

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



HG SEMICONDUCTOR LIMITED

宏光半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6908)

CONNECTED TRANSACTION

EQUITY TRANSFER AGREEMENT

The Board announces that on 28 April 2023, Swift Power and the Employee Shareholding Platform entered into the Equity Transfer Agreement pursuant to which Swift Power transferred to the Employee Shareholding Platform the Equity Interests in Xuzhou Semiconductor for the purpose of implementing and facilitating the administration and operation of the Employee Share Incentive Scheme. As at the date of this announcement, the Group is in the process of finalizing the terms of the Employee Share Incentive Scheme. Further announcement(s) will be made by the Company in relation to the Employee Share Incentive Scheme as and when appropriate.

As the Equity Transfer did not result in the Company's loss of control over Xuzhou Semiconductor, the Equity Transfer was accounted for as an equity transaction and did not result in the recognition of any gain or loss in the Company's consolidated statement of profit or loss and other comprehensive income.

LISTING RULES IMPLICATIONS

Upon completion of the Equity Transfer on 28 April 2023, the Company's indirect interest in Xuzhou Semiconductor decreased from 86.01% to 65%. As none of the applicable percentage ratios for the Equity Transfer exceed 5%, the Equity Transfer did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

As at the date of the Equity Transfer Agreement, the Employee Shareholding Platform was held by Dr. Chen Zhen as the Limited Partner holding 99% partnership interests in the Employee Shareholding Platform and Xuzhou Renheng as the General Partner holding 1% partnership interests in the Employee Shareholding Platform while Xuzhou Renheng was held as to 51% and 49% by Dr. Xu Zhihong and Dr. Chen Zhen respectively. As Dr. Xu Zhihong and Dr. Chen Zhen were both executive Directors as at the date of the Equity Transfer Agreement, Xuzhou Renheng and the Employee Shareholding Platform were associates of Dr. Xu Zhihong and Dr. Chen Zhen and therefore connected persons of the Company under Chapter 14A of the Listing Rules. Therefore, the Equity Transfer constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) for the Equity Transfer is more than 0.1% but less than 5%, the Equity Transfer is subject to the reporting and announcement requirements, but is exempt from the circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, upon completion of the Equity Transfer, as Xuzhou Semiconductor, being an indirect non-wholly owned subsidiary of the Company, was held as to 21.01% by the Employee Shareholding Platform which is a connected person at the Company level, Xuzhou Semiconductor has since become a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules. Pursuant to Rule 14A.60 of the Listing Rules, the continuing transactions between the Group and Xuzhou Semiconductor have consequently become continuing connected transactions of the Group, and the Group must as soon as practicable after becoming aware of this fact comply with the annual review and disclosure requirements including publishing an announcement and annual reporting if the Group continues to conduct the transactions under the agreements, and comply with all connected transactions requirements when the agreements are renewed or their terms are varied.

The Board has noted the inadvertence of the management of the Company in failing to publish an announcement immediately after the entering into of the Equity Transfer Agreement, which was in breach of Rule 14A.35 of the Listing Rules. The Directors consider that the failure to comply with Rule 14A.35 of the Listing Rules in relation to the announcement of the Equity Transfer was inadvertent and it was an one-off incident.

INTRODUCTION

The Board announces that on 28 April 2023, Swift Power and the Employee Shareholding Platform entered into the Equity Transfer Agreement pursuant to which Swift Power transferred to the Employee Shareholding Platform the Equity Interests in Xuzhou Semiconductor for the purpose of implementing and facilitating the administration and operation of the Employee Share Incentive Scheme. As at the date of this announcement, the Group is in the process of finalizing the terms of the Employee Share Incentive Scheme. Further announcement(s) will be made by the Company in relation to the Employee Share Incentive Scheme as and when appropriate.

On 30 August 2023, the Internal Reorganization was completed such that Xuzhou Semiconductor has become wholly owned by Shenzhen Jiahong Semiconductor which is in turn owned by the same four shareholders of Xuzhou Semiconductor in the same proportion before the completion of the Internal Reorganization.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out below:

Date : 28 April 2023

Parties : (1) Swift Power (as transferor)
(2) The Employee Shareholding Platform (as transferee)

Subject matter

The Equity Interests, being the registered capital of USD6.303 million (equivalent to approximately RMB43.4 million) paid-up by Swift Power to Xuzhou Semiconductor, representing 21.01% of the entire registered capital of Xuzhou Semiconductor of USD30 million, transferred to the Employee Shareholding Platform.

