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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) PROPOSED ADOPTION OF THE 2023 SHARE AWARD SCHEME; 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 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 Friday, 29 December 2023 at 3:00 p.m. is set out on pages 29 to 31 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.

13 December 2023

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DEFINITIONS

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

“0.1% Limit”	as defined in paragraph 4 of Appendix I to this circular
“1% Individual Limit”	as defined in paragraph 4 of Appendix I to this circular
“2023 Share Award Scheme”	the share award scheme of the Company proposed to be considered and, if thought fit, adopted at the EGM, the principal terms of which are set out in Appendix I to this circular
“Adoption Date”	the date on which the 2023 Share Award Scheme is adopted by the ordinary resolution to be passed by the Shareholders at the EGM
“Articles”	the articles of association of the Company from time to time
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Award(s)”	award(s) of Awarded Share(s) by the Board to Selected Participant(s)
“Awarded Share(s)”	in respect of a Selected Participant, such number of Shares as awarded by the Board pursuant to the 2023 Share Award Scheme
“Board”	the board of Directors
“Business Day(s)”	a day (other than Saturday, Sunday or public holiday) on which the Stock Exchange is open for trading and on which licensed banks are open for general banking business in Hong Kong
“Cancelled Share(s)”	those Share(s) which were the subject of Award(s) which had been granted and accepted under the 2023 Share Award Scheme and those Shares which were the subject of awards or options which had been granted and accepted under any of the other Share Scheme(s) but subsequently cancelled
“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)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“core connected persons(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company 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 Friday, 29 December 2023 at 3:00 p.m. for the Shareholders to consider and, if thought fit, approve, among others: (1) the adoption of the 2023 Share Award Scheme; (2) the Scheme Mandate Limit; and (3) the Service Provider Sublimit, or any adjournment thereof
“Eligible Participant(s)”	eligible participant(s) under the 2023 Share Award Scheme
“Employee Participant(s)”	as defined in paragraph 2 of Appendix I to this circular
“Excluded Participant(s)”	any Eligible Participant(s) who is/are resident in a place where the grant of an Award and/or the vesting and transfer of the Awarded Shares (and/or Shares and/or cash representing any income, proceeds or distributions derived from or in respect of the Awarded Shares, where applicable) pursuant to the rules of the 2023 Share Award Scheme is not permitted under the laws or regulations of such place or where in the view of the Board (as the case may be), compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such Eligible Participant(s)
“Fast Power”	FASTPOWER INC., an exempted company incorporated in California, the United States of America and an indirect wholly-owned subsidiary of the Company
“GaN”	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

DEFINITIONS

“Latest Practicable Date”	7 December 2023, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Related Entity(ies)”	holding company(ies), fellow subsidiary(ies) or associated company(ies) of the Company
“Related Entity Participant(s)”	as defined in paragraph 2 of Appendix I to this circular
“Remuneration Committee”	the remuneration committee of the Board
“Scheme Mandate Limit”	as defined in paragraph 3 of Appendix I to this circular
“Selected Participant(s)”	Eligible Participant(s) selected by the Board for participation in the 2023 Share Award Scheme
“Service Provider(s)”	as defined in paragraph 2 of Appendix I to this circular
“Service Provider Sublimit”	as defined in paragraph 3 of Appendix I to this circular
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each of the Company, or, if there has been a sub-division, consolidation, re-classification or re-construction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company of such other nominal amount as shall result from any such sub-division, consolidation, re-classification or re-construction
“Share Scheme(s)”	any (a) scheme(s) involving the grant of Shares by the Company (including the 2023 Share Award Scheme); and (b) scheme(s) involving the grant of options by the Company over Shares
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules

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“Vesting Date” in respect of a Selected Participant, the date or each such date on which Awarded Share(s) is/are vested in such Selected Participant under the 2023 Share Award Scheme

“%” per cent.

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*)
Mr. Zhao Yi Wen
Mr. Lu Kailin
(formerly known as Mr. Lyu Xiangrong)
Mr. Leung Kin Pang

Registered Office in the Cayman Islands:

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

Non-executive Director:

Dr. Wang David Nin-kou

*Headquarter and principal place of
business in Hong Kong:*

Room 2607
26th Floor
West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

Independent non-executive Directors:

Mr. Li Yang
Mr. Zou Haiyan
Mr. Siu Miu Man, Simon, MH

13 December 2023

To the Shareholders,

Dear Sir or Madam,

**(1) PROPOSED ADOPTION OF THE 2023 SHARE AWARD SCHEME;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 23 May 2023 in relation to, among other things, the proposed adoption of the 2023 Share Award Scheme. The purpose of this circular is to provide you with information on, and to seek your approval for, the proposed adoption of the 2023 Share Award Scheme. A notice of the EGM containing resolutions to be proposed at the EGM is set out in this circular.

LETTER FROM THE BOARD

1. PROPOSED ADOPTION OF THE 2023 SHARE AWARD SCHEME

The Board proposes to adopt the 2023 Share Award Scheme, which will be valid for a period of 10 years from the Adoption Date, which would allow the Company to provide incentives to the Selected Participants to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

The 2023 Share Award Scheme will constitute a Share Scheme under Chapter 17 of the Listing Rules. A summary of the principal terms of the 2023 Share Award Scheme is set out in Appendix I to this circular.

The details of the proposed adoption of the 2023 Share Award Scheme are set out as below:

Purposes and objectives

The objectives of the 2023 Share Award Scheme are (i) to recognise the contributions by certain Eligible Participants and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

Conditions precedent of the 2023 Share Award Scheme

The 2023 Share Award Scheme shall take effect upon satisfaction of the following conditions:

- (i) the passing of the necessary resolutions by the Board and the Shareholders to approve and adopt the rules of the 2023 Share Award Scheme, the Scheme Mandate Limit and the Service Provider Sublimit; and
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, any Shares to be allotted and issued pursuant to the Awards that may be granted under the 2023 Share Award Scheme.

Duration

Subject to any early termination as may be determined by the Board, the 2023 Share Award Scheme shall be valid and effective for a term of ten (10) years commencing on the Adoption Date, after which period no further Awards shall be granted but the rules of the 2023 Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to any Awards made before the expiry of such period.

LETTER FROM THE BOARD

Eligible Participants

The Eligible Participants of the 2023 Share Award Scheme shall comprise the Employee Participants, the Related Entity Participants and the Service Providers.

