exchange rate or the Warrants Exercise Price would purchase at such market price; and

O = the maximum number of new Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative modified conversion or exchange rate or the Warrants Exercise Price.

Such adjustment shall become effective (if appropriate retroactively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the purposes of this sub-paragraph (5)(b) where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

- (6) If and whenever the Company shall issue wholly for cash any Shares at a price which is less than 60 per cent. of the market price on the date of the announcement of the terms of such issue, the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{P + Q}{P + R}$$

where:

P = the number of Shares in issue immediately before the date of such announcement;

Q = the number of Shares which the aggregate amount payable for the Shares allotted pursuant to such issue would purchase at such market price (exclusive of expenses); and

R = the number of Shares allotted and issued pursuant to such issue.

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Such adjustment shall become effective (if appropriate retroactively) on the date of the issue of such Shares.

- (7) If and whenever the Company makes an offer or invitation to holders of Shares to tender for sale to the Company any Shares or if the Company shall purchase any Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchase made on the Stock Exchange, or any recognised stock exchange, being a stock exchange recognised for this purpose by the executive director of the corporate finance division of the SFC and the Stock Exchange) and the Directors consider that it may be appropriate to make an adjustment to the Warrants Exercise Price, at that time the Directors shall appoint the auditors or the financial adviser to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Warrants Exercise Price fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if the auditors or the financial adviser shall consider in its opinion that it is appropriate to make an adjustment to the Warrants Exercise Price, an adjustment to the Warrants Exercise Price shall be made in such manner as the auditors or the financial adviser shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding the date on which such purchases by the Company are made.

Voting rights:

Warrantholders shall not be entitled to attend and vote at any general meeting of the Company by reason of only being a holder of the Warrants

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REASONS FOR AND BENEFITS OF THE SHARES SUBSCRIPTION AND THE WARRANTS SUBSCRIPTION

Under the impact of the COVID-19 pandemic, there has been a worldwide shortage of semiconductors as economic recovery is hindered by the disruptions to global supply chains and rising inflation, which thus puts the semiconductor industry in the spotlight. The Group believes that the prospects of manufacturing third-generation semiconductors, in particular, the manufacturing and sales of GaN, are promising and positive. Accordingly, the Directors are of the view that the Shares Subscription and the Warrants Subscription represent a good opportunity for the Company to raise additional capital for the Group's GaN business development so as to maximise the Group's revenue.

The development of the GaN business

The Group has been developing its business by leveraging its industrial expertise on semiconductors manufacturing and has been expanding its business to various kinds of semiconductors including GaN related products.

The Group started its GaN business through its wholly owned subsidiary Xuzhou GSR Semiconductor Company Ltd. and set up a new factory in the Xuzhou Economic and Technological Development Zone which comprised 7,000 square meters ultra clean chambers and 850 square meters office area (the "**Xuzhou Factory**"). It was contemplated that a production line for manufacturing GaN related products would be installed in the Xuzhou Factory, the facilities of which would be further upgraded to full automation in the future.

In August 2021, the Group invested in VisIC Technologies Limited ("**VisIC**"), an Israel company which was a leading and innovative player in GaN technology and development. In September 2021, the Group entered into the purchase contracts to acquire certain machines for manufacturing GaN related products.

In November 2021, the Group became a strategic investor in GaN Systems Inc. ("**GaN Systems**"), a Canadian company, a leader in GaN related technology and management expertise. Further, the Group recruited core members of the research and development team of Dr. Chen Zhen, Mr. Lu Juilin and Dr. Thomas Hu to enhance the capabilities towards GaN business.

The Group, in January 2022, formed a global strategic advisory committee to provide sound strategic and tactical advice on GaN related issues.

In March 2022, Xuzhou Factory and GaN Systems conducted the first publicised industry field trial of GaN in the power infrastructure of an internet data center ("**IDC**"), a key milestone in the universal application of GaN in IDCs. The beta test was first launched in March 2022 at the High Performance Computing Centre of Physics Department at Northwest University (NWU-HPC). Analysis indicated the energy efficiency of the new power supply at 50% load up to 98%, which is 4% higher than that of the traditional silicon-based power supplies. Accordingly, this could reduce the total energy consumption of an IDC by 10%, and when combined with the power supply

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replacement of uninterruptible power supply (UPS) and cooling system in IDCs, the energy reducing effect is expected to reach up to 20% for IDCs when compared to the use of legacy silicon power semiconductors.

