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If you have sold or transferred all your Shares in HG Semiconductor Limited, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution 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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HG SEMICONDUCTOR LIMITED

宏光半導體有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6908)

(1) DEBT RESTRUCTURING INVOLVING ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE FOR DEBT CAPITALIZATION; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this cover have the same meanings as those defined in this circular.

A notice convening the extraordinary general meeting of the Company (the “EGM”) to be held at Unit B, 14/F., Microsoft Science and Technology Building, No. 55 Gaoxin South 9th Road, Gaoxin Community, Yuehai Street, Nanshan District, Shenzhen, China on Wednesday, 12 July 2023 at 3:00 p.m. is set out on pages 18 to 20 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.

27 June 2023

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DEFINITIONS

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

“Board”	the board of Directors
“Borrowers”	the Company and its two wholly-owned subsidiaries, namely FastPower and Swift Power
“Business Day(s)”	a day(s) (other than a Saturday, Sunday or public holiday or any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 p.m. and is not lowered at or before 12:00 p.m. or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 p.m. and is not discontinued at or before 12:00 p.m.) on which licensed banks in Hong Kong are open for general banking business
“Capitalization”	the capitalization of the Indebted Sum (equivalent to approximately HK\$103,563,028) into 129,453,785 Capitalization Shares at a subscription price of HK\$0.80 per Capitalization Share
“Capitalization Shares”	129,453,785 new Shares to be allotted and issued to the Creditor (or its designated person) at the Subscription Price
“Company”	HG Semiconductor Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 6908)
“Completion”	completion of the Debt Settlement Agreement
“Completion Date”	the date on which Completion takes place in accordance with the Debt Settlement Agreement, being the fifth (5th) Business Day after the satisfaction (or, if applicable, waiver) of all the Conditions Precedent or such other date as the Parties may agree in writing
“Conditions Precedent”	the conditions precedent to Completion as set out in the Debt Settlement Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Creditor”	Jovial Star International Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Mr. Zhan

DEFINITIONS

“Debt Restructuring”	a debt restructuring plan to settle the Indebted Sum by Capitalization
“Debt Settlement Agreement”	the debt settlement agreement dated 31 May 2023 entered into between the Borrowers and the Creditor in respect of the Debt Restructuring
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 3:00 p.m. on Wednesday, 12 July 2023 at Unit B, 14/F., Microsoft Science and Technology Building, No. 55 Gaoxin South 9th Road, Gaoxin Community, Yuehai Street, Nanshan District, Shenzhen, China for the Shareholders to consider and, if thought fit, approve, among other things, the Debt Settlement Agreement and the transactions contemplated thereunder and the granting of the Specific Mandate, or any adjournment thereof
“FastPower”	FastPower Holding Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of the Company and one of the borrowers of the Secured Loan
“GaN”	the third-generation gallium nitride
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Indebted Sum”	the total sum of approximately HK\$103,563,028, being the aggregate outstanding principal amount and the interests accrued thereunder owed by the Borrowers to the Creditor as at 31 May 2023, which is subject to the Capitalization
“Independent Third Party(ies)”	party(ies) independent of the Company and its connected persons
“Latest Practicable Date”	21 June 2023, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein
“Listing Committee”	the listing committee of the Stock Exchange

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement dated 26 December 2022 entered into between the Borrowers and the Creditor in respect of the granting of the Secured Loan which was due on 30 April 2023
“Long Stop Date”	31 August 2023 or such later date as the Parties may agree in writing
“MOU”	the memorandum of understanding dated 23 May 2023 entered into between the Creditor, the Company, FastPower and Swift Power in relation to the proposal to settle the Indebted Sum
“Mr. Zhan”	Mr. Zhan Haisu (詹海粟先生), being the ultimate beneficial owner of the Creditor
“Parties”	the Borrowers on the one hand and the Creditor on the other, and “Party” means any one of them
“Placing”	the placing of up to 40,000,000 new Shares under general mandate pursuant to the terms of the placing agreement entered into between the Company and VC Brokerage Limited as the placing agent on 23 May 2023, details of which are set out in the announcements of the Company dated 23 May 2023 and 13 June 2023 in relation thereto
“Placing Shares”	40,000,000 new Shares issued under the Placing
“PRC”	the People’s Republic of China, which for the sole purpose of this circular excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Secured Loan”	the loan granted by the Creditor to the Borrowers in the aggregate principal amount of HK\$98,290,446.45 which is secured by the charges over the entire shareholding of three subsidiaries of the Company
“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