In assessing the eligibility of Employee Participants, the Board will consider, among others:

- (a) his/her skills, knowledge, experience, expertise and other relevant personal qualities;
- (b) his/her performance, time commitment, responsibilities or employment conditions and the prevailing market practice and industry standard;
- (c) his/her contribution made or expected to be made to the growth of the Group and the positive impacts which he/she may bring to the Group's business and development;
- (d) his/her educational and professional qualifications, and knowledge in the industry; and
- (e) whether granting Options and/or Awards to him/her is an appropriate incentive to motivate him/her to continue to contribute towards the betterment of the Group.

In assessing the eligibility of Related Entity Participants, the Board will consider, among others:

- (a) the positive impacts brought by, or expected from, the Related Entity Participant on the Group's business development in terms of an increase in turnover or profits and/or an addition of expertise to the Group;
- (b) the period of engagement or employment of the Related Entity Participant by the Group;
- (c) the number, scale and nature of the projects in which the Related Entity Participant is involved;
- (d) whether the Related Entity Participant has referred or introduced opportunities to the Group which have materialized into further business relationships;
- (e) whether the Related Entity Participant has assisted the Group in tapping into new markets and/or increased its market share; and

LETTER FROM THE BOARD

- (f) the materiality and nature of the business relation of holding companies, fellow subsidiaries or associated companies with the Group and the Related Entity Participants' contribution in such holding companies, fellow subsidiaries or associated companies of the Group which may benefit the core business of the Group through a collaborative relationship.

Further, in determining the eligibility of the Service Providers, the Board will consider, among others:

- (a) the nature, scope and frequency of services supplied;
- (b) the reliability and quality of services supplied; and
- (c) their potential and/or actual contribution or significance to the financial performance and business development of the Group, evaluated in terms of the revenue generated from such supply, the aggregate supply volume, the procurement cost, the contract value and the relative concentration in the particular supply category for the relevant engagement period (or the corresponding growth rate compared with that of the preceding period).

Considering the Company's hiring practices and organizational structures, the Board is of the view that it would be in the Company's interest to have the flexibility to grant Awards to the Related Entity Participants and the Service Providers in recognition of their contribution to the Company. The Directors (including the independent non-executive Directors) consider that it is beneficial to include the Related Entity Participants and the Service Providers since a sustainable and stable relationship with them is essential to the business development of the Group, and that the grant of Awards to these non-employee participants will align their interests with the Group's, incentivizing them to provide better services to, create more opportunities for and/or contribute to the success of the Group in the long run.

More specifically, the Directors (including independent non-executive Directors) are of the view that:

- (i) during the development stage of the GaN semiconductor business, the Group aims to collaborate with independent consultants who would contribute their expertise in key areas like technological development, product manufacturing, resources management, sales and marketing and financial management. In addition, as a manufacturer of GaN semiconductor products, the Group would also, rely on manufacturing partners and suppliers that are essential to its operations. The Service Providers play significant roles in supporting the daily operation and further business development of the Group. As the industry progresses rapidly, new technical and professional services, as well as, advanced materials and equipments may be required from the Service Providers on an ongoing basis to develop initiatives, support expansion, and adapt to shifting needs of the Group. The Board will evaluate the Service Providers' eligibility for the Awards based on their

LETTER FROM THE BOARD

alignment with the business needs and enhancing competitiveness of the Group. The Board views that the success of the Group also depends on continuous cooperation from those providing specialized services critical to the Group's GaN related business. Granting Awards to the Service Providers would incentivize the service quality as well as strengthening their loyalty. The Board considers that the grant of Awards could provide the selected Service Providers with longer-term incentives that could better enable the efficient use of capital compared to solely cash rewards;

- (ii) despite the lack of a direct employment relationship, the Directors (including independent non-executive Directors) believe that the Related Entity Participants could involve with the Group on projects and other business engagements related to its operations similar to those of Service Providers mentioned above and it is in the Group's interest to recognize these Related Entity Participants' contributions by granting them Awards;
- (iii) as mentioned above, the Board will take into account numerous factors when assessing the eligibility of and contribution (or potential contribution) made or to be made by the different categories of non-employee Eligible Participants. The Board also has the discretion to impose different terms and conditions (including but not limited to performance targets) on Awards to be granted to the Eligible Participants, which provides the Board with greater flexibility to impose appropriate conditions in light of the particular circumstances of each grant so that it would become a more meaningful reward for these non-employee Eligible Participants' contribution or potential contribution; and
- (iv) it has always been the intention of the Group to include employee, director, officer or consultant of a Related Entity and any other group or classes of participants which the Directors consider to have contributed or will contribute to the development and growth of the Group which could provide the Group with flexibility on talent recruitment and retention strategies.

Therefore, the Directors (including independent non-executive Directors) consider that each of the categories of the Related Entity Participants and the Service Providers is in line with the Company's business needs and the industry norm, desirable and necessary from a commercial perspective and helps maintain or enhance the competitiveness of the Group. Through the grant of Awards, such Eligible Participants and the Group will have a common goal in the growth and development of the Group's business, and they could participate in the future prospect of the Group and share the additional reward through their sustainable contribution.

LETTER FROM THE BOARD

Administration of the 2023 Share Award Scheme

The 2023 Share Award Scheme shall be subject to the administration of the Board in accordance with the rules of the 2023 Share Award Scheme and all applicable laws and regulations. Any decision made by the Board as to all matters arising in relation to the 2023 Share Award Scheme or its interpretation or effect (save as otherwise provided in the rules of the 2023 Share Award Scheme) shall be final, conclusive and binding on all parties.

Grant of Awards

Subject to the rules of the 2023 Share Award Scheme, the Board may, from time to time, at its absolute discretion select any Eligible Participant (other than any Excluded Participant) for participation in the 2023 Share Award Scheme as a Selected Participant, and grant Awards to any Selected Participant at no consideration and in such number and on and subject to such terms and conditions, including but not limited to, the conditions of entitlement and/or vesting of the Awarded Shares, restrictions on transfer of the Awarded Shares and the right to alter the terms and conditions of the Awards, as it may in its absolute discretion determine.

The Awards granted by the Board may, from time to time, at the absolute discretion of the Board be satisfied by new Awarded Shares to be allotted and issued by the Company to the Selected Participants under the Scheme Mandate Limit. A Selected Participant granted with an Award shall be responsible for paying up the aggregate nominal value of the Awarded Shares being vested in such Selected Participant.

