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HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1347)

CONNECTED TRANSACTION IN RELATION TO TECHNOLOGY DEVELOPMENT AGREEMENT

THE TECHNOLOGY DEVELOPMENT AGREEMENT

The Board is pleased to announce that HHGrace, a wholly-owned subsidiary of the Company, has entered into the Technology Development Agreement with Hua Hong Wuxi on 31 December 2020, pursuant to which HHGrace has agreed to provide Hua Hong Wuxi with a non-exclusive and non-transferable licence to use the Technological Know-how together with ancillary technical consulting services in support of the development of the production line of Hua Hong Wuxi.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Hua Hong Wuxi is a non-wholly owned subsidiary which is held as to approximately 29% by China Integrated Circuit Industry Investment Fund Co., Ltd., a substantial shareholder of the Company. Accordingly, Hua Hong Wuxi is a connected subsidiary of the Company and the entering into of the Technology Development Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the entering into of the Technology Development Agreement exceeds 0.1% but is less than 5%, the entering into of the Technology Development Agreement is subject to the reporting and announcement requirements, but is exempted from the circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has material interest in the above transactions or was required to abstain from voting at the Board meeting.

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The major terms of the Technology Development Agreement are set out as below:

- Date: 31 December 2020
- Parties: (i) HHGrace; and
(ii) Hua Hong Wuxi
- Services Provided: To support the development of the production line of Hua Hong Wuxi, HHGrace agrees to provide the following services:
- (i) a non-exclusive and non-transferable licence to Hua Hong Wuxi to use and develop the Technological Know-how; and
 - (ii) providing ancillary technical consulting services and supporting documents of Technological Know-how to Hua Hong Wuxi necessary for the use and development of the Technological Know-how.
- Payment Terms: Hua Hong Wuxi shall pay HHGrace a total of US\$45,700,000 (exclusive of tax) in RMB in accordance with the following timeline:
- (i) 30% of the total amount when the Technology Development Agreement becomes effective and within 30 days upon receipt of an invoice from HHGrace; and
 - (ii) 70% of the total amount when HHGrace have provided supporting documents of Technological Know-how which have passed the inspection of Hua Hong Wuxi and within 30 days upon receipt of an invoice from HHGrace.

The consideration under the Technology Development Agreement was determined and agreed between the parties on an arm's length basis by making reference to the Valuation Report prepared by the Valuer based on the income approach after implementation of valuation procedures including checking and verification, market research and assessment and estimation and taking into account the market conditions.

Since the appraisal of the fair value of the consideration in the Valuation Report is reached by adopting the income approach, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. An extract of the Valuation Report containing the principal assumptions (including commercial assumptions on which such profit forecast is based) for preparing such valuation, the letter from Ernst & Young, auditor of the Company, and the letter from the Board in relation to such profit forecast as required under the Listing Rules are set out as Appendices I, II and III incorporated and appended to this announcement respectively.

REASONS FOR AND BENEFITS OF ENTERING INTO THE TECHNOLOGY DEVELOPMENT AGREEMENT

Hua Hong Wuxi would require the Technological Know-how together with ancillary technical consulting services of HHGrace for the development of its production line.

Hua Hong Wuxi also considers that HHGrace possesses the necessary professional qualifications and extensive experience in undertaking such work and is expected to be able to ensure the smooth implementation of the work for the production line. Therefore, Hua Hong Wuxi proposes to enter into the Technology Development Agreement to engage HHGrace in granting a non-exclusive and non-transferable licence to use the Technological Know-how together with ancillary technical consulting services.

Having reviewed the terms of the Technology Development Agreement, the Directors (including the independent non-executive Directors) are of the view that:

- (a) the terms of the Technology Development Agreement are fair and reasonable;
- (b) the entering into of the Technology Development Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Company; and
- (c) the entering into of the Technology Development Agreement is in the interest of the Company and its Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

The Company

The Company primarily focuses on embedded non-volatile memory, power discrete, analog & power management, logic & RF and other specialty technology manufacturing platforms.

HHGrace

HHGrace is a company incorporated in the PRC on 24 January 2013 and a wholly-owned subsidiary of the Company. The principal business of HHGrace is to research, develop, manufacture and sell semiconductors as a pure-play foundry.

