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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 TRANSACTION IN RELATION TO THE CORPORATE SERVICES AGREEMENT

THE CORPORATE SERVICES AGREEMENT

The Board announces that on 31 December 2020, HHGrace, a wholly-owned subsidiary of the Company, entered into the Corporate Services Agreement with Hua Hong Wuxi. Pursuant to the Corporate Services Agreement, HHGrace has agreed to provide Corporate Services to Hua Hong Wuxi for a term of three years commencing from 1 January 2021.

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 transactions contemplated under the Corporate Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio set out in Rule 14.07 of the Listing Rules in respect of the Annual Caps of the Corporate Services Agreement is more than 0.1%, but is less than 5%, the transactions contemplated under the Corporate Services Agreement are subject to the reporting, annual review and announcement requirements but are exempt from the circular and independent shareholders' approval requirements 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.

BACKGROUND

On 31 December 2020, HHGrace entered into the Corporate Services Agreement with Hua Hong Wuxi pursuant to which HHGrace has agreed to provide Corporate Services to Hua Hong Wuxi for a term of three years commencing from 1 January 2021.

THE CORPORATE SERVICES AGREEMENT

The principal terms of the Corporate Services Agreement are summarised below:

Date:	31 December 2020
Parties:	(i) HHGrace; and (ii) Hua Hong Wuxi
Term:	The Corporate Services Agreement shall take effect from 1 January 2021 and shall be for a term of three years ending 31 December 2023.
Services Provided:	Corporate Services
Payment Arrangement:	HHGrace shall provide a breakdown of cost attributable to the Corporate Services for each year based on time spent by the relevant employees on the Corporate Services. Hua Hong Wuxi shall pay HHGrace based on an agreed invoice between HHGrace and Hua Hong Wuxi within 30 days of the invoice.
Pricing basis:	The fees payable by Hua Hong Wuxi to HHGrace for the Corporate Services, were determined on arms-length negotiations between the parties based on the anticipated cost to be incurred by HHGrace with reference to the anticipated number of hours spent by HHGrace during the term of the Corporate Services Agreement, multiplied by an average salary (per hour) of HHGrace's employees.

Proposed annual caps for the transactions under the Corporate Services Agreement

The table below sets out the proposed annual caps for the transactions under the Corporate Services Agreement for the term of three years.

	For the year ending 31 December 2021 (RMB)	For the year ending 31 December 2022 (RMB)	For the year ending 31 December 2023 (RMB)
Annual caps	143,800,000	145,000,000	145,000,000

Basis of determination of the proposed annual caps

The Annual Caps are determined with reference to the following:

- (i) the anticipated hours spent per year and the average salary of HHGrace's employees;
- (ii) the assumption that the demand of Hua Hong Wuxi for the Corporate Services shall remain constant for the period ending 31 December 2023.

The Directors (including the independent non-executive Directors) considered that the terms of the Corporate Services Agreement and the Annual Caps are fair and reasonable; the terms of the Corporate Services Agreement are on normal commercial terms or better and the transactions thereunder are and are conducted in the ordinary and usual course of business of the Group and on an arm's length basis; and the terms of the Corporate Services Agreement and the Annual Caps are in the interest of the Company and its shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CORPORATE SERVICES AGREEMENT

In order to advance the smooth construction of Hua Hong Wuxi and to optimise the Group's resources, the Company implements the management ideology of "one team, two brands" in its operations of Hua Hong Wuxi. Through the provision of the Corporate Services, including but not limited to engineering construction, technology research and development, administrative, human resources, financial, information technology, planning and procurement, market development services, to Hua Hong Wuxi, the smooth operation of Hua Hong Wuxi can be ensured. Accordingly, the Company is of the view that engaging HHGrace to provide Corporate Services to Hua Hong Wuxi, the results of which are consolidated in the Group's financial results, is in the best interests of the Group.

INFORMATION OF THE COMPANY AND 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, a company incorporated in the PRC on 24 January 2013, is 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, a company incorporated in the PRC on 10 October 2017, is 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 transactions contemplated under the Corporate Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio set out in Rule 14.07 of the Listing Rules in respect of the Annual Caps of the Corporate Services Agreement is more than 0.1%, but is less than 5%, the transactions contemplated under the Corporate Services Agreement are subject to the reporting, annual review and announcement requirements but are exempt from the circular and independent shareholders' approval requirements 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.

DEFINITIONS

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

“Annual Caps”	the annual caps with respect to the fees payable by the Hua Hong Wuxi to HHGrace in respect of the Corporate Services pursuant to the Corporate Services Agreement
“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, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Services”	<p>the corporate services to be provided under the Corporate Services Agreement, including:</p> <ul style="list-style-type: none">(i) Technology research and development;(ii) Technical and operation;(iii) Market development;(iv) Establishment and management of business platform;(v) Administrative;(vi) Human resources (including but not limited to staff recruitment);(vii) Financial (including but not limited to financial management and salary management);(viii) Information technology (including but not limited to IT platform development);(ix) Quality management and testing service;(x) Operation planning and procurement management; and such additional services the parties shall mutually agree.
“Corporate Services Agreement”	the Corporate Services Agreement entered into between HHGrace and Hua Hong Wuxi on 31 December 2020 in respect of the provision of the Corporate Services

“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries, or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries (or became such associated companies of the Company), the business operated by such subsidiaries or their predecessors (as the case may be)
“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”	The 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 (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder”	has the meaning as ascribed to it under the Listing Rules
“%”	per cent

On behalf 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