At present, the Group has started its GaN business through the Xuzhou Factory. The Group has recently started manufacturing its own 6-inch GaN power device epitaxial wafers. It is in the progress of procuring machines and related production equipment and the full production of GaN chip in Xuzhou Factory is expected to commence by early 2024. The engineers of the research and development of the Group will promote the GaN chips by implementing the GaN chips in the circuitry designed for different applications, to raise the customers' loyalty. The relevant GaN devices will also be launched to increase the sales.

The Group remains optimistic about the prospect of manufacturing third-generation semiconductors in particular the manufacturing and sales of GaN and will continue to deepen its business transformation towards its aim as the industry leader in supplying third-generation GaN semiconductors to the Greater China market.

The synergy with the Investor

Furthermore, as set out in the announcement of the Company dated 7 September 2022, the Company entered into the Strategic Cooperation Agreement with Golden Concord Group Limited (協鑫集團有限公司) (the “**Cooperating Party**” and together with its subsidiaries and associates, the “**Cooperating Party Group**”), a company ultimately held under a discretionary trust with the Investor and his family members as beneficiaries, to start their long-term strategic cooperation. The close cooperation focuses on application of GaN power chips in the field of new energy, including (i) the Cooperating Party Group will invest in the equity of the Company or the Company's subsidiaries to establish in-depth cooperation; (ii) the Cooperating Party Group and the Company will establish a domestic new energy joint venture (the “**JV Company**”) to tap into the application of GaN chips in the field of new energy, including but not limited to technologies and equipment on charging/exchanging batteries, energy storage technology and related equipment, and distributed solar inverters; (iii) the Company will provide technical support to the JV Company and jointly develop application products based on silicon-based power chips and third-generation semiconductors; and (iv) the Cooperating Party Group will assist the Group and the JV Company to enter into the market of new energy industry supply chain based on its leading position and comprehensive layout in the new energy industry.

According to the public information and as disclosed in the section headed “INFORMATION ON THE SUBSCRIBER AND THE INVESTOR” of this circular, the Investor is the shareholder and senior management of two Main Board listed companies in Hong Kong and two mainboard listed companies on the Shenzhen Stock Exchange (the “**Investor Holding Companies**”). Set out below is the table of relevant information and the extracts of certain financial information.

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Financial Information of the Investor Holding Companies

	GCL Technology Holdings Limited (協鑫科技控股有限公司) (Hong Kong stock code: 3800) <i>RMB'000</i>	GCL New Energy Holdings Limited (協鑫新能源控股有限公司) (Hong Kong stock code: 451) <i>RMB'000</i>	GCL System Integration Technology Co., Ltd.* (協鑫集成科技股份有限公司) (Shenzhen stock code: 002506) <i>RMB'000</i>	GCL Energy Technology Co., Ltd.* (協鑫能源科技股份有限公司) (Shenzhen stock code: 002015) <i>RMB'000</i>
Principal business	(i) manufacturing and the sales of polysilicon and wafers for solar industry and (ii) the development, construction, operation and management of solar farms	Sale of electricity, development, construction, operation and management of solar power plants	Research and development, design, production, sales and one-stop service of high-efficiency battery components, energy engineering, integrated energy system integration and other related products	Clean energy power generation, cogeneration, combined heat and power, business of battery exchange for new energy vehicles and integrated energy services
Financials				
Revenue	19,697,978	2,844,899	4,701,460	11,314,324
Profit before tax	5,292,043	(514,680)	(1,982,880)	1,517,712
Total assets	64,097,914	15,916,669	9,299,996	27,501,657
Net assets	32,301,605	6,953,873	2,261,170	8,017,298

As shown in the above table, the principal businesses of the Investor Holding Companies are wide-range energy related business including upstream and downstream business to the Group. As disclosed in the 2021 annual report of the Company, the Group recorded a revenue of RMB126,137,000. The revenue of the Investor Holding Companies in the corresponding period ranged from approximately 23 times to 156 times compared to that of the Company.

As disclosed in the 2021 annual report of the Company, at 31 December 2021, the total asset of the Company was RMB665,873,000. The total asset of the Investor Holding Companies, on the corresponding date, ranged from approximately 14 times to 96 times compared to that of the Company. The net asset of the Investor Holding Companies ranged from approximately 4 times to 53 times compared to that of the Company. These demonstrate that the size and scale of the Investor Holdings Companies are far higher than the Company and the introduction of the Investor to be the Shareholder under the Fund Raising is expected to bring in positive business opportunity to the Company.