The Company shall comply with the relevant Listing Rules and any other applicable laws or regulations when issuing new Awarded Shares and application shall be made to the Stock Exchange for the granting of, and permission to deal in, any new Awarded Shares to be issued pursuant to the 2023 Share Award Scheme.

The Awarded Shares allotted and issued shall be subject to all the rules of the 2023 Share Award Scheme and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of the Company as attached to the fully paid Shares in issue on the date of allotment and rights in respect of any dividend or other distributions paid or made on or after the date on which the Selected Participant is registered as a member.

Pursuant to Rule 17.04(1) of the Listing Rules, where any grant of Awarded Shares is proposed to be made to any Selected Participant who is a Director, chief executive or substantial shareholder of the Company, or any of their respective associates, such grant must be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the Selected Participant of the Awarded Shares). Such requirements do not apply where the Selected Participant is only a proposed Director or proposed chief executive of the Company. Pursuant to Rule 17.04(2) of the Listing Rules, Shareholders' approval is required at a general meeting where any grant of Awarded Shares to a Director (other than an independent non-executive Director) or chief executive of the

LETTER FROM THE BOARD

Company, or any of his/her associates that would result in the Shares issued and to be issued in respect of the Award granted to such person under the 2023 Share Award Scheme and all other Share Schemes (excluding any awards lapsed in accordance with the terms of the Share Award Scheme) in any 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the issued share capital of the Company. Pursuant Rule 17.04(3) of the Listing Rules, Shareholders' approval is required at a general meeting where any grant of Awarded Shares to an independent non-executive Director or a substantial shareholder of the Company, or any of his/her/its associates that would result in the Shares issued and to be issued in respect of all options and awards granted to such person under the 2023 Share Award Scheme and all other Share Schemes (excluding any awards lapsed in accordance with the terms of the Share Award Scheme) in any 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the issued share capital of the Company. In the circumstances described in Rules 17.04(2) and 17.04(3) of the Listing Rules, the Company must send a circular to the Shareholders. The grantee, his/her/its associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

In determining the number of Awarded Shares to be granted to any Selected Participant, the Board shall take into consideration matters including, but without limitation to,

- (i) for Employee Participants:
 - (1) the responsibility taken up by them and whether they have demonstrated efforts in improving and enhancing the revenues, profits, clientele, awards and goodwill of the Group;
 - (2) whether they should be rewarded to further motivate their performances and efficiencies for the benefit of the Group; and
 - (3) whether they would accept Awarded Shares as part of their remuneration or compensation package and as inducement for them to accept any offer for appointment, employment or engagement extended by the Group to them; and
- (ii) for Related Entity Participants:
 - (1) the contributions to the returns and benefits of the Group's investment and/or interest in the Related Entity and the business synergy and opportunities brought by them to the Group and/or the Related Entity;
 - (2) whether they should be rewarded to further motivate their performances for the benefit of the Group and/or the Related Entity; and

LETTER FROM THE BOARD

- (3) whether they would accept Awarded Shares as part of their remuneration or compensation package and as inducement for them to accept any offer for appointment, employment or engagement extended by the Related Entities to them; and
- (iii) for Service Providers,
 - (a) that are suppliers of services to any member of the Group (including suppliers of raw materials and machinery, and providers of machinery maintenance services):
 - (1) the business synergy and opportunities brought by them to the Group, the awards and goodwill created from the business relationships, strategic alliances and joint ventures enjoyed by the Group; and
 - (2) whether they should be rewarded to foster and further their business relationships or strategy alliances or joint ventures with the Group; and
 - (b) that are advisors (professional or otherwise) or consultants or experts to business development of any member of the Group (including support or services in relation to research and development, strategic or commercial planning on corporate image, investor relations, product quality control, and regulations and policies):
 - (1) the value and benefit of the advices and/or results of research, development and technological support to the businesses of the Group provided to and/or performed by and/or collaborated with them; and
 - (2) whether they would accept Awarded Shares as part of their retainer or service fee package.

The allotment and issue of the Awarded Shares to the Selected Participants shall follow the vesting schedule of such Selected Participants pursuant to the rules of the 2023 Share Award Scheme.

Vesting of the Awarded Shares

The Board is entitled to impose any terms and conditions (including a period of continued employment, engagement and/or service within the Group and/or any Related Entity after the Award shall become entitled and/or vested) as it deems appropriate in its absolute discretion with respect to the entitlement and/or vesting of the Awarded Shares on the Selected Participant and shall inform such Selected Participant the relevant conditions of the Award and the Awarded Shares provided that the vesting period for Awards shall not be less than 12 months unless under the specific circumstances as set out in Appendix I to this circular.

LETTER FROM THE BOARD

The Board is entitled to determine clawback mechanism on a case by case basis. The clawback mechanism allows the Company to recover or withhold such Award granted to the relevant grantee, whether in the event of serious misconduct of such grantee, a material misstatement in the Company's financial statements or other circumstances. As at the Latest Practicable Date, the Directors had no concrete plan to set clawback mechanism to which any Offer that may be granted will be subject. With the clawback mechanism, it is expected that grantees will make an effort to contribute to the development of the Group so as to ensure that their Awards will be vested for benefits of the Awarded Shares granted under the 2023 Share Award Scheme, in turn benefiting the Company and the Shareholders as a whole.

Subject to the rules of the 2023 Share Award Scheme, any Awards granted by the Board to any Selected Participants but not vested prior to or on the relevant Vesting Date shall automatically lapse after the Vesting Date. Subject to applicable laws and regulations, the Board shall be at liberty to waive and/or alter any entitlement and/or vesting conditions of the Awarded Shares and/or restrictions on transfer.

The Remuneration Committee believes that the ability of the Board to provide for flexible accelerated exercisability or vesting of the Award (including shorter vesting period) under specific circumstances enable the Group to (i) further incentivize such eligible persons to strive for better work quality, and therefore contribute to the growth and promote the success of the business of the Group; and/or (ii) provide competitive remuneration packages to attract and retain talents to continuously serve the Group.

Based on the aforementioned, the Board (including the independent non-executive Directors) is of the view that the terms of the granting Award(s) (including but not limited to the vesting requirements and sales target) align with the purpose of the 2023 Share Award Scheme.

Scheme Mandate Limit, Service Provider Sublimit and 1% Individual Limit

As at the Latest Practicable Date, the Company had 751,054,785 Shares in issue. Unless further approval has been obtained from Shareholders in general meeting and assuming that there is no change in the number of issued Shares between the period from the Latest Practicable Date and the Adoption Date, the maximum number of Shares in respect of Awards which may be granted pursuant to the 2023 Share Award Scheme will be 75,105,478 Shares, representing approximately 10% of the existing number of Shares in issue (i.e. the Scheme Mandate Limit).