DEFINITIONS

“Shareholder(s)”	the shareholder(s) of the Company
“Specific Mandate”	the specific mandate to allot, issue and deal with the Capitalization Shares, which is to be proposed to be sought from the Shareholders at the EGM
“Statutory Demand”	the statutory demand issued by the Creditor in the Cayman Islands on 3 May 2023 to the Company, pursuant to which the Company has 21 days to either settle the debt, or to make arrangement for the debt with the Creditor
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.80 per Capitalization Share
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Swift Power”	Swift Power Limited, a company incorporated in Hong Kong with limited liability, which is an indirect wholly-owned subsidiary of the Company and one of the borrowers of the Secured Loan
“%”	per cent.

For illustration purpose, amounts in RMB in this circular have been translated into HK\$ at the rate of RMB1 = HK\$1.11. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such or any other rate or at all.

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:

Dr. Xu Zhihong (*Chairman*)
Dr. Cao Yu (*Chief Executive Officer*)
Mr. Zhao Yi Wen
Mr. Lyu Xiangrong
Mr. Leung Kin Pang
Dr. Chen Zhen

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

*Headquarter and principal place of
business in the 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. Li Yang
Mr. Zou Haiyan
Mr. Siu Miu Man, Simon, *MH*

27 June 2023

To the Shareholders,

Dear Sir or Madam,

**(1) DEBT RESTRUCTURING INVOLVING
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE
FOR DEBT CAPITALIZATION; AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 31 May 2023, in relation to, among other things, the Debt Settlement Agreement.

LETTER FROM THE BOARD

On 26 December 2022, the Company, FastPower and Swift Power as Borrowers entered into the Loan Agreement with the Creditor, pursuant to which the Creditor granted the Secured Loan to the Company which was due on 30 April 2023. The major terms of the Secured Loan according to the Loan Agreement are as follows:

- Principal amount drawn: HK\$98,290,446.45
- Maturity date: 30 April 2023
- Interest: at a rate of 12% per annum, accruing on the basis of the actual number of days elapsed from the date of drawdown and a 365 day year, and payable in one lump sum on the maturity date
- Default interest: 24% per annum
- Security: (a) share mortgage over all the issued shares of FastPower held by the Company in favour of the Creditor
- (b) share mortgage over all the issued shares of FastSemi Holding Limited held by the Company in favour of the Creditor
- (c) share mortgage over all the issued shares of Swift Power held by FastPower in favour of the Creditor
- Use: for the daily operation and purchase of production equipment of Xuzhou Jinshajiang Semiconductor Co., Ltd. (徐州金沙江半導體有限公司), a member of the Group

With reference to the announcement of the Company dated 5 August 2022 and the circular of the Company dated 28 November 2022 in relation to the proposed issue of new Shares and unlisted warrants under specific mandates which would raise (i) net proceeds of approximately HK\$180 million from new Shares subscription and (ii) net proceeds of approximately HK\$220.8 million from possible full exercise of subscription right under the warrants (the “**Subscription**”) and having considered that the Company has always been spending efforts to approach other potential investors and financiers for seeking fundraising opportunity to meet the financial needs of the business development of the Group, the Company has been expecting additional fundings from those investors for developing its existing business in short term. Accordingly, the Borrowers obtained the Secured Loan as an interim financing arrangement mainly to facilitate the procurement of production equipment and materials and support the operation of the Group’s GaN technology development and production business. However, the Subscription and other fundraising plans did not materialise except for the Placing which raised net proceeds of approximately HK\$35.1 million.

LETTER FROM THE BOARD

The Secured Loan has been overdue since 30 April 2023 and the Creditor has issued the Statutory Demand in the Cayman Islands on 3 May 2023 to the Company, pursuant to which the Company has 21 days to either settle the debt, or to make arrangement for the debt with the Creditor.

On 23 May 2023, the Borrowers entered into the MOU with the Creditor in relation to the Debt Restructuring to settle the Indebted Sum.