Upon completion of the Shares Subscription, the net proceeds from the Shares Subscription of approximately HK\$180 million can provide the Group with the necessary funding for strengthening research and development capabilities of GaN devices and the related semiconductor products. Further, as disclosed in the announcement of the Company dated 1 November 2022, with the successful manufacturing of the silicon wafer far earlier than the expected timetable which paves the way to the Group's quick industrialization and mass production of GaN third-generation semiconductors, it is imminent for the Group to obtain the funding from the Share Subscription and the potential additional funding from subscription of the Warrant Shares of approximately HK\$220.8 million upon exercising of the subscription rights attached to the Warrants by the Investor.

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The introduction of the Investor by way of the Share Subscription and the Warrant Subscription is a strategic one for both the Company and the Investor. On one hand, the Investor is incentivized by the lucrative development opportunities of the GaN business which is currently under advanced stage of development by the Group. Further to the entering into of the abovementioned Strategic Cooperation Agreement, the Group is in advanced discussion with the Cooperating Party Group for the supply of high-quality silicon wafers to the Group at a competitive price in the long run. This is of particular importance for the development of the Group's GaN business as silicon wafers are the elementary raw materials for the manufacture of the GaN chips and securing such supply from the Cooperating Party Group can ensure stable source of raw materials for the Group's GaN business.

The fabrication of the GaN chip is regarded as a combination of different layers of different materials such as silicon wafer, epitaxial wafer with the processes of etching, gate isolation filming patterning, photolithography, forming of source drain electrode formation and patterning on different stage. The Group has recently started manufacturing its own 6-inch GaN power device epitaxial wafers. The silicon wafers are another elementary raw material for the manufacture of GaN chips. Given the technical know-how and high-end manufacturing facilities of the Cooperating Party Group, the silicon wafers supplied to the Group are in high quality standard as the crystal lattice of the entire solid of the silicon wafers is continuous, unbroken to its edges, and free of any grain boundaries.

In addition, high quality silicon is not a common materials in the market and in view of the industry leadership of the Cooperating Party Group's renowned technology in the silicon industry, the supply of the silicon wafers by the Cooperating Party Group offers the Group with confidence, stability and quality in the development of its GaN business, in particular, the manufacturing and sales of third-generation GaN semiconductors as the industry leader in the Greater China market.

On the other hand, under the Strategic Cooperation Agreement, the Group would supply the manufactured GaN chips to the Cooperating Party Group from its newly developed Xuzhou Factory with advanced technology, which are the fundamental components used in Cooperating Party Group's business in energy engineering, solar inverter and energy storage technology. With the Cooperating Party Group's focus on the development of new energy business, there would be an abundant demand for the Group's sales to the Cooperating Party Group. Therefore, the cooperation between the Group and the Cooperating Party Group is mutually beneficial to each other and the Cooperating Party Group's investment in the Company is strategic and long-term. The issue of the Warrants with a nominal consideration of HK\$1 serves as an incentive to the Investor for his additional investment in the Company during the Warrants Subscription Period (a 18-month period which would commence six months after issuance of the Warrants), upon which the Group should have achieved a further advanced stage of development of its manufacturing facilities of third-generation GaN semiconductors. The rapid development of the Group in the third-generation GaN semiconductors business with the support from the Cooperating Party Group would positively contribute to the financial performance of the Group which is in the interests of the Company and its shareholders as a whole.

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Moreover, with the business background of the Investor and the Cooperating Party Group, it is expected that the Investor can (i) coordinate the resources of the new energy industry and form strategic synergy with the Group's third-generation semiconductors (especially power chips) to form complementary industrial resources; (ii) use his financial resources and business network to assist the Group in the rapid development of production capacity and products; (iii) assist the Group to work closely with local governments to improve the policies and supports for the third-generation semiconductor industry; and (iv) use his own experience in operation and management to assist the Group to build up its talents, operations, technology, research and development. The Strategic Cooperation Agreement is the furtherance of the cooperation between the Group and the Investor and is a step further to achieving the aforementioned cooperation goals. The Investor had established several semiconductor factories, and has his own unique insights and experience into the introduction and procurement of machines, material procurement, production process settings, and pollutant discharge, and plans to introduce them to the Group to improve their operation management level.

