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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)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION

Reference is made to the announcement of HG Semiconductor Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 28 September 2023 in relation to, among other things, the Capital Injection (the “**Announcement**”). Capitalized terms used in this announcement shall bear the same meanings as defined in the Announcement unless otherwise stated.

The Company would like to provide the following additional information in relation to the Capital Injection Agreement.

BASIS FOR DETERMINING THE TOTAL SUBSCRIPTION PRICE

The Company wishes to further elaborate the basis for determining the Total Subscription Price:

- (i) *the optimistic business prospect of GaN and the semiconductors products of the Project Company;***
- (ii) *the fact that the Target Group is at its development stage and accordingly has not yet generated material revenue from its principal business and has been loss-making;***

As mentioned in the annual report of the Company for the year ended 31 December 2022, the government of the PRC has adopted favourable policies and measures to promote the development of the semiconductor industry. A number of policies under the 14th Five-Year Plan have featured integrated circuits as key development projects. China’s Ministry of Science and Technology has also identified “New Display and Strategic Electronic Materials” (“**新型顯示與戰略性電子材料**”) as a key focus for 2023, reflecting the country’s determination to vigorously develop the semiconductor industry. In addition, as mentioned in the Company’s interim report for the six months ended 30 June 2023, according to the latest forecast of Semiconductor Industry Association, global semiconductor sales are expected to grow to US\$576 billion in 2024 which is

the highest total sales of the industry in history. The growing demand for high frequency in the semiconductor market and the emergence of sectors such as new energy vehicles, fast charging and photovoltaic inverters have promoted the vigorous development of GaN semiconductor market. The strong market demand has laid a solid foundation for the Group's third-generation semiconductor GaN industry chain business. In light of the growth of the global GaN power component market, the Company believes that the development of GaN in China's third generation semiconductor industry is promising. Amid the rapid rise of the new-energy sector, GaN is used in electric vehicles, wireless charging, 5G infrastructure and other applications, unleashing great potential for its future development.

Despite that the Project Company is at its development stage and accordingly has not yet generated material revenue from its semiconductor business and has been loss-making, its strong research and development capabilities and product development skills in the GaN field enable the Project Company to enjoy the huge potential of the PRC market which is still in the early development stage. In addition, the Target Group has continued to upgrade its core equipment and promoted the development of the third-generation semiconductor GaN business at full speed. Following more and more utility model and appearance patents being obtained in 2022 and 2023, the Group believes that the Target Group will gradually move towards the harvest period in the future and it is in the interest of the Group to inject momentum into its business development through introducing strategic investors with the abundant resources and extensive investment experience in order to strengthen its financial position.

The Capital Injection shows the confidence of the Investor and the Group in the future business prospect of the GaN and the semiconductors products of the Project Company.

- (iii) *the unaudited net asset value of the Project Company of RMB99.28 million as at 30 June 2023;*
- (iv) *the implied intrinsic value of the Target Group of RMB1,100 million calculated based on the Total Subscription Price dividing by 9.0909% of the registered capital of the Target Company as enlarged by the Capital Injection; and*
- (v) *the price-to-net asset ratio based on the Intrinsic Valuation and the unaudited net asset value of the Project Company as at 30 June 2023.*

Under the prevailing difficult market condition, the Capital Injection provides a valuable opportunity for the Group to raise fund for the business development of the Project Company and it shows confidence of the Investor in the future prospects of the Target Group. The Total Subscription Price, which was arrived at after arm's length negotiations between the Investor and the Target Company having considered the optimistic business prospect of the third-generation semiconductor GaN business as mentioned above; and 9.0909% of the registered capital of the Target Company to be held by the Investor upon Completion, implied the Intrinsic Value of RMB1,100 million. The Intrinsic Valuation represents a huge premium of approximately RMB1,000.72 million over the net asset value of the Project Company of approximately RMB99.28 million as at 30 June 2023 and it also represents a price-to-net asset ratio (the "**PB Ratio**") of approximately 11 times which is well above the PB Ratios of

similar companies which are principally engaged in the design, development, manufacturing, subcontracting service and sales of semiconductor products in the PRC, based on the closing prices of their shares listed on the Stock Exchange on the date of the Capital Injection Agreement.

CONDITIONS PRECEDENT

Labour agreements with the key employees

As a Condition Precedent, the Target Company or the Project Company shall have entered into the labour agreements, the confidential agreements, intellectual property ownership agreements and the non-competition agreements with the key employees of the Target Company or the Project Company to ensure that they are bound by such provisions as agreed by the Investor with the aim to secure the long-term commitment of the key employees to the Target Company or the Project Company and to protect the interest of the Target Company or the Project Company.

THE SHAREHOLDERS' AGREEMENT

Put Option

As disclosed in the Announcement, the Investor shall have the right (the “**Put Option**”) to send the Repurchase Notice to the Repurchase Obligors to request the Repurchase Obligors to jointly and severally purchase the Repurchase Equity Interest at the repurchase price which is the sum of 100% of the Total Subscription Price paid by the Investor to the Target Company and the return calculated at the simple rate of 8% per annum of simple interest, as well as the dividends declared but not actually paid to the Investor as approved by the shareholders' meeting of the Target Company over the years.

For illustrative purposes, the estimated maximum repurchase price is approximately RMB155.3 million calculated on the following principal assumptions and bases: (i) the expected earliest date that the Investor will become the shareholder of the Target Company, being 15 November 2023, which is around seven weeks from the date of the Capital Injection Agreement taking into account the time required for the completion of the industrial and commercial registration procedures with the relevant governmental authorities of the PRC in respect of the Capital Injection; (ii) the Investor will exercise the Put Option in full by giving written notice to the Repurchase Obligors on 30 June 2030; and (iii) the repurchase price will be paid to the Investor on 30 September 2030, being the last day of the three months' period after the Investor has given the Repurchase Notice.

As the exercise of the Put Option is not at the discretion of the Company, it will be classified as if the Put Option has been exercised under the Listing Rules. As the highest applicable percentage ratio in respect of the grant of the Put Option is more than 5% but less than 25% on the basis of the estimated maximum repurchase price as disclosed above, the grant of the Put Option constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

Based on the definition in the Shareholders' Agreement, the “**qualified listing**” as mentioned in the Announcement refers to the initial public offering and listing of the Target Company (or, after the related reorganization, the entity including the business and assets of the Target Company) on the Shanghai Stock Exchange, the Shenzhen Stock Exchange (other than the listing through the National Equities Exchange and Quotations (NEEQ, also known as the New Third Board) (全國中小企業股份轉讓系統，亦稱為新三板)) or an offshore stock exchange which shall be subject to the prior written consent of the Investor and the approval by the shareholders of the Target Company.

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

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

Hong Kong, 13 October 2023

As at the date of this announcement, the executive Directors are Dr. Xu Zhihong, Mr. Zhao Yi Wen, Mr. Lu Kailin (formerly known as 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.