On 31 May 2023, the Borrowers as debtors and the Creditor entered into the Debt Settlement Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and the Creditor has conditionally agreed to subscribe for, a total of 129,453,785 Capitalization Shares at the price of HK\$0.80 per Share in settlement of the Indebted Sum.

The purpose of this circular is to provide you with, among other things, (i) further details of the Debt Settlement Agreement and the transactions contemplated thereunder; and (ii) the notice convening the EGM.

DEBT SETTLEMENT AGREEMENT

The principal terms of the Debt Settlement Agreement are set out as below:

Date

31 May 2023

Parties

Debtors: the Company, FastPower and Swift Power

Issuer: the Company

Creditor and Subscriber: the Creditor

The Creditor is a company incorporated in the British Virgin Islands with limited liability. Mr. Zhan is the ultimate beneficial owner of the Creditor. Mr. Zhan has extensive financial and asset management experience in the PRC including investments in start-ups companies in various industries in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Creditor and its ultimate beneficial owner are Independent Third Parties and have no current or past business relationship with the Company and/or its connected persons.

LETTER FROM THE BOARD

Mr. Zhan became acquainted with Mr. Lyu Xiangrong (“**Mr. Lyu**”), an executive Director, through their hometown connection. As the management of the Company has always been spending efforts to approach potential investors and financiers for seeking fundraising opportunity to meet the financial needs of the business development of the Group, the Creditor was introduced to the Company by Mr. Lyu.

Confirmation of the Indebted Sum

Pursuant to the Debt Settlement Agreement, the Parties agree and confirm that the total amount owed by the Borrowers to the Creditor under the Loan Agreement is HK\$103,563,028.

Capitalization of the Indebted Sum

Pursuant to the Debt Settlement Agreement, the Company will issue the Capitalization Shares to the Creditor (or its designated person) at the Subscription Price as full settlement of the Indebted Sum. Based on the Indebted Sum of HK\$103,563,028 and the Subscription Price of HK\$0.80, the Company shall allot and issue the 129,453,785 Capitalization Shares to the Creditor (or its designated person) to settle the Indebted Sum.

On the Completion Date, all amounts owed by the Borrowers to the Creditor under the Loan Agreement (including but not limited to the principal amount of the respective loan, interest accrued thereon, default interest and expenses to be borne by the Borrowers under the Loan Agreement) shall be deemed to have been repaid and satisfied in full.

Capitalization Shares

An aggregate of 129,453,785 new Shares will be issued under the Capitalization.

The Capitalization Shares represent (i) approximately 20.83% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 17.24% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalization Shares, assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to Completion.

The Capitalization Shares have an aggregate nominal value of HK\$1,294,537.85.

LETTER FROM THE BOARD

Subscription Price

The Subscription Price of HK\$0.80 per Capitalization Share, represents:

- (a) a discount of approximately 25.23% to the closing price of HK\$1.07 per Share as quoted on the Stock Exchange on 23 May 2023, being the date on which the Company and the Creditor conditionally agreed on the principal terms of the Debt Restructuring by way of the MOU;
- (b) a discount of approximately 28.57% to the average closing price of HK\$1.12 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately prior to the date of the MOU;
- (c) a discount of approximately 23.81% to the average closing price of HK\$1.05 per Share as quoted on the Stock Exchange for the last ten (10) trading days immediately prior to the date of the MOU;
- (d) a discount of approximately 57.67% to the closing price of HK\$1.89 per Share as quoted on the Stock Exchange on 31 May 2023, being the date of Debt Settlement Agreement;
- (e) a discount of approximately 48.05% to the average closing price of HK\$1.54 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately prior to the date of Debt Settlement Agreement;
- (f) a discount of approximately 39.85% to the average closing price of HK\$1.33 per Share as quoted on the Stock Exchange for the last ten (10) trading days immediately prior to the date of Debt Settlement Agreement;
- (g) a discount of approximately 33.88% to the average closing price of HK\$1.21 per Share as quoted on the Stock Exchange for the last thirty (30) trading days immediately prior to the date of Debt Settlement Agreement;
- (h) a discount of approximately 50.92% to the closing price of HK\$1.63 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (i) a discount of approximately 29.20% to the net asset value per Share of approximately HK\$1.13 (based on the latest published audited net assets attributable to owners of the Company of approximately RMB593,754,000 (equivalent to approximately HK\$659,066,940) as at 31 December 2022 and 581,601,000 Shares in issue as at 31 December 2022).