In view of the high-quality silicon wafers of the Cooperating Party Group, it may become one of the suppliers to the Group. On the other hand, the Cooperating Party Group may be the customers of the GaN chips of the Group. As the business of the GaN chips of the Group is in the first stage and the full production of GaN chip in Xuzhou Factory is expected to commence by early 2024, there is no detail purchases or sales terms and conditions, size and product specification in discussion with the Cooperating Party Group. The Board do regard that the Cooperating Party will be a good business partner to the Group. Due to the rapid development in the chips business around the world, change of technical specification and demand on the different markets from time to time are the key factors for the Group to source suitable raw materials from different suppliers to cater for the needs of the production of GaN chips of the Group. Due to the increase demands of GaN chips in different industries, the Group will also diversify its client base for increasing the market share. In light of this, as at the Latest Practicable Date, the Board is of the view that no material reliance situation will be occurred on the supply and sales of the Group's business to the Cooperating Party Group.

Given that the Investor will become a Shareholder holding approximately 9.35% of the total number of issued Shares of the Company upon the completion of the Shares Subscription, and that the Investor has a long-term strategic cooperation with the Company, the Directors consider that the Company, in comparison with conducting any other fund raising exercises, will have a higher possibility in obtaining additional working capital through the exercise of the subscription rights attaching to the Warrants.

Other fund raising methods

Before entering into the Investment Agreement, the Company has considered to raise new capital by conducting rights issue, open offer or placing of new shares. As for the rights issue or open offer, the Company has approached 4 financial institution to explore the opportunities for being underwriters. However, no one gave positive feedback. And it would be time consuming and under the current pessimistic market sentiment without the certainty to identify an underwriter who

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is willing to underwrite a comparatively large amount of fund (say, not less than HK\$180 million, being the proceeds of the Shares Subscription). Or in the case of being on a non-underwritten basis, it is uncertain that the Shareholders are willing to participate in the fund raising and subscribe for their entitlements given the current unfavourable economic condition and market condition due to the prolonged duration of COVID-19 pandemic and expected economic recession.

In the Fund Raising, the first proceeds of HK\$180 million from the Shares Subscription is equivalent to the underwritten part in a rights issue which the Warrants is equivalent to the non-underwritten part. The Company may or may not succeed in raising funds from the non-underwritten part in rights issue or open offer. But the Company will maintain an opportunity for obtaining additional working capital up to HK\$220.8 million after the issue of the Warrants with a premium exercise price over the Shares Subscription Price.

The recent experience of the Company in placing of new Shares under general mandate shows that it is difficult to obtain sufficient funds through placing of new Shares.

The Company has also considered debt financing such as bank borrowings or other loan financing as an alternative method of fundraising. The Company has negotiated with its principal bankers and financial institutions from time to time in relation to obtaining additional banking facilities but the response is unfavourable given the financial performance of the Group and the tightened loan granting policies of banks or collaterals are required.

Therefore, given that the Subscriber is willing to subscribe for 60,000,000 Subscription Shares and approximately HK\$180 million gross proceeds will be obtained upon completion of the Shares Subscription and additional funds of approximately HK\$220.8 million may be received upon exercising the subscription rights attaching to the Warrants, the Directors are of the view that the issue of the Subscription Shares and the Warrants are the most viable methods for the Company to obtain working capital for its business development.

After mutual understanding and comprehension between the Company and the Subscriber, it is understood that the Subscriber will make reference to, after at least a six-month period, (i) the prevailing economic and market condition; (ii) the evaluation of the cooperation in relation to the application of GaN power chips in the field of new energy as discussed above in the paragraph headed “**The synergy with the Investor**”; and (iii) the progress of development of GaN devices and related semiconductor products as discuss below in the headed “**USE OF PROCEEDS FROM THE SHARES SUBSCRIPTION AND THE WARRANTS SUBSCRIPTION**”, before making further investment in the Company by exercising the subscription rights attaching to the Warrants. The issue of the Warrants is regarded as a readily available opportunity for the Company to obtain additional working capital if the Subscriber is willing to exercise the subscription rights attaching to the Warrants in the event that the Company has need of funds in the future. The consideration of the Warrants of HK\$1 therefore serves to attract and provide the Investor an incentive to further inject capital into the Company.