As at the date of the Equity Transfer Agreement, the registered capital of Xuzhou Semiconductor was USD30 million (equivalent to approximately RMB206.5 million), of which USD25.8 million (equivalent to approximately RMB177.6 million) (representing 86% equity interest) had been paid-up (the “**Paid-up Equity Interests**”); and (ii) USD4.2 million (equivalent to approximately RMB28.9 million) (representing 14% equity interest) had not been paid-up. All of the equity interest subject to the Equity Transfer formed part of the Paid-up Equity Interests.

Immediately before the completion of the Equity Transfer Agreement, Xuzhou Semiconductor was owned as to 86.01% by Swift Power and as to 13.99% by the Independent Third Party.

Consideration

The consideration for the Equity Interests is USD3.5142 million (equivalent to approximately RMB24.2 million) (the “**Consideration**”) and it is payable by the Employee Shareholding Platform to Swift Power in cash by 16 April 2026. The payment terms of the Consideration was set with reference to the proposed duration of the Employee Share Incentive Scheme which is intended to end by no later than 16 April 2026.

The Consideration was determined based on 21.01% of the net assets of the Xuzhou Semiconductor as at 31 December 2022 of approximately RMB115.7 million, being approximately RMB24.2 million, which is equivalent to USD3.5142 million.

SHAREHOLDING STRUCTURE OF XUZHOU SEMICONDUCTOR

Set out below is the shareholding structure of Xuzhou Semiconductor immediately before and after the completion of the Equity Transfer as at 28 April 2023:

Shareholders	Immediately before the completion of the Equity Transfer		Immediately after the completion of the Equity Transfer	
	Amount of registered capital (USD)	Approximate equity interest of Xuzhou Semiconductor (%)	Amount of registered capital (USD)	Approximate equity interest of Xuzhou Semiconductor (%)
Swift Power	25,803,000	86.01	19,500,000	65.00
The Independent Third Party (Note 1)	4,197,000	13.99	—	—
Employee Shareholding Platform	—	—	6,303,000	21.01
Strategic Investor (Note 1)	—	—	1,500,000	5.00
Join Gain (Note 1)	—	—	<u>2,697,000</u>	<u>8.99</u>
Total	<u>30,000,000</u>	<u>100.00</u>	<u>30,000,000</u>	<u>100.00</u>

Note:

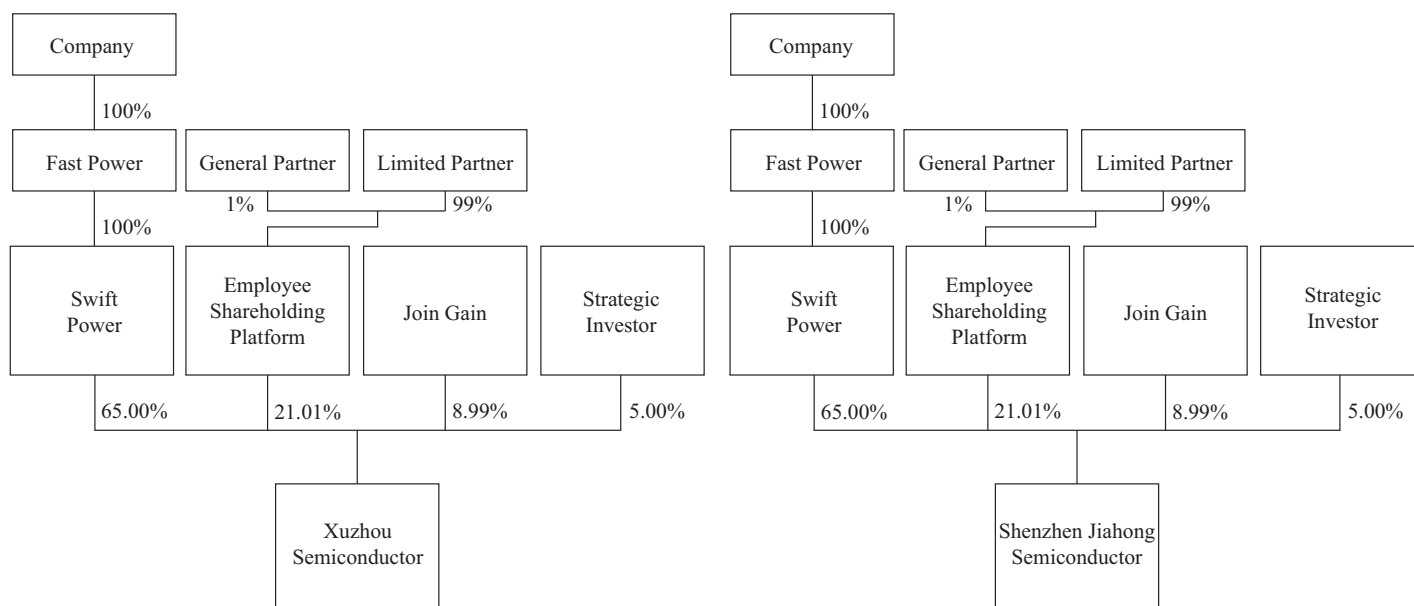
1. On 28 April 2023, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, (i) 5.00% equity interest of Xuzhou Semiconductor was transferred from the Independent Third Party to a strategic investor (the “**Strategic Investor**”) and the Strategic Investor and its ultimate beneficial owner were not connected persons of the Company at the time of the transfer; and (ii) 8.99% equity interest of Xuzhou Semiconductor was transferred from the Independent Third Party to Join Gain HK Limited (“**Join Gain**”), a company incorporated in Hong Kong with limited liability which is indirectly wholly owned by Ms. Qin Xiaolu (“**Ms. Qin**”). Pursuant to the

disclosure form dated 21 October 2022 (being the latest disclosure form filed up to the date of this announcement) as published on the website of the Stock Exchange, Ms. Qin was interested in 39,085,000 shares of the Company, representing approximately 5.20% of the entire issued shares of the Company as at the date of this announcement and Ms. Qin Anqi, a daughter of Ms. Qin, was interested in 100,500,000 shares of the Company, representing approximately 13.38% of the entire issued shares of the Company as at the date of this announcement.

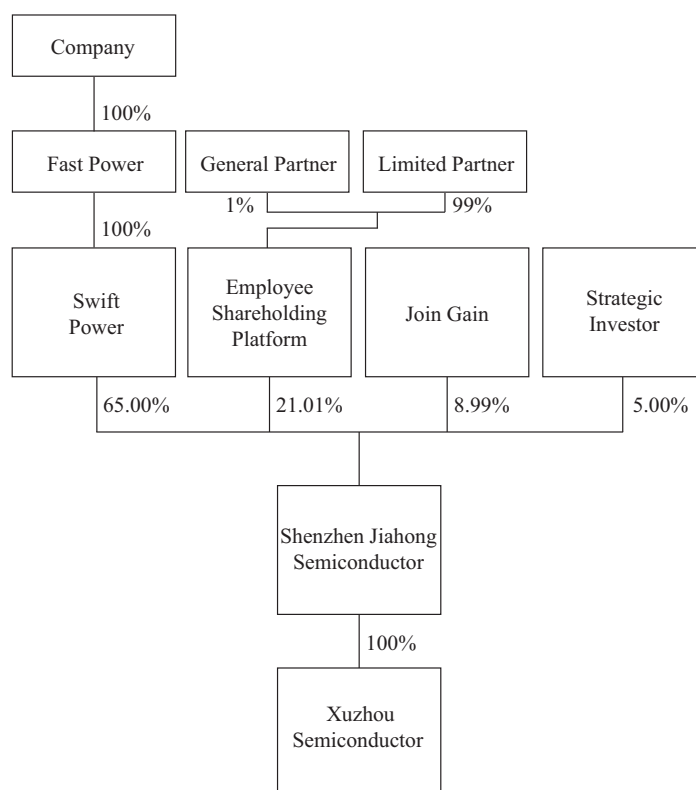
The Internal Reorganization

On 30 August 2023, the Internal Reorganization was completed such that Xuzhou Semiconductor has become wholly owned by Shenzhen Jiahong Semiconductor which is in turn owned by the same four shareholders of Xuzhou Semiconductor in the same proportion before the completion of the Internal Reorganization. The charts below set out the shareholding structure of Xuzhou Semiconductor and Shenzhen Jiahong Semiconductor immediately before and after the completion of the Internal Reorganization:

Immediately before the completion of the Internal Reorganization:



Immediately after the completion of the Internal Reorganization:



FINANCIAL EFFECT OF THE EQUITY TRANSFER

As the Equity Transfer did not result in the Company’s loss of control over Xuzhou Semiconductor, the Equity Transfer was accounted for as an equity transaction and did not result in the recognition of any gain or loss in the Company’s consolidated statement of profit or loss and other comprehensive income.

INFORMATION ON XUZHOU SEMICONDUCTOR AND SHENZHEN JIAHONG SEMICONDUCTOR

Xuzhou Semiconductor

Xuzhou Semiconductor is a company incorporated in the PRC with limited liability. As at the date of this announcement, Xuzhou Semiconductor is wholly owned by Shenzhen Jiahong Semiconductor. The Group has commenced its GaN business through Xuzhou Semiconductor 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.

The Xuzhou Factory 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 Xuzhou Semiconductor will promote the GaN chips by implementing the GaN chips in the circuitry designed for different applications, to raise the customers' loyalty.

Financial information of Xuzhou Semiconductor

The unaudited financial information of Xuzhou Semiconductor for the two years ended 31 December 2022 prepared in accordance with the generally accepted accounting principles in the PRC is as follows:

	For the year ended	
	31 December	
	2021	2022
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	(unaudited)	(unaudited)
Net loss before tax	(9,760)	(42,108)
Net loss after tax	(9,760)	(42,108)

The unaudited net assets of Xuzhou Semiconductor as at 31 December 2022 was approximately RMB104.1 million.

For the two years ended 31 December 2022, Xuzhou Semiconductor was still in the early research and development stage, the net loss after tax was mainly attributable to the research and development staff cost and the software expenditures incurred during the period.

Shenzhen Jiahong Semiconductor

Shenzhen Jiahong Semiconductor is a company incorporated in the PRC with limited liability. As at the date of this announcement, Shenzhen Jiahong Semiconductor (i) is an indirect non-wholly owned subsidiary of the Company whereby the Company owns 65% equity interest in it through Swift Power and (ii) is the sole shareholder of Xuzhou Semiconductor and the major asset of Shenzhen Jiahong Semiconductor is the entire equity interest of Xuzhou Semiconductor. The business scope of Shenzhen Jiahong Semiconductor includes manufacturing and sales of semiconductor products and related equipment, manufacturing, sales and design of integrated circuits and related chips, manufacturing and sales of electronic products, computer software, hardware, and auxiliary equipment, provision of technical development services, consultation and promotional services.

INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENT

Swift Power

Swift Power is an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability and is an investment holding company. As at the date of this announcement, it is holding 65% equity interest in Shenzhen Jiahong Semiconductor.

The Employee Shareholding Platform

The Employee Shareholding Platform is a limited partnership established in the PRC. As at the date of this announcement, the Employee Shareholding Platform is held by Dr. Chen Zhen as the Limited Partner holding 99% partnership interests in the Employee Shareholding Platform and Xuzhou Renheng as the General Partner holding 1% partnership interests in the Employee Shareholding Platform while Xuzhou Renheng is held as to 51% and 49% by Dr. Xu Zhihong and Dr. Chen Zhen respectively.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT AND IMPLEMENTING THE EMPLOYEE SHARE INCENTIVE SCHEME

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.

The Board proposes to adopt the Employee Share Incentive Scheme to recognise the contributions to the development of Xuzhou Semiconductor made by certain employees of the Group (the “**Awardees**”) and to provide the Awardees with opportunities to indirectly invest in Xuzhou Semiconductor and share the future growth and success of Xuzhou Semiconductor through the Employee Shareholding Platform. For the purpose of implementing and facilitating the administration and operation of the Employee Share Incentive Scheme, the Employee Shareholding Platform has been established to hold the Equity Interests indirectly for the Awardees.