The Subscription Price was determined and negotiated on an arm's length basis between the Company and the Creditor having considered and with reference to (i) the Indebted Sum being overdue and the Creditor having issued the Statutory Demand and the fact that the Capitalization is the only feasible way of implementing the Debt Restructuring; (ii) the recent trading prices of the Shares prior to and the price of the Shares on the date of the MOU; (iii)

LETTER FROM THE BOARD

the fact that the Share prices during the period since the commencement of the negotiation upon receipt of the Statutory Demand and up to the date of the MOU (the “**Relevant Period**”) are generally below the net asset value per Share of approximately HK\$1.13 as at 31 December 2022; (iv) the unsatisfactory financial position of the Group with consecutive losses in the previous two financial years ended 31 December 2021 and 2022; and (v) the fact that the relatively weak capital market condition made it more challenging for the Group to explore other feasible fund raising alternatives for the settlement of the Indebted Sum before the expiry date of the Statutory Demand. Having considered the above basis of determining the Subscription Price, in particular, the facts that the Capitalization represents the only feasible way of implementing the Debt Restructuring and the Subscription Price was determined by reference to the price of the Shares on the date of the MOU, the Directors consider that the Subscription Price is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

The Capitalization involves the capitalization of the Indebted Sum into a total of 129,453,785 Capitalization Shares at the Subscription Price of HK\$0.80 per Share, and the Company will use its internal resources to settle the professional fees and all other related expenses which may be borne by the Company in connection with the Capitalization. The net issue price per Capitalization Share will be HK\$0.80.

There will be no proceeds arising from the issue of the Capitalization Shares as the aggregate amount of the Subscription Price will be set off against the Indebted Sum owing by the Borrowers to the Creditor on a dollar to dollar basis.

Conditions Precedent

Completion is conditional upon the fulfilment (or, where applicable, waiver) of the following Conditions Precedent:

- (1) each of the Borrowers has provided the Creditor with a copy of the resolutions of its directors approving the Debt Settlement Agreement and the transactions contemplated by the Debt Settlement Agreement, which shall be certified as true and complete by one of its directors;
- (2) the Creditor has provided the Borrowers with a copy of the resolution of its directors approving the Debt Settlement Agreement and the transactions contemplated hereby, which shall be certified as true and complete by one of its directors;
- (3) the Company has obtained in accordance with the relevant requirements of the Listing Rules at the EGM to be convened the necessary approval from the Shareholders for the Debt Settlement Agreement and the transactions contemplated under the Debt Settlement Agreement including but not limited to the authorization to the Directors to allot and issue the Capitalization Shares to the Creditor (or its designated person) at the Subscription Price by way of the Specific Mandate;

LETTER FROM THE BOARD

- (4) the Listing Committee has granted approval for the listing of, and permission to deal in, the Capitalization Shares on the Stock Exchange;
- (5) the Creditor has provided the Borrower with an application for shares duly completed and signed by the Creditor (or its designated person) in respect of the Capitalization Shares; and
- (6) the Borrowers are not in material breach of any representation or warranty made by them pursuant to the Debt Settlement Agreement.

The Borrowers undertake to use their best and reasonable endeavours to procure the satisfaction of the Conditions Precedent set out above (other than those set out in sub-paragraph (2) and (5)) on or before the Long Stop Date. The Creditor undertakes to use its best and reasonable endeavours to procure the satisfaction of the Conditions Precedent set out in sub-paragraphs (2) and (5) on or before the Completion Date. Neither the Borrowers nor the Creditor shall be entitled to waive any of the Conditions Precedent except that the Creditor shall be entitled to waive in writing the Condition Precedent set out in sub-paragraph (6) at any time on or before the Long Stop Date.