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The Directors (including all the non-executive Director and independent non-executive Directors) consider that the terms of the Share Subscription Agreement and the Warrant Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and the Shares Subscription and the Warrants Subscription are in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS FROM THE SHARES SUBSCRIPTION AND THE WARRANTS SUBSCRIPTION

The gross proceeds from the Shares Subscription will be HK\$180 million and the net proceeds from the Shares Subscription (after deduction of relevant costs and expenses) is estimated to be approximately HK\$180 million. The net price per Subscription Share upon the completion of the Shares Subscription is estimated to be approximately HK\$3.0 per Subscription Share.

Assuming full exercise of the subscription rights attaching to the Warrants, the gross and net proceeds from the Warrants Subscription are estimated to be approximately HK\$220.8 million. The maximum net price per Warrant Share upon full exercise of the subscription rights attaching to the Warrants is estimated to be approximately HK\$3.68 per Warrant Share.

The Group proposes to use the proceeds from the Shares Subscription and/or the Warrants Subscription as follows:

	Proceeds from the Shares Subscription (if the Warrants not exercised) (HK\$) million	Proceeds from the Warrants (if exercised) (HK\$) million
First stage		
(a period of 12 months)		
Setting up of research and development centers	1	—
Recruitment/payroll of research and development professionals and Xuzhou Factory staff	24	—
The procurement of production equipment and materials	155	100
Second stage		
(a period of 12 months after the first stage)		
Application of GaN technology and production of the GaN devices and related semiconductor products	—	100.8
Total	180	200.8

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In the event the Warrants are not exercised in part or in full, the Group shall review its business plan from time to time by scaling down the production capacity of the GaN business to maintain the profitability and sustainability of the business. In addition, the Company may alter the timeline in launching further applications of the GaN technology and production of the GaN devices to accommodate with the availability of the funding. Further, the Group shall not rule out the possibility of raising new capital by alternative fund raising methods if the subscription rights attaching to the Warrants are not exercised to the extent that the net proceeds does not match the future capital needs of the Company.

INFORMATION ON THE GROUP

The Company is an exempt company incorporated in the Cayman Islands. The Group is principally engaged in the design, development, manufacturing, subcontracting service and sales of semiconductor products, including light-emitting diode beads, GaN chips, GaN components and related application products, and fast charging products in the PRC.

INFORMATION ON THE SUBSCRIBER AND THE INVESTOR

The Subscriber is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding. It is beneficially wholly-owned by the Investor.

The development of the GaN business is one of the core business plans of the Group and the Group is from time to time looking for fund raising opportunities including but not limited to finding a suitable investor. The Company became acquainted with the Investor through one of the Directors, who had acquainted with him through the introduction by a business partner of the Company in recent year. In view of the business background of the Investor in the energy-related sector, the Company then further explored cooperation opportunities in relation to the GaN business.

The Investor, aged 64, is the founder and executive director of GCL Technology Holdings Limited, a company listed on the Stock Exchange (stock code:3800). The Investor was a member of the 12th National Committee of the Chinese People's Political Consultative Conference (the "CPPCC") and is currently a member of the 12th Jiangsu Province Committee of the CPPCC, the chairman of Global Green Energy Industry Council, the vice chairman of Global Innovation Centre, the chairman of Asian Photovoltaic Industry Association, the deputy director of the Green and Low Carbon Development Promotion Committee of China Enterprise Confederation, the executive vice president of the Energy Storage and Electric Vehicle Branch of China Electricity Council. He concurrently serves as the executive chairman of ICC China Environment and Energy Committee, the vice chairman of China Overseas Chinese Entrepreneurs Association, the vice chairman of China Fortune Foundation Limited, the vice chairman of China Industrial Overseas Development & Planning Association, the vice president of Jiangsu Federation of Industry and Commerce, the honorary chairman of Jiangsu Residents Association in Hong Kong, an executive vice chairman of the Federation of HK Jiangsu Community Organisations, the honorary chairman of Suzhou Federation of Industry and Commerce and the chairman of SNEC Hydrogen Energy Industry Alliance Council. The Investor has been given the "New China 70th New Energy Industry 10

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Outstanding Contributors” award and the medals of “Chinese Enterprise Reform, Figure of Energy Revolution and Leading Energy Entrepreneur of 40 Years Reform and Opening”. The Investor graduated from Nanjing Electric Power College* (南京電力專科學校) in July 1981 and obtained a diploma in electrical automation. He is also the chairman of GCL System Integration Technology Co., Ltd., a company with its shares listed on the Shenzhen Stock Exchange (Stock Code: 002506) and a director of GCL Energy Technology Co. Ltd., a company with its shares listed on the Shenzhen Stock Exchange (Stock Code: 002015).

