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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)

CONTINUING CONNECTED TRANSACTIONS REVISION OF ANNUAL CAPS OF THE HUA HONG REAL ESTATE LEASE AND THE 2021 HUAJIN MANAGEMENT AGREEMENT

Reference is made to the Announcement of the Company in relation to, inter alia, the continuing connected transactions (i) between the Group and Huahong Real Estate under the Huahong Real Estate Lease and (ii) between the Group and Huajin Property Management under the 2021 Huajin Management Agreement. Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed to them in the Announcement.

Pursuant to further discussions, the Company has agreed with Huahong Real Estate and Huajin Property Management respectively that the Company's electricity and water bills incurred in connection with the Huahong Real Estate lease, which were paid to Huahong Real Estate and included in the calculations of the existing annual caps of the Huahong Real Estate Lease, will now be paid to Huajin Property Management. Since Huajin Property Management is not subject to the Simple Approach of tax collection in the PRC, the Company will be entitled to tax deduction if it settles electricity and water bills with Huajin Property Management. Accordingly, the Arrangement shall reduce costs for the Company.

Under the Arrangement, the amount originally expected to be paid to Huahong Real Estate for electricity and water bills shall be paid to Huajin Property Management. Whilst the aggregate annual caps of the Huahong Real Estate Lease and the 2021 Huajin Management Agreement do not change, the existing annual caps shall be revised as follows.

Revised Annual Caps

The following table sets out the Revised Annual Caps for the two years ending 31 December 2022:

(Unit: RMB' 000)

	For the year ending 31 December 2021	For the year ending 31 December 2022
Existing annual caps		
The Huahong Real Estate Lease	14,000	14,000
The 2021 Huajin Management Agreement	2,000	2,000
Sub-total	<u>16,000</u>	<u>16,000</u>
Revised Annual Caps		
The Huahong Real Estate Lease	12,000	12,000
The 2021 Huajin Management Agreement	4,000	4,000
Sub-total	<u>16,000</u>	<u>16,000</u>

In arriving at the above Revised Annual Caps, the Directors (including the independent non-executive Directors) considered the electricity and water bills expected to be paid for the two years ending 31 December 2022 under the 2021 Huajin Management Agreement. The transactions under the Huahong Real Estate Lease and the 2021 Huajin Management Agreement are and will continue to be conducted in the ordinary and usual course of business of the Group and on an arm's length basis, and the Revised Annual Caps are in the interest of the Company and its Shareholders as a whole.

As at the date of this announcement, the existing annual caps under the Huahong Real Estate Lease and the 2021 Huajin Management Agreement for the year ending 31 December 2021 have not been exceeded.

Save for the above, the terms of the Huahong Real Estate Lease and the 2021 Huajin Management Agreement remain the same. Please refer to the Announcement for further details of the Huahong Real Estate Lease and the 2021 Huajin Management Agreement.

LISTING RULES IMPLICATIONS

As of the date of this announcement,

- (i) Huahong Real Estate is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a substantial shareholder of the Company, and 50% held by HHGrace, a wholly-owned subsidiary of the Company; and
- (ii) Huajin Property Management is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a substantial shareholder of the Company, and 50% held by HHGrace, a wholly-owned subsidiary of the Company.

Accordingly, each of Huahong Real Estate and Huajin Property Management is a connected person of the Company, and the transactions contemplated under the Huahong Real Estate Lease and the 2021 Huajin Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since Huahong Real Estate and Huajin Property Management are connected persons of the Company by virtue of their relationships with the Group and the Group's transactions with these entities, being the leasing and management for the Dormitory Premises, are of a similar nature, the transactions under the Huahong Real Estate Lease and the transactions under the 2021 Huajin Management Agreement will be aggregated and treated as if they were one transaction pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the revised annual caps in respect of the transactions under the Huahong Real Estate Lease and the revised annual caps in respect of the transactions under the 2021 Huajin Management Agreement are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14A of the Listing Rules.

Each of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps under the Huahong Real Estate Lease and the 2021 Huajin Management Agreement is, on an annual basis, above 0.1% but below 5%, and therefore the transactions contemplated thereunder are classified as connected transactions under Rule 14A.76(2) of the Listing Rules and are only subject to the reporting, annual review and announcement requirements but is exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As of the date of this announcement, none of the Directors has material interest in the above transactions or was required to abstain from voting at the Board meeting.