If any of the Conditions Precedent has not been satisfied (or, if applicable, waived) in full by the Long Stop Date, the Creditor may terminate the Debt Settlement Agreement by written notice to the Borrowers after the Long Stop Date, whereupon the rights and obligations of the Borrowers and the Creditor under the Debt Settlement Agreement shall forthwith cease and terminate (other than the terms in relation to, among others, Conditions Precedent, confidentiality, fees, notice and applicable law and jurisdiction). Neither Party shall have any claim against the other Party in respect of the Debt Settlement Agreement, provided that it shall not prejudice or affect any right of either Party under the Debt Settlement Agreement to pursue any breach of any term of the Debt Settlement Agreement by the other Party prior to the termination of the Debt Settlement Agreement. The Creditor shall continue to reserve its right under the Statutory Demand to demand the settlement of all debts due by the Borrowers and the default interest on the Secured Loan shall continue to accrue.

As at the Latest Practicable Date, none of the Conditions Precedent had been satisfied or, if applicable, waived.

Completion

Subject to the satisfaction (or, if applicable, waiver) of all the Conditions Precedent in full, Completion will take place on the Completion Date.

Ranking of the Capitalization Shares

The Capitalization Shares, when fully paid, will rank *pari passu* in all respects with the Shares in issue on the Completion date, including the right to any dividends or distributions the record date of which falls on or after the date of allotment.

LETTER FROM THE BOARD

FUND-RAISING EXERCISES IN THE PAST 12 MONTHS

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
23 May 2023	Placing of 40,000,000 new Shares at the placing price of HK\$0.90 pursuant to the placing agreement entered into between the Company and VC Brokerage Limited as placing agent dated 23 May 2023	Approximately HK\$35.1 million	<p>(i) as to approximately HK\$17.55 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\$17.55 million for provision of general working capital and improving the financial position of the Group.</p>	To be used as intended.
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	<p>(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</p> <p>(ii) as to approximately HK\$4.5 million for provision of general working capital and improving the financial position of the Group.</p>	<p>(i) fully utilised as intended.</p> <p>(ii) fully utilised as intended.</p>
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>	<p>(i) fully utilised as intended.</p> <p>(ii) fully utilised as intended.</p>

LETTER FROM THE BOARD

REASONS AND BENEFITS FOR THE DEBT RESTRUCTURING

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.

Pursuant to the Debt Settlement Agreement, the Indebted Sum owing by the Borrowers to the Creditor is HK\$103,563,028, which represents the aggregate amount of the principal amount and interests accrued up to the date of the Debt Settlement Agreement. The Secured Loan bears an interest rate of 12% per annum and a default interest rate of 24% per annum. The Secured Loan has been due since 30 April 2023 and the Borrowers have failed to repay the amount payable under the Loan Agreement.

The Company has been using its best effort to negotiate with the Creditor in respect of any acceptable arrangement for settlement of the Secured Loan. On 3 May 2023, the Creditor issued the Statutory Demand in the Cayman Islands to the Company, pursuant to which the Company has 21 days to either settle the debt, or to make arrangement for the debt with the Creditor. The Directors consider that failing to settle the debt upon the expiry of the 21 days' period under the Statutory Demand will expose the Company to a risk of being put into liquidation.

As mentioned in above section headed "Fund-raising Exercises in the Past 12 Months", the net proceeds raised in the previous placing exercises completed in August and September 2022 have been fully utilized. As at 31 May 2023, the cash and cash equivalents of the Group amounted to approximately RMB8.90 million. Subsequently, the Placing was completed on 13 June 2023 raising net proceeds of approximately HK\$35.1 million. Accordingly, the Directors consider that while the Group is able to maintain sufficient cash and liquidity for its business operation and working capital requirement, the Company does not have sufficient internal resources to settle the Indebted Sum.

The Debt Restructuring offers the Group with a valuable chance of reaching a full settlement of the Indebted Sum without utilizing existing financial resources of the Company and exerting additional pressure on the tight cashflow position of the Group. The Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to preserve as much liquidity as possible in order to maintain the Group's financial and liquidity position for its business operation and development.