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Subscriber and its beneficial owner are third parties independent of the Company and its connected persons (as defined in the Listing Rules) as at the Latest Practicable Date.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

Date of announcement	Event	Net proceeds raised	Proposed use of proceeds	Actual use of proceeds as at the Latest Practicable Date
13 September 2022	Placing of 8,582,000 new Shares at the placing price of HK\$3.20 pursuant to the placing agreement entered into between the Company and VC Brokerage Limited as placing agent dated 13 September 2022	Approximately HK\$26.8 million	(i) as to approximately HK\$22.3 million for strengthening research and development capabilities of LED, Mini LED, fast charging, GaN devices and related semiconductor products, which includes setting up of research and development centers, recruitment of research and development professionals, and the procurement of equipments and materials with an aim to develop and/or capture patent and technology; and (ii) as to approximately HK\$4.5 million for provision of general working capital and improving the financial position of the Group	(i) approximately HK\$1.2 million used for strengthening research and development capabilities of LED, Mini LED, fast charging, GaN devices and related semiconductor products, which includes setting up of research and development centers, recruitment of research and development professionals, and the procurement of equipments and materials with an aim to develop and/or capture patent and technology (ii) fully utilised as intended

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Date of announcement	Event	Net proceeds raised	Proposed use of proceeds	Actual use of proceeds as at the Latest Practicable Date
5 August 2022	Placing of 9,428,000 new Shares at the placing price of HK\$3.20 pursuant to the placing agreement entered into between the Company and VC Brokerage Limited as placing agent dated 4 August 2022	Approximately HK\$29.4 million	<p>(i) as to approximately HK\$24.5 million for strengthening research and development capabilities of LED, Mini LED, fast charging, GaN devices and related semiconductor products, which includes setting up of research and development centers, recruitment of research and development professionals, and the procurement of equipments and materials with an aim to develop and/or capture patent and technology; and</p> <p>(ii) as to approximately HK\$4.9 million for provision of general working capital and improving the financial position of the Group</p>	Fully utilised as intended
4 November 2021	Placing of 14,346,000 new Shares at the placing price of HK\$6.20 pursuant to the placing agreement entered into between the Company and VC Brokerage Limited as placing agent dated 4 November 2021	Approximately HK\$86.2 million	<p>(i) as to approximately HK\$64.3 million for strengthening research and development capabilities of LED, Mini LED, fast charging, GaN devices and related semiconductor products, which includes setting up of research and development centers, recruitment of research and development professionals, and the procurement of equipments and materials with an aim to develop and/or capture patent and technology; and</p> <p>(ii) as to approximately HK\$21.9 million for provision of general working capital and improving the financial position of the Group</p>	Fully utilised as intended

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EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon completion of the Shares Subscription and the Warrants Subscription but before full exercise of the subscription rights attaching to the Warrants; and (iii) upon completion of the Shares Subscription and the Warrants Subscription (assuming full exercise of the subscription rights attaching to the Warrants) are set out below:

Shareholders	(i) As at the Latest Practicable Date		(ii) Upon completion of the Shares Subscription and the Warrants Subscription but before full exercise of the subscription rights attaching to the Warrants		(iii) Upon completion of the Shares Subscription and the Warrants Subscription (assuming full exercise of the subscription rights attaching to the Warrants)	
	Number of		Number of		Number of	
	Shares	Approximate	Shares	Approximate	Shares	Approximate
Director						
Mr. Lyu Xiangrong	834,000	0.14%	834,000	0.13%	834,000	0.12%
Substantial Shareholders						
Wide Yield Investment Holding Limited (<i>Note 1</i>)	100,500,000	17.28%	100,500,000	15.66%	100,500,000	14.32%
First Global Limited (<i>Note 2</i>)	<u>100,500,000</u>	<u>17.28%</u>	<u>100,500,000</u>	<u>15.66%</u>	<u>100,500,000</u>	<u>14.32%</u>
Sub-total	201,000,000	34.56%	201,000,000	31.32%	201,000,000	28.64%
Subscriber	—	—	60,000,000	9.35%	120,000,000	17.10%
Public Shareholders	<u>379,767,000</u>	<u>65.30%</u>	<u>379,767,000</u>	<u>59.20%</u>	<u>379,767,000</u>	<u>54.14%</u>
Total	<u>581,601,000</u>	<u>100.00%</u>	<u>641,601,000</u>	<u>100.00%</u>	<u>701,601,000</u>	<u>100.00%</u>

Notes:

- Wide Yield Investment Holding Limited is wholly owned by Ms. Qin Anqi, and therefore Ms. Qin Anqi is deemed to be interested in the 100,500,000 Shares held by Wide Yield Investment Holding Limited under the SFO.
- First Global Limited is wholly owned by Mr. Zhao Yi Wen who is the chairman of the Board, the chief executive officer of the Company and an executive Director, and therefore Mr. Zhao Yi Wen and his spouse Ms. Zhuang Chan Ling are deemed to be interested in the 100,500,000 Shares held by First Global Limited under the SFO.