The Board is of the view that the Employee Share Incentive Scheme (when implemented) will help to establish a long-term incentive mechanism for the Awardees, further stimulate the vitality of talents in the power semiconductor industry, and form a virtuous cycle of common growth of Xuzhou Semiconductor and the Awardees, so as to better promote the development of the GaN related products of the Group.

Taking into account the purpose of the Equity Transfer which is one of the steps in implementing the Employee Share Incentive Scheme and the benefits of the Employee Share Incentive Scheme to the Group, the Board considers that the Equity Transfer Agreement and the transactions contemplated thereunder which were entered into on arm’s length basis and on normal commercial terms and that the terms and conditions of the Equity Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of their interests in the Employee Shareholding Platform, Dr. Xu Zhihong and Dr. Chen Zhen, being the executive Directors, have abstained from voting on the Board resolutions ratifying and approving the Equity Transfer Agreement. Save as disclosed above, none of the Directors has any material interest in the transactions under the Equity Transfer and none of them has abstained from voting on the relevant Board resolution.

CONTINUING CONNECTED TRANSACTIONS PURSUANT TO RULE 14A.60 OF THE LISTING RULES

Following the completion of the Equity Transfer, as Xuzhou Semiconductor, being an indirect non-wholly owned subsidiary of the Company, was held as to 21.01% by the Employee Shareholding Platform which is a connected person at the Company level, Xuzhou Semiconductor has since become a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules. Prior to the completion of the Equity Transfer, Xuzhou Semiconductor had entered into the Fast Power Service Agreement and the Swift Power Service Agreement with Fast Power and Swift Power respectively, while Shenzhen Qianyan maintained a current account with Xuzhou Semiconductor in respect of other loan advances to Xuzhou Semiconductor. Therefore, following the completion of the Equity Transfer, the transactions under the above agreements and the Loan Advances constituted continuing connected transactions between Shenzhen Qianyan, Fast Power, Swift Power (as the case may be) and Xuzhou Semiconductor.

The Fast Power Service Agreement

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

Date of the Fast Power Service Agreement	:	1 August 2021
Parties	:	(i) Fast Power (as service provider) (ii) Xuzhou Semiconductor (as customer)
Scope of the Services	:	Fast Power will provide management and administrative support services to Xuzhou Semiconductor, including but not limited to (i) technology advisory services; (ii) technology development and promotion; (iii) investment consulting; (iv) enterprise management consulting; (v) business consulting; and (vi) economic information consulting
Term	:	Three years, from 1 August 2021 to 31 July 2024 (the “ Fast Power Service Period ”)

Management fee and payment : A monthly management fee of USD100,000 (equivalent to approximately RMB0.7 million) is payable by Xuzhou Semiconductor to Fast Power whereby the management fee for the initial month is payable within 30 days from the end of the initial month and thereafter the management fee shall be payable within 15 days after the end of each month during the Fast Power Service Period

The Swift Power Service Agreement

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

Date of the Swift Power Service Agreement : 1 October 2021

Parties : (i) Swift Power (as service provider)
(ii) Xuzhou Semiconductor (as customer)

Scope of the Services : Swift Power will provide management and administrative support services to Xuzhou Semiconductor, including but not limited to (i) technology advisory services; (ii) technology development and promotion; (iii) investment consulting; (iv) enterprise management consulting; (v) business consulting; and (vi) economic information consulting

Term of the services : Three years, from 1 October 2021 to 30 September 2024 (the “**Swift Power Service Period**”)

Management fee and payment : A monthly management fee of USD100,000 (equivalent to approximately RMB0.7 million) is payable by Xuzhou Semiconductor to Swift Power whereby the management fee for the initial month is payable within 30 days from the end of the initial month and thereafter the management fee shall be payable within 15 days after the end of each month during the Swift Power Service Period

The Intercompany Loan Advances

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

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

The Entrusted Loan Agreement

Besides the Loan Advances, on 8 June 2022, Xuzhou Semiconductor entered into the Entrusted Loan Agreement with Shenzhen Qianyan and China Merchant Bank (Shenzhen Branch) for the purpose of granting the Entrusted Loan by Shenzhen Qianyan to Xuzhou Semiconductor which is non-interest bearing and it did not constitute continuing connected transactions of the Company following the completion of the Equity Transfer. Salient terms of the Entrusted Loan Agreement are set out below:

Date of the Entrusted Loan Agreement : 8 June 2022

Parties : (i) Xuzhou Semiconductor (as borrower)
(ii) Shenzhen Qianyan (as entrusting party)
(iii) China Merchants Bank (Shenzhen Branch) (as entrusted party)

Term of the Entrusted Loan : Three years, from 9 June 2022 to 9 June 2025

Principal amount of the Entrusted Loan	:	RMB30 million, of which RMB21.5 million was drawn down by Xuzhou Semiconductor and RMB2 million was subsequently repaid by Xuzhou Semiconductor to Shenzhen Qianyan with the outstanding balance being RMB19.5 million as at the date of this announcement.
Interest rate	:	Nil
Use of proceeds	:	For the payment of loans, utilities costs, salaries and disbursements
Release of the Entrusted Loan	:	The principal of the Entrusted Loan will be released to Xuzhou Semiconductor in two instalments. The conditions precedent for the release of the principal of the Entrusted Loan include (i) China Merchants Bank (Shenzhen Branch) having received the confirmation letter from Xuzhou Semiconductor and Shenzhen Qianyan in respect of the drawdown of the Entrusted Loan by Xuzhou Semiconductor; (ii) Xuzhou Semiconductor and Shenzhen Qianyan having presented their respective board resolutions in relation to the Entrusted Loan to China Merchants Bank (Shenzhen Branch); (iii) Shenzhen Qianyan having opened an entrusted loan account at China Merchants Bank (Shenzhen Branch); (iv) Shenzhen Qianyan having provided proof of fund source to China Merchants Bank (Shenzhen Branch); and (v) Shenzhen Qianyan having deposited the amount of the Entrusted Loan into the entrusted loan account maintained at China Merchants Bank (Shenzhen Branch).
Repayment of the Entrusted Loan	:	All principal of the Entrusted Loan is required to be settled by the date of expiry of the term of the Entrusted Loan.
Early repayment and extension of the Entrusted Loan	:	With the consent of Shenzhen Qianyan, Xuzhou Semiconductor may repay part or all of the Entrusted Loan within the term of the Entrusted Loan after completing the formalities in accordance with the relevant provisions of the Entrusted Loan Agreement.

If Xuzhou Semiconductor needs to extend the term of the Entrusted Loan, Xuzhou Semiconductor shall submit a written application for extension to Shenzhen Qianyan prior to the maturity date of the Entrusted Loan, which shall be reviewed and agreed by Shenzhen Qianyan. After obtaining the approval from Shenzhen Qianyan, Shenzhen Qianyan and Xuzhou Semiconductor shall provide a written notice to China Merchants Bank (Shenzhen Branch) and the extension agreement shall be signed in accordance with relevant terms before the Entrusted Loan can be extended accordingly. If Shenzhen Qianyan does not agree with the extension, Xuzhou Semiconductor shall repay the principal amount of the Entrusted Loan in accordance with the terms of the Entrusted Loan Agreement.

Service charge payable to : Nil
China Merchants Bank
(Shenzhen Branch)

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the date of this announcement, China Merchants Bank (Shenzhen Branch) is an independent third party which is independent of the Company and its connected persons, while Shenzhen Qianyan is a wholly-owned subsidiary of Swift Power which is in turn indirectly wholly owned by the Company. Shenzhen Qianyan will use its own funds to fund the Entrusted Loan.

As the operation of Xuzhou Semiconductor is in its development phase, the Group has been financing the working capital and providing support to its management and administrative functions since its establishment. Having reviewed the terms of the Fast Power Service Agreement, the Swift Power Service Agreement and the Loan Advances, the Directors (including the independent non-executive Directors) are of the view that the Continuing Connected Transactions were on normal commercial terms and that the terms in respect of the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Upon completion of the Equity Transfer on 28 April 2023, the Company's indirect interest in Xuzhou Semiconductor decreased from 86.01% to 65%. As none of the applicable percentage ratios for the Equity Transfer exceed 5%, the Equity Transfer did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