The Directors have considered other alternative financing methods to settle the Indebted Sum. For debt financing, having considered the substantial amount of the Indebted Sum, the consecutive losses position of the Group for the past two financial years and the lack of security for arranging any possible debt financing, the Directors consider that the Group is not in a feasible position to obtain further debt financing for the settlement of the Indebted Sum. The increasing trend of the interest rate in the debt market will also increase the interest burden of the Group. In respect of equity fund raising, given the substantial amount of the Indebted Sum, the recent weak sentiment of the stock market and the difficult economic environment, it is difficult to procure an underwriter for

LETTER FROM THE BOARD

rights issue or open offer or a placing agent for share placement which is able to raise sufficient funding for the settlement of the Indebted Sum. Rights issue and open offer also require a longer time period to complete the legal documentations and the administrative procedures which may not be able to satisfy the Statutory Demand on time. In fact, in exploring other alternative financing methods, the Directors have approached a few financial institutions and investors including securities firms, banks and personal investors. Due to the reasons as mentioned above, all other alternative financing plans are not feasible except for the Placing of new shares raising net proceeds of approximately HK\$35.1 million. The net proceeds of the Placing are used for product development and working capital and are not sufficient to settle the Indebted Sum. In the event that the Company fails to proceed with the Capitalization for whatever reasons, the Directors will use their best effort to negotiate with the Creditor again with the hope of reaching another settlement proposal acceptable to each other. In the event that a new settlement proposal cannot be reached and other alternative financing methods do not materialise, the Company will be exposed to a risk of being put into liquidation. Based on the above reasons, the Directors consider that the Capitalization represents the only feasible way of implementing the Debt Restructuring for solving the pressing financial need.

Although the allotment and issue of the Capitalization Shares will have a dilution effect to the existing Shareholders, having considered (i) the Capitalization can discharge the repayment and settlement obligations of the Company; and (ii) the Capitalization Shares, when allotted and issued, will be recognized entirely as equity of the Company which in turn will enlarge the capital base, and accordingly, strengthen the financial position of the Group, the Directors are of the view that the Capitalization is the only feasible way and the most appropriate means of implementing the Debt Restructuring.

Having considered (i) the factors as detailed in the section headed “Debt Settlement Agreement” and sub-section headed “Subscription Price” of this letter and (ii) the Capitalization representing the only feasible way of implementing the Debt Restructuring for resolving the pressing financial need, the Directors consider that the discounts of the Subscription Price to the closing prices on (i) the date of MOU; and (ii) the date of the Debt Settlement Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of the above, the Directors consider that the terms of the Debt Settlement Agreement and the Capitalization are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

As mentioned in the annual report of the Company for the financial year ended 31 December 2022, the Group continued to operate its initial LED bead business on a solid foundation, while at the same time fully deploying the third-generation semiconductor industry chain in relation to the GaN technology. The Group is committed to accelerating the pace of its existing GaN and the semiconductor products segment and achieving a number of important milestones. The Company currently does not have any plans to commence new business or downscale or terminate any of its existing businesses.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, the shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to Completion, are as follows:

Shareholders	As at the Latest Practicable Date		Immediately after Completion	
	<i>Number of issued Shares</i>	<i>Approximate percentage</i>	<i>Number of issued Shares</i>	<i>Approximate percentage</i>
Director				
Zhao Yi Wen (<i>Note 1</i>)	56,500,000	9.09%	56,500,000	7.52%
Lyu Xiangrong	834,000	0.13%	834,000	0.11%
Cao Yu	<u>50,000</u>	<u>0.01%</u>	<u>50,000</u>	<u>0.01%</u>
Sub-total	<u>57,384,000</u>	<u>9.23%</u>	<u>57,384,000</u>	<u>7.64%</u>
Substantial Shareholders				
Wide Yield Investment Holding Limited (<i>Note 2</i>)	100,500,000	16.17%	100,500,000	13.38%
The Creditor	—	—	129,453,785	17.24%
Public Shareholders	<u>463,717,000</u>	<u>74.60%</u>	<u>463,717,000</u>	<u>61.74%</u>
Total	<u><u>621,601,000</u></u>	<u><u>100.00%</u></u>	<u><u>751,054,785</u></u>	<u><u>100.00%</u></u>

Note:

1. First Global Limited is wholly owned by Mr. Zhao Yi Wen who is an executive Director, and therefore Mr. Zhao Yi Wen and his spouse Ms. Zhuang Chan Ling are deemed to be interested in the 56,500,000 Shares held by First Global Limited under the SFO.
2. 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.
3. The aggregate percentage may not add up to 100% due to rounding.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

The Capitalization Shares will be allotted and issued under the Specific Mandate which is subject to the Shareholders' approval at the EGM. The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Debt Settlement Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate for the allotment and issue of the Capitalization Shares.