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EGM AND PROXY ARRANGEMENT

The notice convening the EGM to be held at 11:00 a.m. on Tuesday, 13 December 2022 at The North Side, 2nd Floor, No. 8 Pinggong Er Road, Nanping Technology Industrial Park, Zhuhai, People's Republic of China is set out on pages 47 to 50 of this circular. At the EGM, resolutions will be proposed to consider and, if thought fit, approve the Share Subscription Agreement and the Warrant Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares; (b) the allotment and issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants; and (c) the Shares Specific Mandate and the Warrants Specific Mandate).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, none of the Shareholder has a material interest in the Share Subscription Agreement and the Warrant Subscription Agreement and the transactions contemplated thereunder respectively. Accordingly, no Shareholder is required to abstain from voting on any resolution to be approved at the EGM.

A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

VOTING AT THE EGM

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolutions to be considered and, if thought fit, approved at the EGM will be voted by way of a poll by the Shareholders. An announcement on the poll results will be made by the Company after the EGM, in the manner prescribed under Rule 13.39(5) of the Listing Rules, on the results of the EGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will not be closed for the purpose of ascertaining the right of Shareholders to attend and vote at the EGM to be held on Tuesday, 13 December 2022. However, in order to qualify for attending and voting at the EGM or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged

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with the Company's Hong Kong branch share registrar and transfer office, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong not later than 4:30 p.m. on Monday, 12 December 2022.

RECOMMENDATION

The Board considers that the respective terms of the Share Subscription Agreement and the Warrant Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares; (b) the allotment and issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants; and (c) the Shares Specific Mandate and the Warrants Specific Mandate) are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions as set out on pages 47 to 48 of this circular.

RESPONSIBILITY OF DIRECTORS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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.

LANGUAGE

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

Yours faithfully,
By order of the Board
HG Semiconductor Limited
Zhao Yi Wen
Chairman and Executive Director



HG SEMICONDUCTOR LIMITED

宏光半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6908)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of HG Semiconductor Limited (the “Company”) will be held at 11:00 a.m. on Tuesday, 13 December 2022 at The North Side, 2nd Floor, No. 8 Pinggong Er Road, Nanping Technology Industrial Park, Zhuhai, People’s Republic of China for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

“THAT:

- (a) the share subscription agreement dated 29 September 2022 (the “**Share Subscription Agreement**”) (a copy of which is tabled at the EGM and marked “A” and initialed by the chairman of the EGM for identification purpose) entered into between the Company and the Subscriber in relation to the allotment and issuance of 60,000,000 new ordinary shares of the Company (the “**Subscription Share(s)**”) at the subscription price of HK\$3.00 per Subscription Share, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited (the “**Listing Committee**”) granting the listing of, and permission to deal in, the Subscription Shares to be allotted and issued, the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate to allot and issue the Subscription Shares in accordance with the terms of the Share Subscription Agreement, provided that this specific mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and
- (c) any one or more of the Directors be and is/are hereby authorised for and on behalf of the Company to execute all such documents and do all such acts and things as he/she/they may in his/her/their absolute discretion consider to be necessary, desirable, appropriate or

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expedient to implement and/or to give effect to the Share Subscription Agreement, the transactions contemplated thereunder and the allotment and issue of the Subscription Shares under the relevant specific mandate.”