INFORMATION ON THE COMPANY AND THE COUNTERPARTIES

The Company

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

Huahong Real Estate

Huahong Real Estate is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a substantial shareholder of the Company, and 50% held by HHGrace, a wholly-owned subsidiary of the Company. Huahong Real Estate's principal business is real estate development, operation, property management, interior design, construction, sales of building material and management of car parks of real estate projects.

Huajin Property Management

Huajin Property Management is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a substantial shareholder of the Company, and 50% held by HHGrace, a wholly-owned subsidiary of the Company. Huajin Property Management's principal business is in property management.

Based on the information available to the Company, as of the date of this announcement, Huahong Group, the 50% shareholder of each of Huahong Real Estate and Huajin Property Management, is ultimately owned as to 51.59% by Shanghai SASAC, and 18.36%, 18.36% and 11.69% respectively by Shanghai International Group Corporation Limited (上海國際集團有限公司), Shanghai Guosheng Group Co., Ltd (上海國盛(集團)有限公司) and INESA, all of which are wholly-owned subsidiaries of Shanghai SASAC.

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 31 December 2020
“Arrangement”	the arrangement agreed between the Company and Huahong Real Estate and Huajin Property Management respectively, pursuant to which the Company's electricity and water bills incurred in connection with the Huahong Real Estate lease will be paid to Huajin Property Management
“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 person(s)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company
“Dormitory Premises”	dormitory premises situated at Hua Hong Innovation Park, Nong 2777, Jinxiu Road East, Pudong New Area, Shanghai, PRC
“Group”	the Company and its subsidiaries
“HHGrace”	Shanghai Huahong Grace Semiconductor Manufacturing Corporation (上海華虹宏力半導體製造有限公司), a wholly foreign-owned enterprise 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
“Huahong Group”	Shanghai Huahong (Group) Co., Ltd. (上海華虹(集團)有限公司), a company incorporated in the PRC on 9 April 1996 as Shanghai Hua Hong Microelectronics Co., Ltd. and renamed as Shanghai Huahong (Group) Co., Ltd, in 1998, and a substantial shareholder of the Company
“Huahong Real Estate”	Shanghai Huahong Real Estate Co., Ltd. (上海華虹置業有限公司), a company incorporated in the PRC on 28 October 2011, a wholly-owned subsidiary of Huahong Technology Development, and a connected person of the Company
“Huahong Real Estate Lease”	the lease agreement entered into between the Group and Huahong Real Estate on 10 January 2013, supplemented by a supplemental agreement entered into on 10 June 2014, pursuant to which the Group leased the Dormitory Premises from Huahong Real Estate for a term of 20 years effective from 1 January 2014
“Huajin Property Management”	Huajin Property Management Co., Ltd (上海華錦物業管理有限公司), a company incorporated in the PRC on 8 June 2012, a wholly-owned subsidiary of Huahong Technology Development, and a connected person of the Company
“Huahong Technology Development”	Shanghai Huahong Technology Development Co., Limited (上海華虹科技發展有限公司), a company incorporated in the PRC on 10 May 2010, a company 50% held by and consolidated with Huahong Group and 50% held by HHGrace, and a connected person
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of PRC and Taiwan)

“Revised Annual Caps”	the revised maximum aggregate consideration payable by the Group to Huahong Real Estate and Huajin Property Management for the two years ending 31 December 2022, the particulars of which are set out in the paragraph titled “Revised Annual Caps” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Simple Approach”	has the meaning ascribed to it under the Notice of the Ministry of Finance and the State Administration of Taxation on the Application of Low Value Added Tax Rates and Policies on Collecting Value Added Tax by the Simple Approach to Some Goods, promulgated by Ministry of Finance and the State Administration of Taxation in the PRC on 25 February 2009
“Shareholder(s)”	holder(s) of Shares
“Shares”	shares of the Company
“Shanghai SASAC”	Shanghai Municipal State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in the Listing Rules
“%”	per cent

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

Shanghai, PRC, 24 August 2021

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

LongFei Ye