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

EGM AND PROXY ARRANGEMENT

The notice convening the EGM to be held at Unit B, 14/F., Microsoft Science and Technology Building, No. 55 Gaoxin South 9th Road, Gaoxin Community, Yuehai Street, Nanshan District, Shenzhen, China. on Wednesday, 12 July 2023 at 3:00 p.m. is set out on pages 18 to 20 of this circular. At the EGM, a resolution will be proposed to consider and, if thought fit, approve the Debt Settlement Agreement and the transactions contemplated thereunder and the granting of the 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 had a material interest in the Debt Settlement 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 resolution to be put forward 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.

LETTER FROM THE BOARD

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 Wednesday, 12 July 2023. 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 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 3:00 p.m. on Monday, 10 July 2023.

RECOMMENDATION

On the basis of the information set out in this circular, the Directors consider that the terms of the Debt Settlement Agreement and the transactions contemplated thereunder, including the allotment and issue of the Capitalization Shares and the granting of the 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 resolution as set out on pages 18 to 20 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
Xu Zhihong
Chairman and Executive Director

NOTICE OF THE EGM



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 “**Meeting**”) of HG Semiconductor Limited (the “**Company**”) will be held at 3:00 p.m. on Wednesday, 12 July 2023 at Unit B, 14/F., Microsoft Science and Technology Building, No. 55 Gaoxin South 9th Road, Gaoxin Community, Yuehai Street, Nanshan District, Shenzhen, China to consider and, if thought fit, pass the following resolution as an ordinary resolution.

ORDINARY RESOLUTION

“**THAT:**

- (a) the debt settlement agreement (貸款償還協議) (the “**Debt Settlement Agreement**”) (a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification) dated 31 May 2023 and entered into between the Company, FastPower Holding Limited and Swift Power Limited (collectively, the “**Borrowers**”) as debtors and Jovial Star International Limited (the “**Creditor**”) relating to, among others, a debt restructuring plan to settle the Indebted Sum by the capitalization of the aggregate sum of approximately HK\$103,563,028 due and payable by the Borrowers to the Creditor under a loan agreement dated 26 December 2022 entered into between the Borrowers as borrowers and the Creditor as lender into 129,453,785 new ordinary shares (each a “**Share**”) of HK\$0.01 each in the capital of the Company to be allotted and issued to the Creditor (or its designated person) (the “**Capitalization Shares**”) at a subscription price of HK\$0.80 per Share, together with the transactions contemplated thereunder, be and are hereby approved;
- (b) conditional upon the satisfaction (or, if applicable, waiver) of all the conditions precedent set out in the Debt Settlement Agreement including but not limited to The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Capitalization Shares, the directors of the Company (the “**Directors**”) be and are hereby authorised by way of a specific mandate (the “**Specific Mandate**”) to allot and issue the Capitalization Shares to the Creditor (or its designated person) pursuant to the Debt Settlement Agreement, provided that the Specific Mandate shall be in addition to and shall not prejudice nor revoke such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution; and

NOTICE OF THE EGM

- (c) the Directors be and are hereby generally authorised to do all such acts, deeds and things and execute all such documents, including under the seal of the Company, where applicable, as they may consider necessary or expedient to complete, implement and give effect to the foregoing arrangements in connection with the Debt Settlement Agreement and the transactions contemplated thereunder (including but not limited to the granting of the Specific Mandate).”

By Order of the Board
HG Semiconductor Limited
Xu Zhihong
Chairman and Executive Director

Hong Kong, 27 June 2023

Registered Office in the Cayman Islands:
Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

*Headquarter and principal place of
business in the 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 entitled to attend and vote at the meeting is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A shareholder of the Company who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the meeting. A proxy need not be a member of the Company.
2. Whether or not you intend to attend the meeting in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not less than 48 hours before the time fixed for holding of the meeting or any adjournment thereof.

NOTICE OF THE EGM

4. In the case of joint holders of shares of the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the meeting 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 shares shall alone be entitled to vote in respect thereof.
5. The resolution set out in this notice shall be decided by way of poll.

As at the date of this notice, the Executive Directors are Dr. Xu Zhihong, Dr. Cao Yu, 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.