As at the date of the Equity Transfer Agreement, the Employee Shareholding Platform was held by Dr. Chen Zhen as the Limited Partner holding 99% partnership interests in the Employee Shareholding Platform and Xuzhou Renheng as the General Partner holding 1% partnership interests in the Employee Shareholding Platform while Xuzhou Renheng was held as to 51% and 49% by Dr. Xu Zhihong and

Dr. Chen Zhen respectively. As Dr. Xu Zhihong and Dr. Chen Zhen were both executive Directors as at the date of the Equity Transfer Agreement, Xuzhou Renheng and the Employee Shareholding Platform were associates of Dr. Chen Zhen and Dr. Xu Zhihong and therefore connected persons of the Company under Chapter 14A of the Listing Rules. The Equity Transfer constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) for the Equity Transfer is more than 0.1% but less than 5%, the Equity Transfer is subject to the reporting and announcement requirements, but is exempt from the circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, upon completion of the Equity Transfer, as Xuzhou Semiconductor, being an indirect non-wholly owned subsidiary of the Company, was held as to 21.01% by the Employee Shareholding Platform which is a connected person at the Company level, Xuzhou Semiconductor has since become a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules. Pursuant to Rule 14A.60 of the Listing Rules, the continuing transactions between the Group and Xuzhou Semiconductor have consequently become continuing connected transactions of the Group, and the Group must as soon as practicable after becoming aware of this fact comply with the annual review and disclosure requirements including publishing an announcement and annual reporting if the Group continues to conduct the transactions under the agreements, and comply with all connected transactions requirements when the agreements are renewed or their terms are varied.

The Board has noted the inadvertence of the management of the Company in failing to publish an announcement immediately after the entering into of the Equity Transfer Agreement, which was in breach of Rule 14A.35 of the Listing Rules. The Directors consider that the failure to comply with Rule 14A.35 of the Listing Rules in relation to the announcement of the Equity Transfer was inadvertent and it was an one-off incident.

REMEDIES ADOPTED BY THE COMPANY

The Company has reported the relevant matters of the above connected transactions to the Directors, and has received confirmation from all Directors in relation to ratification, confirmation and approval of the above connected transactions.

Going forward, the Company will further enhance the management of connected transactions through the following measures: (i) to put greater emphasis on the management of connected transactions of the Company; (ii) to streamline and polish the internal system and procedures of connected transactions, and to clarify the responsibilities of the Company and relevant connected persons in the management of connected transactions; (iii) to strengthen the Company's internal publicization and understanding of the Listing Rules and enhance its internal training; and (iv) to communicate closely with the department responsible for information disclosure and legal advisor in a timely manner before the business department entering into any agreements that may involve connected transactions to avoid the recurrence of the same.

DEFINITIONS

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

“Board”	the board of Directors
“China Merchants Bank (Shenzhen Branch)”	China Merchants Bank Co., Ltd, Shenzhen Branch
“Company”	HG Semiconductor Limited, a company incorporated in Cayman Islands with limited liability, the Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 6908)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions of the Company under the Fast Power Service Agreement, the Swift Power Service Agreement and the Loan Advances
“Directors”	the director(s) of the Company
“Dr. Chen Zhen”	Dr. Chen Zhen, an executive Director, who is a Limited Partner holding 99% partnership interests in the Employee Shareholding Platform
“Dr. Xu Zhihong”	Dr. Xu Zhihong, an executive Director
“Employee Shareholding Platform”	Xuzhou Diheng Semiconductor Technology Partnership* (徐州地恆半導體科技合夥企業(有限合夥)), a limited partnership established in the PRC
“Employee Share Incentive Scheme”	a proposed employee share incentive scheme of Shenzhen Jiahong Semiconductor or Xuzhou Semiconductor to be established for providing certain employees of the Group with opportunities to indirectly invest in Xuzhou Semiconductor
“Entrusted Loan”	the entrusted loan in the principal amount of RMB30 million granted by Shenzhen Qianyan (through China Merchants Bank (Shenzhen Branch)) to Xuzhou Semiconductor pursuant to the Entrusted Loan Agreement