Hua Hong Wuxi

Hua Hong Wuxi is a company incorporated in the PRC on 10 October 2017, and currently a non-wholly owned subsidiary of the Company, and is principally engaged in the design, research, manufacturing, testing, packaging and sale of integrated circuits fabricated on 12-inch (300mm) wafers.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Hua Hong Wuxi is a non-wholly owned subsidiary which is held as to approximately 29% by China Integrated Circuit Industry Investment Fund Co., Ltd., a substantial shareholder of the Company. Accordingly, Hua Hong Wuxi is a connected subsidiary of the Company and the entering into of the Technology Development Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the entering into of the Technology Development Agreement exceeds 0.1% but is less than 5%, the entering into of the Technology Development Agreement is subject to the reporting and announcement requirements, but is exempted from the circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has material interest in the above transaction or was required to abstain from voting at the Board meeting.

DEFINITIONS

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

“Board”	the board of directors of the Company
“Company”	Hua Hong Semiconductor Limited, a company incorporated in Hong Kong with limited liability on 21 January 2005, the Shares of which are listed on the main board of the Stock Exchange
“connected subsidiary”	has the meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“HHGrace”	Shanghai Huahong Grace Semiconductor Manufacturing Corporation (上海華虹宏力半導體製造有限公司), a company incorporated in the PRC on 24 January 2013 and a wholly-owned subsidiary of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hua Hong Wuxi”	Hua Hong Semi-Conductor (Wuxi) Co., Ltd, a company incorporated in the PRC on 10 October 2017, and a non-wholly-owned subsidiary of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holder(s) of Shares
“Shares”	shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning as ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning as ascribed to it under the Listing Rules

“Technological Know-how”	all the intellectual property rights and technological secrets related to the logic (hereinafter referred as Product “Logic”), embedded flash memory (hereinafter referred as Product “Eflash”), analog & power management (hereinafter referred as Product “BCD”), power discrete (hereinafter referred as Products “Power Dmos”, “Power SJ”, “Power SGT” and “Power IGBT”), and other specialty technology platforms that are owned or licensed by HHGrace, including but not limited to patents and technological secrets
“Technology Development Agreement”	the technology development agreement entered into between HHGrace and Hua Hong Wuxi on 31 December 2020
“US\$”	United States dollar, the lawful currency of the United States
“Valuation report”	the asset valuation report in respect of the non-exclusive and non-transferable licence to use the Technological Know-how owned by HHGrace dated 23 May 2020 prepared by the Valuer
“Valuer”	China United Assets Appraisal Group Co., Ltd.
“%”	per cent

By order of the Board
Hua Hong Semiconductor Limited
Mr. Suxin Zhang
Chairman and Executive Director

Shanghai, PRC, 31 December 2020

As at the date of this announcement, the Directors of the Company are:

Executive Directors

Suxin Zhang (*Chairman*)

Junjun Tang (*President*)

Non-executive Directors

Guodong Sun

Jing Wang

Jun Ye

Independent Non-executive Directors

Stephen Tso Tung Chang

Kwai Huen Wong, JP

Long Fei Ye

APPENDIX I

EXTRACT OF THE VALUATION REPORT CONTAINING THE PRINCIPAL ASSUMPTIONS ON WHICH THE VALUATION BY INCOME APPROACH WAS MADE

Note: Unless the context otherwise defines, “client” represents HHGrace and “appraiser” represents the Valuer in this appendix.

(I) General Assumptions

1. Transaction Assumption

The transaction assumption assumes all assets to be valued are in the course of transaction and the valuation assessed by the appraiser is based on a simulated market including terms of transaction in respect of such assets. The transaction assumption is one of the most fundamental assumptions for conducting asset valuation.

2. Open Market Assumption

The open market assumption assumes that the parties to the assets transaction or the proposed assets transaction in the market have equal bargaining power and have the opportunities and time to obtain sufficient market information in order to make a rational and informed judgment on the assets, including their functions, uses and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

3. Asset Going-Concern Assumption

The asset going-concern assumption means that the valuation method, parameters and basis shall be determined on the premise that the valued assets will be continuously used in consistence with their current functions and methods, scale, frequency and environment of application, or used on the basis of certain changes thereof.