Any grant of Awards in excess of the 1% Individual Limit must be separately approved by the Shareholders in general meeting with such Selected Participant and his/her/its close associates (or his/her/its associates if such Selected Participant is a connected person of the Company) abstaining from voting. The number and terms of Awards to be granted to such grantee must be fixed before Shareholders' approval.

LETTER FROM THE BOARD

The Company also proposes to set a sublimit of the Shares in respect of Awards that may be granted to Service Providers. Unless further approval has been obtained from Shareholders in general meeting and assuming there is no change in the number of issued Shares between the period from the Latest Practicable Date and the Adoption Date, the maximum number of Shares in respect of Awards which may be granted to the Service Providers will be 7,510,547 Shares, representing approximately 1% of the existing number of issued Shares (i.e. the Service Provider Sublimit). The Service Provider Sublimit was determined based on 10% of the Scheme Mandate Limit.

The Board has determined the Service Provider Sublimit, and the Directors (including the independent non-executive Directors) are of the view that it is appropriate and reasonable, by taking into account, among other things, the following factors:

- (i) the business expansion and development needs of the Group, which may require further engagement of service providers;
- (ii) the actual or potential benefits, commercially and/or financially, to be brought by service providers to facilitate the long-term and sustainable growth of the Group;
- (iii) the nature and norm of the semiconductor businesses and companies in the same industry;
- (iv) the engagement practice and remuneration package for the service providers adopted by the Group;
- (v) the major portion of the Scheme Mandate Limit to be reserved for Awards to the Eligible Participants other than the Service Providers; and
- (vi) the minimal potential dilution to the shareholding of public Shareholders following the Award to Service Providers under the Service Provider Sublimit of 1%, considering that the individual limit (under the Listing Rules) is also 1% of the issued Shares in relevant period.

The Service Provider Sublimit is subject to separate approval by the Shareholders at the EGM and conditional on the adoption of the 2023 Share Award Scheme. Grant of Awards to any Service Provider will be subject to the adoption of the 2023 Share Award Scheme and the Service Provider Sublimit. For the avoidance of doubt, if either the adoption of the 2023 Share Award Scheme or the Service Provider Sublimit is not approved by the Shareholders at the EGM, no Awards are allowed to be granted to any Service Provider.

LETTER FROM THE BOARD

Lapse of Awards

In the event that prior to or on the Vesting Date, a Selected Participant is found to be an Excluded Participant or is deemed to cease to be an Eligible Participant pursuant to the Share Award Scheme, the relevant Award granted to such Selected Participant shall automatically lapse forthwith. Such Eligible Participant shall have no right or claim against the Company.

Furthermore, unless otherwise waived by the Board, in the event that the vesting conditions specified in the relevant grant instrument are not fully satisfied by the relevant Vesting Date, the Award to the extent that the relevant vesting conditions are not fully satisfied in respect of the relevant Vesting Date shall lapse, and the Selected Participant shall have no claims against the Company to the extent of the Award which has so lapsed.

2. LISTING RULES IMPLICATIONS

The 2023 Share Award Scheme constitutes a share award scheme governed by Chapter 17 of the Listing Rules. Pursuant to Rules 17.02 and 17.03B(2) of the Listing Rules, among other things, the 2023 Share Award Scheme, the Scheme Mandate Limit and the Service Provider Sublimit have to be approved by the Shareholders in general meeting.

3. EGM AND PROXY ARRANGEMENT

The notice convening the EGM of the Company 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 Friday, 29 December 2023 at 3:00 p.m. for the Shareholders to consider and, if thought fit, approve, among others: (1) the adoption of the 2023 Share Award Scheme; (2) the Scheme Mandate Limit; and (3) the Service Provider Sublimit is set out on pages 29 to 31 of this circular.

Any Shareholder with a material interest in the proposed transaction, and his/her/its close associates, will abstain from voting at relevant resolutions at the EGM. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder had a material interest in the matters which are the subject of the adoption of the 2023 Share Award Scheme, such that it must abstain from voting.

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 adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

4. VOTING AT THE EGM

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolutions to be put forward at the EGM will be voted by way of 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.

5. 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. 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 4:30 p.m. on Wednesday, 27 December 2023.

6. RECOMMENDATION

On the basis of the information set out in this circular, the Directors consider that the adoption of the 2023 Share Award Scheme, the Scheme Mandate Limit and the Service Provider Sublimit are 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 relevant resolutions as set out on pages 29 to 31 of this circular.

7. 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.

8. DOCUMENT ON DISPLAY

A copy of the rules of the 2023 Share Award Scheme will be published on the websites of the Stock Exchange and the Company respectively for display for a period of not less than 14 days before the date of the EGM and will be made available for inspection at the EGM.

9. LANGUAGE

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

LETTER FROM THE BOARD

10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix I to this circular.

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

Set out below is a summary of the principal terms of the 2023 Share Award Scheme to provide sufficient information to Shareholders for their consideration of the 2023 Share Award Scheme proposed to be adopted at the EGM.

1. PURPOSE, DURATION AND ADMINISTRATION OF THE 2023 SHARE AWARD SCHEME

The purpose of the 2023 Share Award Scheme is (i) to recognise the contributions by certain Eligible Participants and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

Subject to any early termination, the 2023 Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date. The 2023 Share Award Scheme shall be subject to the administration of the Board in accordance with the rules of the 2023 Share Award Scheme. Any decision made by the Board as to all matters arising in relation to the 2023 Share Award Scheme or its interpretation or effect (save as otherwise provided in the rules of the 2023 Share Award Scheme) shall be final, conclusive and binding on all parties. Subject to the rules of the 2023 Share Award Scheme, the Board may, from time to time, at its absolute discretion select any Eligible Participant (other than any Excluded Participant) for participation in the 2023 Share Award Scheme as a Selected Participant, and grant Awards to any Selected Participant at no consideration and in such number and on and subject to such terms and conditions, including but not limited to, the conditions of entitlement and/or vesting of the Awarded Shares, restrictions on the transfer of the Awarded Shares and the right to alter the terms and conditions of the Awards, as it may in its absolute discretion determine.

The Awards granted by the Board may, from time to time, at the absolute discretion of the Board be satisfied by new Awarded Shares to be allotted and issued by the Company to the Selected Participants under the Scheme Mandate Limit.