“Entrusted Loan Agreement”	the entrusted loan agreement dated 8 June 2022 entered into between Xuzhou Semiconductor, Shenzhen Qianyan and China Merchants Bank (Shenzhen Branch) in relation to the granting of the Entrusted Loan by Shenzhen Qianyan (through China Merchants Bank (Shenzhen Branch)) to Xuzhou Semiconductor
“Equity Interests”	the registered capital of USD6.303 million (equivalent to approximately RMB43.4 million) paid-up by Swift Power to Xuzhou Semiconductor, representing 21.01% of the entire registered capital of Xuzhou Semiconductor of USD30 million
“Equity Transfer”	the transfer of the Equity Interests from Swift Power to Employee Shareholding Platform pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	the agreement dated 28 April 2023 entered into between Swift Power and the Employee Shareholding Platform pursuant to which Swift Power transferred to the Employee Shareholding Platform the Equity Interests
“Fast Power”	FASTPOWER INC., an exempted company incorporated in California, the United States of America and is an indirect wholly-owned subsidiary of the Company
“Fast Power Service Agreement”	the agreement dated 1 August 2021 between Xuzhou Semiconductor and Fast Power in relation to the provision of certain services by Fast Power to Xuzhou Semiconductor
“GaN”	Gallium Nitride
“General Partner”	the general partner of the Employee Shareholding Platform
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	a company independent of the Company and its connected persons
“Internal Reorganization”	the internal reorganization of Xuzhou Semiconductor implemented by the shareholders of Xuzhou Semiconductor and completed on 30 August 2023 pursuant to which Xuzhou Semiconductor has become wholly owned by Shenzhen Jiahong Semiconductor upon its completion
“Limited Partner”	the limited partner of the Employee Shareholding Platform

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Advances”	the loan advances by Shenzhen Qianyan to Xuzhou Semiconductor in the amount of RMB64 million maintained under Shenzhen Qianyan’s current account with Xuzhou Semiconductor since 1 April 2023 which is repayable by 30 April 2026
“PRC”	the People’s Republic of China, which for the purposes of this announcement excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Shenzhen Jiahong Semiconductor”	Shenzhen Jiahong Semiconductor Company Limited* (深圳鎔宏半導體有限公司), a company incorporated in the PRC with limited liability which is owned by Swift Power, the Employee Shareholding Platform, Join Gain and the Strategic Investor as to 65%, 21.01%, 8.99% and 5% respectively as at the date of this announcement
“Shenzhen Qianyan”	Shenzhen Qianyan Technology Development Company Limited* (深圳前沿科技研發有限公司), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Swift Power”	Swift Power Limited, a company incorporated in Hong Kong with limited liability, which is an indirect wholly-owned subsidiary of the Company
“Swift Power Service Agreement”	the agreement dated 1 October 2021 between Xuzhou Semiconductor and Swift Power in relation to the provision of certain services by Swift Power to Xuzhou Semiconductor
“USD”	United States dollars, the lawful currency of the United States of America
“Xuzhou Renheng”	Xuzhou Renheng Semiconductor Technology Company Limited* (徐州人恆半導體科技有限公司), a company incorporated in the PRC owned by Dr. Xu Zhihong and Dr. Chen Zhen as to 51% and 49% respectively and it is the General Partner as at the date of the Equity Transfer Agreement and the date of this announcement

“Xuzhou Semiconductor” Jiangsu Jiahong Semiconductor Co., Ltd* (江蘇鎔宏半導體有限公司) (formerly known as Xuzhou GSR Semiconductor Co., Ltd.* (徐州金沙江半導體有限公司)), a company incorporated in the PRC which is an indirect non-wholly owned subsidiary of the Company

“%” per cent.

For illustration purpose, amounts in USD in this announcement have been translated into RMB at the rate of USD1 = RMB6.884. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in USD or RMB have been, could have been or may be converted at such or any other rate or at all.

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

Hong Kong, 20 September 2023

As at the date of this announcement, the executive Directors are Dr. Xu Zhihong, Mr. Zhao Yi Wen, Mr. Lyu Xiangrong, Mr. Leung Kin Pang and Dr. Chen Zhen; the non-executive Director is Dr. Wang David Nin-kou; and the independent non-executive Directors are Professor Chow Wai Shing, Tommy, Mr. Li Yang, Mr. Zou Haiyan and Mr. Siu Miu Man, Simon, MH.

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.

* *For illustration purposes only*