2. ISSUE OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

“**THAT:**

- (a) the warrant subscription agreement dated 29 September 2022 (the “**Warrant Subscription Agreement**”) (a copy of which is tabled at the EGM and marked “**B**” and initialed by the chairman of the EGM for identification purpose) entered into between the Company and the Subscriber in relation to the allotment and issuance of up to 60,000,000 unlisted warrants (the “**Warrant(s)**”) conferring the rights to subscribe for up to initially 60,000,000 new ordinary shares of the Company (adjust to adjustment) (the “**Warrant Share(s)**”) at the exercise price of HK\$3.68 per Warrant Share, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon the Listing Committee granting the listing of, and permission to deal in, the Warrant Shares to be allotted and issued, the Directors be and are hereby granted a specific mandate to allot and issue the Warrant Shares in accordance with the terms of the Warrant Subscription Agreement, provided that this specific mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and
- (c) any one or more of the Directors be and is/are hereby authorised for and on behalf of the Company to execute all such documents and do all such acts and things as he/she/they may in his/her/their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or to give effect to the Warrant Subscription Agreement, the transactions contemplated thereunder and the allotment and issue of the Warrant Shares under the relevant specific mandate.”

By order of the Board
HG Semiconductor Limited
Zhao Yi Wen
Chairman and Executive Director

Hong Kong, 28 November 2022

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Registered office:

Windward 3
Regetta Office Park
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

*Headquarter and principal place of
business in People's Republic of China:*

The North Side
2nd Floor
No. 8 Pinggong Er Road
Nanping Technology Industrial Park
Zhuhai
People's Republic of China

Notes:

1. A member of the Company entitled to attend and vote at the EGM shall be entitled to appoint one or if he/she is a holder of two or more shares of the Company, more than one proxies to attend and vote in his/her stead. A proxy need not be a member of the Company but must be present in person in the EGM to represent the member. Completion and return of the form of proxy will not preclude a member of the Company from attending the EGM and voting in person should he/she so wish. In such event, his form of proxy will be deemed to have been revoked.
2. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. A form of proxy for the EGM is enclosed. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Hong Kong branch share registrar and transfer office, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong not later than 48 hours before the time for holding the EGM or any adjournment thereof.
4. The register of members of the Company will not be closed for the purpose of ascertaining the right of Shareholders to attend and vote at the EGM to be held on Tuesday, 13 December 2022. However in order to be eligible to attend and vote at the meeting, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Monday, 12 December 2022.
5. Members of the Company or their proxies shall produce documents of their proof of identity when attending the EGM.
6. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 7:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will post an announcement on the website of Company at www.hg-semiconductor.com and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and place of the rescheduled meeting.

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PRECAUTIONARY MEASURES FOR THE EGM

The holding of the EGM in order to comply with the Listing Rules and the articles of association could potentially create a risk in terms of the spread of the Novel Coronavirus (the “COVID19”) pandemic because of large crowds coming together. To reduce the risk of spreading the COVID-19 pandemic and for the health and safety of the attendees of the EGM, the Company wishes to remind the Shareholders and their proxies as follows:

No attendance

Those individual Shareholders who have any symptoms of upper respiratory system diseases or are under any quarantine requirements are advised not to attend the EGM in person.

Not later than 48 hours before the time of the EGM

For the health and safety of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person. Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish. Shareholders may appoint the chairman of the EGM to attend and vote on their behalf by completing and depositing the forms of proxy enclosed with the circular with the Company’s branch share registrars in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong.

At the venue of the EGM

- (a) The Company will take the body temperature of the intended attendees and refuse entry of those with abnormal temperatures.
- (b) Attendees are requested to observe good personal hygiene at all times at the EGM venue and alcohol rubs or hand sanitiser will be provided for use.
- (c) Attendees must wear facial surgical masks throughout the EGM and sit at a distance from other attendees and those not wearing facial surgical masks may be denied entry to the EGM. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks.
- (d) No drinks, refreshments or souvenirs will be provided.
- (e) Attendees who do not comply with the precautionary measures (a) to (d) above or have the symptoms of upper respiratory system diseases or are under any quarantine requirements may be denied entry to the EGM venue at the absolute discretion of the Company as permitted by law.

Due to the constant COVID-19 pandemic situation, the Company may be required to change the EGM arrangements at short notice. Shareholders are advised to check the website of the Stock Exchange and the Company’s website for future announcements and updates on the EGM arrangements.

As at the date of this notice, the executive Directors are Mr. Zhao Yi Wen, Mr. Lyu Xiangrong, Mr. Leung Kin Pang and Ms. Liu Yang; the non-executive Directors are Dr. Wang David Nin-kou and Mr. Wang Jie Chuan; and the independent non-executive Directors are Professor Chow Wai Shing, Tommy, Mr. Wu Wing Kuen, B.B.S., Mr. Chan Chung Kik, Lewis and Mr. Li Yang.