A Selected Participant granted with an Award shall be responsible for paying up the aggregate nominal value of the Awarded Shares being vested in such Selected Participant.

The Company shall comply with the relevant Listing Rules and any other applicable laws or regulations when issuing new Awarded Shares and application shall be made to the Stock Exchange for the granting of, and permission to deal in, any new Awarded Shares to be issued pursuant to the 2023 Share Award Scheme.

The Awarded Shares allotted and issued shall be subject to all the provisions of the Articles and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of the Company as attached to the fully paid Shares in issue on the date of allotment and rights in respect of any dividend or other distributions paid or made on or after the date on which the Selected Participant is registered as a member.

In determining the number of Awarded Shares to be granted to any Selected Participant, the Board shall take into consideration matters including, but without limitation to:

- (i) for Employee Participants, the responsibility taken up by them and whether they have demonstrated efforts in improving and enhancing the revenues, profits, clientele, awards and goodwill of the Group and whether they should be rewarded to further motivate their performances and efficiencies for the benefit of the Group and whether they would accept Awarded Shares as part of their remuneration or compensation package and as inducement for them to accept any offer for appointment, employment or engagement extended by the Group to them;
- (ii) for Related Entity Participants, the contributions to the returns and benefits of the Group's investment and/or interest in the Related Entity and the business synergy and opportunities brought by them to the Group and/or the Related Entity and whether they should be rewarded to further motivate their performances for the benefit of the Group and/or the Related Entity and whether they would accept Awarded Shares as part of their remuneration or compensation package and as inducement for them to accept any offer for appointment, employment or engagement extended by the Related Entities to them;
- (iii) for Service Providers, that are (a) suppliers of services to any member of the Group, the business synergy and opportunities brought by them to the Group, the awards and goodwill created from the business relationships, strategic alliances and joint ventures enjoyed by the Group and whether they should be rewarded to foster and further their business relationships or strategy alliances or joint ventures with the Group; and (b) advisors (professional or otherwise) or consultants or experts to business development of any member of the Group, the value and benefit of the advices and/or results of research, development and technological support to the businesses of the Group provided to and/or performed by and/or collaborated with them and whether they would accept Awarded Shares as part of their retainer or service fee package.

The allotment and issue of the Awarded Shares to the Selected Participants shall follow the vesting schedule of such Selected Participants pursuant to the rules of the 2023 Share Award Scheme.

2. WHO MAY JOIN

The Board may, at its absolute discretion, invite any persons belonging to any of the following classes of participants (i.e. Eligible Participants), to be offered Awards:

- (i) any director and employee (including full-time and part-time employee) of the Company or any of its subsidiaries (including any persons who are granted Awards under the 2023 Share Award Scheme as an inducement to enter into employment contracts with the Group) (the "**Employee Participant**").

- (ii) any director and employee of the Related Entities (the “**Related Entity Participant**”); and
- (iii) any person who provided services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interest of long term growth of the Group (the “**Service Provider**”).

The Service Providers include:

- (a) suppliers of services to any member of the Group (including suppliers of raw materials and machinery, and providers of machinery maintenance services); and
- (b) advisors (professional or otherwise) or consultants to business development of any member of the Group (including support or services in relation to research and development, strategic or commercial planning on corporate image, investor relations, product quality control, and regulations and policies).

For the avoidance of doubt, the Service Providers exclude placing agents or financial advisers providing advisory services to the Group for fundraising, mergers or acquisitions and professional service providers including auditors or valuers who provide assurance or are required to perform their services to the Group with impartiality and objectivity.

For each category of the Service Providers, the Board’s assessment shall include, without limitation, the nature, scope and frequency of services supplied, the reliability and quality of services supplied; and their potential and/or actual contribution or significance to the financial performance and business development of the Group, evaluated in terms of the revenue generated from such supply, the aggregate supply volume, the procurement cost, the contract value and the relative concentration in the particular supply category for the relevant engagement period (or the corresponding growth rate comparing with that of the preceding period).

3. MAXIMUM NUMBER OF SHARES

The maximum number of Shares in respect of which Awards may be granted under the 2023 Share Award Scheme and Shares in respect of which options and/or awards may be granted or which may be awarded under any other share schemes must not in aggregate exceed 10% of the Shares in issue as at the Adoption Date (the “**Scheme Mandate Limit**”).

The maximum number of Awarded Shares which may be issued in respect of all Awards to be granted to Service Providers under the 2023 Share Award Scheme, must not in aggregate exceed 10% of the Scheme Mandate Limit (the “**Service Provider Sublimit**”).

Awards which have lapsed in accordance with the rules of the 2023 Share Award Scheme shall not be regarded as utilized for the purpose of calculating the Scheme Mandate Limit and the Service Provider Sublimit.

If the Company conducts a consolidation or subdivision of its Shares after the Scheme Mandate Limit or the Service Provider Sublimit has been approved in general meeting, the maximum number of Shares that may be issued in respect of all options and awards to be granted under the 2023 Share Award Scheme and all other share schemes under the Scheme Mandate Limit or the Service Provider Sublimit as a percentage of the total number of issued Shares at the date immediately before and after such consolidation or subdivision shall be the same, rounded down to the nearest whole Share.

Subject to the rules of the 2023 Share Award Scheme, the Scheme Mandate Limit and the Service Provider Sublimit may be refreshed by the Company as follows:

- (i) the Company may seek approval from its Shareholders in general meeting for refreshing the Scheme Mandate Limit and the Service Provider Sublimit (as the case may be) under the 2023 Share Award Scheme after three (3) years from the date of Shareholders' approval for the last refreshment or the Adoption Date; and
- (ii) any refreshment within any three (3)-year period must be approved by the Shareholders subject to the following provisions:
 - (a) any controlling shareholder(s) of the Company and their associates (or if there is no controlling shareholder, Directors (excluding independent non-executive Directors) and chief executive of the Company and their respective associates) must abstain from voting in favour of the relevant resolution at the general meeting; and
 - (b) the Company must comply with the requirements under Rules 13.39(6) and (7), 13.40, 13.41 and 13.42 of the Listing Rules,

provided that sub-paragraphs (a) and (b) above do not apply if the refreshment is made immediately after an issue of securities by the Company to its Shareholders on a pro rata basis as set out in Rule 13.36(2)(a) of the Listing Rules such that the unused part of the Scheme Mandate Limit (as a percentage of the total number of the Shares in issue) upon refreshment is the same as the unused part of the Scheme Mandate Limit immediately before the issue of securities, rounded to the nearest whole Share.

4. MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

No Award shall be granted to any Selected Participant which would result in the total number of (a) Shares issued and to be issued under the Awards granted or to be granted to such Selected Participant under the 2023 Share Award Scheme (excluding any Awards lapsed in accordance with the rules of the 2023 Share Award Scheme); (b) the Shares issued and to be issued upon exercise of all options or awards granted and proposed to be granted to such Selected Participant under any other Share Scheme(s) (including exercised and outstanding options but excluding any options or awards lapsed in accordance with the terms of such Share Scheme); and (c) any Cancelled Shares which were the subject of Awards or options or awards under any other share scheme(s) which had been granted to and accepted by that Selected Participant, in the 12-month period up to and

including the date of such grant representing in aggregate over 1% of the total number of Shares in issue (the “**1% Individual Limit**”), subject to the rules of the 2023 Share Award Scheme. Any grant of Awards that shall exceed the 1% Individual Limit must be separately approved by Shareholders in general meeting which such Selected Participant and his/her/its close associates (or associates if such Selected Participant is a connected person) abstaining from voting and the Company must send a circular to the Shareholders in compliance with the requirements of the Listing Rules.

Any grant of Awards to a Director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Awards).

No Award shall be granted to any Selected Participant who is a Director (other than an independent non-executive Director) or chief executive of the Company, or any of their associates which would result in the total number of the Shares issued and to be issued in respect of all awards already granted or to be granted to such Selected Participant (excluding any awards lapsed in accordance with the rules of the 2023 Share Award Scheme) in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the Shares in issue (the “**0.1% Limit**”). Any grant of Awards to such Selected Participant that shall exceed the 0.1% Limit must be approved by Shareholders in general meeting and the Company must send a circular to the Shareholders in compliance with the requirements of the Listing Rules.

No Award shall be granted to any Selected Participant who is an independent non-executive Director or a substantial shareholder of the Company, or any of their respective associates which would result in the total number of the Shares issued and to be issued in respect of all options and awards already granted or to be granted to such Selected Participant (excluding any options and awards lapsed in accordance with the rules of the 2023 Share Award Scheme and any other Share Scheme(s)) in the 12-month period up to and including the date of such grant, representing in aggregate over the 0.1% Limit. Any grant of Awards to such Selected Participant that shall exceed the 0.1% Limit must be approved by Shareholders in general meeting and the Company must send a circular to the Shareholders in compliance with the requirements of the Listing Rules.

In the event of any Award being granted to any Selected Participant who is a Director, chief executive of the Company, a substantial shareholder of the Company, or any of their respective associates which would exceed the 0.1% Limit, the proposed grantee of the Award, his/her/its associates and all core connected persons of the Company must abstain from voting in favour at such general meeting convened to approve the granting of the Award and the Company must comply with the requirements under Rules 13.40, 13.41 and 13.42 of the Listing Rules.

5. VESTING OF AWARDS

Subject to (1) the rules of the 2023 Share Award Scheme and the fulfillment of all entitlement and/or vesting conditions to the entitlement and/or vesting of the Awarded Shares on a Selected Participant as specified in the 2023 Share Award Scheme and the grant notice (unless otherwise waived by the Board) and (2) the receipt by the Board of the reply slip attached to the vesting

notice to confirm the securities account details together with the relevant duly signed documents and the remittance, the Board shall cause the Company to allot and issue to such Selected Participant within the period prescribed in the rules of the 2023 Share Award Scheme such number of Awarded Shares, fully paid, together with entitlements, if any, as set out in the grant notice.

The Board is entitled to impose any terms and conditions (including a period of continued employment, engagement and/or service within the Group and/or any Related Entity after the Award shall become entitled and/or vested), as it deems appropriate in its absolute discretion with respect to the entitlement and/or vesting of the Awarded Shares on the Selected Participant and shall inform such Selected Participant the relevant conditions of the Award and the Awarded Shares provided that the vesting period for Awards shall not be less than 12 months unless under the specific circumstances below:

- (i) a shorter vesting period may be granted to Employee Participants as deemed appropriate at the sole discretion of the Board in any of the following circumstances:
 - (a) grants of “make-whole” Awards to new joiners to replace the share awards they forfeited when leaving the previous employer;
 - (b) grants to an Employee Participant whose employment is terminated due to death or disability or occurrence of any out of control event;
 - (c) grants with performance-based vesting conditions in lieu of time-based vesting criteria;
 - (d) grants that are made in batches during a year for administrative and compliance reasons, which include Awards that should have been granted earlier if not for such administrative or compliance reasons but had to wait for subsequent batch. In such case, the Vesting Period may be shorter to reflect the time from which the Awards would have been granted;
 - (e) grants with a mixed or accelerated vesting schedule such as where the Awards may vest evenly over period of twelve (12) months; and
 - (f) grants with a total vesting and holding period of more than twelve (12) months.
- (ii) where an Employee Participant retires at his normal retirement, all the Awarded Shares of the relevant Employee Participant, as determined by the Board in its absolute discretion, shall be deemed to be vested on the day immediately prior to his normal retirement date or such earlier or later date by agreement with the relevant member of the Group;
- (iii) where an Employee Participant dies at any time prior to the Vesting Date, all the Awarded Shares of such Employee Participant shall be deemed to be vested on the day immediately prior to his death provided that the allotment and issue of the Awarded Shares shall be subject to the rules of the 2023 Share Award Scheme;

- (iv) in the event of change in control of the Company, whether by way of offer, merger, scheme of arrangement or otherwise, all the Awarded Shares and the related income of the Employee Participant shall immediately vest on the date when such change of control event becomes or is declared unconditional and such date shall be deemed the Vesting Date;
- (v) if notice is duly given by the Company to its Shareholders to convene a general meeting for the purpose of considering a resolution for the voluntary winding-up of the Company (otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of the Company pass to a successor company) or an order of winding up of the Company is made, the Board shall determine at its discretion whether such Awarded Shares shall vest in the Employee Participant and the time at which such the Awarded Shares shall vest. If the Board determines that any Awarded Shares shall vest, it shall promptly notify the Employee Participant.

Subject to the rules of the 2023 Share Award Scheme, any Awards granted by the Board to any Selected Participants but not vested prior to or on the relevant Vesting Date shall automatically lapse after the Vesting Date. Notwithstanding any other rules of the Scheme, subject to applicable laws and regulations, the Board shall be at liberty to waive and/or alter any entitlement and/or vesting conditions of the Awarded Shares and/or restrictions on transfer.