(II) Special Assumptions

1. It is assumed in this valuation that the external economic environment remains unchanged and there are no significant changes in current macroeconomic conditions of the country as at the valuation benchmark date;
2. This valuation is based on the premise of the actual stock of the assets as at the valuation benchmark date, and the valid domestic prices as at the valuation benchmark date are used as the basis for the prevailing market prices of such assets;
3. It is assumed in this valuation that all basic information and financial information provided by the client and the title holder are true, correct and complete;
4. The scope of valuation shall only be limited to the declaration form of valuation provided by the client and the title holder, without taking into consideration any possible contingent assets or liabilities not included in the lists provided by the client and the title holder;

- 5. The impacts of inflation have not been considered in arriving at the parameter values in this valuation;
- 6. There are no material changes to tax-related policies of relevant intangible asset products;
- 7. The management team of the future holder of the intangible assets will perform its duties satisfactorily and continue to maintain the business as a going-concern under a reasonable business operation model;
- 8. This valuation is conducted based on product sales revenue provided by the client, without considering the impact of the changes in specific production business scale attached to the future intangible assets and the changes in conditions on the value of the intangible assets;
- 9. It is assumed in this valuation that the related state policies on the development of the integrated circuit manufacture industry remain unchanged, and the client made their forecast on the sales revenue of the future products in the intangible asset portfolios on this basis;
- 10. HHGrace established a joint venture, namely, Hua Hong Semi-Conductor (Wuxi) Co., Ltd, in Wuxi’s National High-Tech Industrial Development Zone with, among others, China Integrated Circuit Industry Investment Fund Co., Ltd. and Wuxi Xi Hong Lian Xin Investment Co., Ltd. The first phase project (HH Fab7) has an investment amount of US\$2.5 billion and is to build a production line of integrated circuits fabricated on 12-inch wafers with a total capacity of 40,000 per month, which will be applied in 5G, Internet-of-Things and other emerging sectors. It is assumed in this valuation that the judgments on technology, product application prospects and development trends regarding the Hua Hong Wuxi Project and the actual future situation have no significant differences. The valuation subject shall implement the report as planned.
- 11. It is assumed in this valuation that the contribution ratio of the appraisal technology is reasonable. The appraisal technology refers to the technology mainly used during the manufacturing processes of the IC and Power products of the Hua Hong Wuxi Project only. According to the interview with professional staff of the client and the advice from the client, the contribution ratio of each platform technological know-how among all technology assets is as follows:

Product	Share of interest in the appraisal technology
Logic	100%
Eflash	70%
BCD	70%
Power Dmos	90%
Power SJ	90%
Power SGT	90%
Power IGBT	90%

If there is any change in the aforesaid conditions, the valuation results shall become invalid.

APPENDIX II LETTER FROM ERNST & YOUNG

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF THE NON-EXCLUSIVE AND NON-TRANSFERABLE LICENSE TO UTILISE THE TECHNOLOGICAL KNOW-HOW OWNED BY SHANGHAI HUAHONG GRACE SEMICONDUCTOR MANUFACTURING CORPORATION

31 December 2020

To the Directors of Hua Hong Semiconductor Limited

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation dated 23 May 2020 prepared by China United Assets Appraisal Group Co., Ltd. in respect of the non-exclusive and non-transferable license to utilise the technological know-how owned by Shanghai Huahong Grace Semiconductor Manufacturing Corporation as at 31 March 2020 is based. The valuation is set out in the announcement of Hua Hong Semiconductor Limited (the “**Company**”) dated 31 December 2020 (the “**Announcement**”). The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out on Appendix I to the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX III LETTER FROM THE BOARD

To: Listing Division

The Stock Exchange of Hong Kong Limited
12th Floor,
Two Exchange Square,
8 Connaught Place,
Central,
Hong Kong

Dear Sirs or Madams,

Company: Hua Hong Semiconductor Limited (the “Company”)

Re: Profit Forecast – Letter of Confirmation as required under Rule 14.62(3) of the Listing Rules

We refer to the announcement of the Company dated 31 December 2020 (the “**announcement**”).

Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless otherwise defined.

We also refer to the Valuation Report prepared by the Valuer based on the income approach, which constitutes a profit forecast under Rule 14.61 of the Listing Rules.

The Board has reviewed the bases and assumptions of the valuation regarding the non-exclusive licence and non-transferable license to use the Technological Know-how owned by HHGrace with the Valuer, for which valuation the Valuer is solely responsible. The Board has also considered the report dated 31 December 2020 issued by Ernst & Young, the auditor of the Company, confirming that, so far as the arithmetical accuracy of the calculations of the discounted cash flows forecast (the “**Forecast**”) on which the valuation is based and concerned, the Forecast has been properly complied in all material respects in accordance with the assumptions set out in the Valuation Report.

On the basis of the foregoing, we are of the opinion that the valuations prepared by the Valuer have been made after due and careful enquires.

By order of the Board
Hua Hong Semiconductor Limited
Mr. Suxin Zhang
Chairman and Executive Director

31 December 2020