6. PERFORMANCE TARGETS

The Board may, in its absolute discretion, designate an Award made to any Selected Participant. If it does so, the Board may determine the performance conditions attached to an Award made to the Selected Participant under the 2023 Share Award Scheme. Performance conditions may apply to the Selected Participants, including but not limited to directors and/or senior managers of the Company. Performance conditions (if any) shall, as soon as reasonably practicable, be notified to the Selected Participant and:

- (i) may relate to the performance of the Selected Participant, the Company, one or more of the subsidiaries, the business or functional unit or department for which the Selected Participant works or the strategic or business initiatives or projects for which the Selected Participant is responsible or in relation to which he/she is actively involved in developing, implementing or completing, or any combination of the above;
- (ii) may be relative to the performance of one or more comparators, benchmarks, indices or other measures;
- (iii) may be different for different Selected Participants; and
- (iv) may be different for different Awards in relation to the same Selected Participant.

Performance targets for a specific Selected Participant may take into account (among others) such Selected Participant's roles and responsibilities. For illustration, it may be appropriate for performance targets for a manager of a specific project to focus more on the performance of that specific project, while performance targets for a Director or senior management may look more towards the overall performance of the Group.

The Company has established an appraisal mechanism to evaluate the performance of each Selected Participant. Each Selected Participant will be continually assessed throughout his/her employment, as well as prior to each Vesting Date.

Shortly prior to each Vesting Date, the Board will determine whether the relevant Selected Participant has met his/her performance targets for the relevant one-year period prior to the Vesting Date. In assessing whether such performance targets have been satisfactorily met, the Board will have regard to the purpose of the 2023 Share Award Scheme in assessing the reasonableness and suitability of such performance targets, with reference to factors including but not limited to, as and when appropriate, sales performance (e.g. revenue), operating performance (e.g. operation efficiency) and financial performance (e.g. profits, cash flow, earnings, market capitalisation and return on equity) of the Group, as well as corporate sustainability parameters (e.g. accuracy and timeliness in handling customer complaints and feedback and adherence to corporate culture) and personal qualities (e.g. discipline, punctuality, integrity and compliance with internal procedures and controls) of the Selected Participant.

The Board may amend any performance condition if any event occurs which causes it to consider that the amended performance condition would, at the absolute discretion of the Board, be a more accurate measure of performance.

7. GRANT PRICE

Subject to the rules of the 2023 Share Award Scheme, the Board may, from time to time, at its absolute discretion select any Eligible Participant (other than any Excluded Participant) for participation in the 2023 Share Award Scheme as a Selected Participant, and grant Awards to any Selected Participant at no consideration.

8. RIGHTS ATTACHING TO THE AWARDED SHARES

Selected Participant shall not have any interest or rights (including the right to receive dividends and/or any other distributions) in the Awarded Shares under an Award prior to the Vesting Date; and a Selected Participant shall have no voting rights in the Awarded Shares under an Award prior to the Vesting Date.

9. AUTOMATIC LAPSE OF AN AWARD

An Award shall automatically lapse if:

- (i) the Selected Participant fails to sign and return the acceptance form attached to the grant notice within five (5) Business Days after the date of the grant notice (i.e. the acceptance period);
- (ii) the Board does not receive the reply slip, the relevant duly signed documents and the remittance from the Selected Participant at least ten (10) Business Days prior to the Vesting Date;
- (iii) in the event that prior to or on the Vesting Date, a Selected Participant is found to be an Excluded Participant or is deemed to cease to be an Eligible Participant pursuant to the rules of the 2023 Share Award Scheme; and
- (iv) unless otherwise waived or determined by the Board, the entitlement and vesting conditions specified in the grant notice are not fully satisfied prior to or on the relevant Vesting Date, the Award in respect of the relevant Vesting Date shall automatically lapse forthwith provided that if any entitlement condition specified in the grant notice for any specific number of Awarded Shares under such Award is being satisfied prior to or on the relevant Vesting Date, such number of Awarded Shares shall upon the vesting condition for those entitled Awarded Shares being satisfied prior to or on the relevant Vesting Date, be vested on the Selected Participant on the relevant Vesting Date and any extent of such Awards in respect of which the entitlement condition is not being satisfied prior to or on the relevant Vesting Date shall automatically lapse on the relevant Vesting Date.

Awards which have lapsed in accordance with the rules of the 2023 Share Award Scheme shall not be regarded as utilized for the purpose of calculating the Scheme Mandate Limit and the Service Provider Sublimit.

10. DISQUALIFICATION OF SELECTED PARTICIPANTS

Unless the Board determines otherwise, the circumstances under which a person shall be treated as having ceased to be an Eligible Participant, without limitation, the following:

- (i) where such person has committed any act of fraud or dishonesty or serious misconduct, whether or not in connection with his/her employment or engagement or service to any member of the Group or Related Entities and whether or not it has resulted in his/her employment or engagement or service being terminated by the relevant member of the Group or any Related Entities;

- (ii) where such a person has been declared or adjudged to be bankrupt by a competent court or governmental body or has failed to pay his debts as they fall due (after the expiry of any applicable grace period) or has entered into any arrangement or composition with his creditors generally or an administrator has taken possession of any of his/her assets;
- (iii) where such person has been convicted of any criminal offence; and
- (iv) where such person has been convicted of or is being held liable for any offence under or any breach of the SFO or other securities laws or regulations in Hong Kong or any other applicable laws or regulations in force from time to time.

In the event that prior to or on the Vesting Date, a Selected Participant is found to be an Excluded Participant or is deemed to cease to be an Eligible Participant pursuant to sub-paragraphs (i) to (iv) above, the relevant Award made to such Selected Participant shall automatically lapse forthwith. Such Selected Participant shall have no right or claim against the Company, any other member of the Group, the Board or with respect to those or any other Shares or any right thereto or interest therein in any way.

11. CAPITAL REORGANISATION

In the event of any capitalisation issue, rights issue, open offer (if there is a price dilutive element), consolidation or subdivision of the Shares, or reduction of capital of the Company in accordance with applicable laws and regulatory requirements whilst there are outstanding Awards being granted or this Scheme remains in effect (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment), such corresponding alterations (if any) shall be made in the number or nominal amount of Awarded Shares to which the 2023 Share Award Scheme or any Award relates (insofar as it is/they are not yet vested), for the purpose of restoring to the extent possible the percentage shareholding of the Awarded Shares or underlying Awarded Shares concerned to such level immediately before such circumstance requiring alteration or adjustment takes effect. In respect of any such adjustments, other than any made on a capitalisation issue, an independent financial adviser or the Company's auditors must confirm to the directors in writing that the adjustments satisfy the requirements set out in the Listing Rules.

12. TRANSFERABILITY OF AWARDS GRANTED

Prior to the Vesting Date, any Award made under the 2023 Share Award Scheme shall be personal to the Selected Participant to whom it is made and shall not be assignable and no Selected Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him/her/it pursuant to such Award unless a waiver is granted by the Stock Exchange allowing the transfer of the Awards from a Selected Participant to a vehicle (such as a trust or a private company) for the benefit of such Selected Participant and any family members of such Selected Participant (e.g. for estate planning or tax planning purposes) that would continue to meet the purpose of the 2023

Share Award Scheme and comply with the requirements of Chapter 17 of the Listing Rules. Any breach of the foregoing shall entitle the Company to cancel any Award or any part thereof granted to such Selected Participant.

13. ALTERATION OF THE 2023 SHARE AWARD SCHEME AND CHANGE TO THE TERMS OF THE AWARDS

The 2023 Share Award Scheme may be altered in any respect by a resolution of the Board provided that no such alteration shall operate to affect adversely any subsisting rights of any Eligible Participant. No alteration shall be made to the rules of the 2023 Share Award Scheme which are of a material nature or to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Selected Participants unless such alteration is approved by shareholders of the Company in general meeting. The amended rules of the 2023 Share Award Scheme must still comply with the relevant requirements of Chapter 17 of the Listing Rules. Any change to the authority of the Directors to alter the rules of the 2023 Share Award Scheme must be approved by Shareholders in general meeting.

Any change to the terms of an Award to the Selected Participant must be approved by the Board, the Remuneration Committee, the independent non-executive Directors and/or the Shareholders (as the case may be) if the initial grant of the Award was approved by the Board, the Remuneration Committee, the independent non-executive Directors and/or the Shareholders (as the case may be).

14. TERMINATION

The 2023 Share Award Scheme shall terminate on the earlier of: (i) the tenth (10th) anniversary date of the Adoption Date; or (ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Participant under the rules of the 2023 Share Award Scheme.

Upon termination of the 2023 Share Award Scheme, (i) no further grant of Awarded Shares may be made under the 2023 Share Award Scheme and (ii) all the Awards of the Selected Participant granted under the 2023 Share Award Scheme shall continue to be valid and effective and become vested in the Selected Participant according to the terms and conditions of the Award and the 2023 Share Award Scheme.

For the avoidance of doubt, the temporary suspension of the granting of any Award shall not be construed as a decision to terminate the operation of the 2023 Share Award Scheme.

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 Friday, 29 December 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 resolutions as ordinary resolutions.

ORDINARY RESOLUTIONS

1. “**THAT** conditional on the passing of resolutions numbered 2 and 3 set out in this notice and subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting approval for the listing of, and permission to deal in, the ordinary shares (the “**Shares**”) of HK\$0.01 each in the share capital of the Company which may fall to be allotted and issued in respect of awards (the “**Award(s)**”) which may be granted under the new share award scheme of the Company (the “**2023 Share Award Scheme**”), the rules of which have been produced to this meeting marked “A” and initialed by the chairman of this meeting for identification, the 2023 Share Award Scheme be and is hereby approved and adopted and the directors of the Company be and are hereby authorised to take all such steps and attend all such matters, approve and execute (whether under hand or under seal) such documents and do such other things, for and on behalf of the Company, as the directors of the Company may consider necessary, desirable or expedient to give effect to and implement the 2023 Share Award Scheme, including without limitation:
 - (i) administering the 2023 Share Award Scheme under which Awards may be granted to participants eligible under the 2023 Share Award Scheme;
 - (ii) modifying and/or amending the 2023 Share Award Scheme from time to time provided that such modification and/or amendment is effected in accordance with the rules of the 2023 Share Award Scheme and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”);

NOTICE OF THE EGM

- (iii) granting Awards under the 2023 Share Award Scheme and allotting, issuing and otherwise dealing with from time to time such number of Shares as may be required to be issued in respect of the Awards that may be granted under the 2023 Share Award Scheme, subject to the Listing Rules;
 - (iv) making application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares on the Stock Exchange that may hereafter from time to time be allotted and issued in respect of the Awards that may be granted under the 2023 Share Award Scheme; and
 - (v) consenting, if they deem fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant regulatory authorities (including the Stock Exchange) in relation to the 2023 Share Award Scheme.”
2. “**THAT** conditional on the passing of resolutions numbered 1 and 3 set out in this notice, the directors of the Company be and are hereby authorised to grant Awards (as defined in the rules of the 2023 Share Award Scheme (as defined in resolution numbered 1 set out in this notice)) to the Eligible Participants (as defined in the rules of the 2023 Share Award Scheme) in accordance with the rules of the 2023 Share Award Scheme up to a maximum of ten (10) per cent. of the Shares (as defined in resolution numbered 1 set out in this notice) in issue as at the date of passing of this resolution, to allot and issue Shares in respect of Awards so granted and to take all necessary actions incidental thereto as the directors of the Company deem fit.”
3. “**THAT** conditional on the passing of resolutions numbered 1 and 2 set out in this notice, the directors of the Company be and are hereby authorised to grant Awards (as defined in the rules of the 2023 Share Award Scheme (as defined in resolution numbered 1 set out in this notice)) to the Service Providers (as defined in the rules of the 2023 Share Award Scheme) in accordance with the rules of the 2023 Share Award Scheme up to a maximum of one (1) per cent. of the Shares (as defined in resolution numbered 1 set out in this notice) in issue as at the date of passing of this resolution, to allot and issue Shares in respect of Awards so granted and to take all necessary actions incidental thereto as the directors of the Company deem fit.”

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

Hong Kong, 13 December 2023

NOTICE OF THE EGM

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 Hong Kong:*
Room 2607
26th Floor
West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

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 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.
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 share 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 resolutions 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, Mr. Zhao Yi Wen, Mr. Lu Kailin (formerly known as Mr. Lyu Xiangrong) and Mr. Leung Kin Pang; the Non-executive Director is Dr. Wang David Nin-kou; and the Independent Non-executive Directors are Mr. Li Yang, Mr. Zou Haiyan and Mr. Siu Miu Man, Simon, MH.