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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)**

## **RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS**

### **RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS**

#### **The Renewed Agreements**

Reference is made to the Prospectus in relation to, inter alia, the continuing connected transactions between (i) the Group and Huahong Zealcore under the Old Huahong Zealcore Sales Agreement, (ii) the Group and QST under the Old QST Sales Agreement, (iii) the Group and Huahong Zealcore under the Old Huahong Zealcore Purchase Agreement, (iv) the Group and INESA Entities under the Old INESA Master Purchase Agreement and (v) the Group and Huajin Property Management under the Old Huajin Management Agreement.

At the time of the listing of the Shares on the Stock Exchange in October 2014, the Stock Exchange granted a waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions under the aforementioned agreements from strict compliance with the announcement, circular and independent shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules. Pursuant to the waiver, the transactions under the aforementioned agreements were subject to the respective annual caps for the three years ending 31 December 2016.

The Old QST Sales Agreement expired on 1 November 2016. The Old Huahong Zealcore Sales Agreement, the Old Huahong Zealcore Purchase Agreement, the Old INESA Master Purchase Agreement and the Old Huajin Management Agreement will expire on 31 December 2016. The existing annual caps in respect of the transactions contemplated under the Old Agreements will expire on 31 December 2016. As the Group intends to continue carrying out such transactions in the ordinary and usual course of business, the Group proposes to enter into the following Renewed Agreements with the relevant parties to renew the Old Agreements on 1 January 2017:

- (i) the Renewed Huahong Zealcore Sales Agreement;
- (ii) the Renewed QST Sales Agreement;
- (iii) the Renewed Huahong Zealcore Purchase Agreement;

- (iv) the Renewed INESA Master Purchase Agreement; and
- (v) the Renewed Huajin Management Agreement.

Accordingly, the Company has proposed new annual caps for the transactions contemplated under the Renewed Huahong Zealcore Sales Agreement, the Renewed QST Sales Agreement, the Renewed Huahong Zealcore Purchase Agreement and the Renewed INESA Master Purchase Agreement for the three years ending 31 December 2019. The Company has also proposed a new annual cap for the transactions under the Renewed Huajin Management Agreement for the year ending 31 December 2017.

## **PROPOSED NEW ANNUAL CAPS**

### **The QST Services Agreement**

Further reference is made to the Prospectus in relation to, inter alia, the continuing connected transactions between the Group and QST under the QST Services Agreement.

At the time of the listing of the Shares on the Stock Exchange in October 2014, the Stock Exchange granted a waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions under the QST Services Agreement from strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Pursuant to the waiver, the transactions under the QST Services Agreement were subject to the respective annual caps for the three years ending 31 December 2016.

The existing annual caps for the transactions contemplated under the QST Services Agreement will expire on 31 December 2016. As the QST Services Agreement will only expire on 31 March 2017 and the Group will continue carrying out the transactions contemplated thereunder in its ordinary and usual course of business, the Board proposes to renew the annual cap for the transactions under the QST Services Agreement for the year ending 31 December 2017.

### **The Huali Lease and the Huahong Real Estate Lease**

Further reference is made to the Prospectus in relation to, inter alia, the continuing connected transactions between (i) the Group and Shanghai Huali under the Huali Lease and (ii) the Group and Huahong Real Estate under the Huahong Real Estate Lease.

At the time of the listing of the Shares on the Stock Exchange in October 2014, the Stock Exchange granted a waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions under the Huali Lease and the Huahong Real Estate Lease from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules and the requirement of limiting the respective term of the Huali Lease and the Huahong Real Estate Lease to three years or less. Pursuant to the waiver, the transactions under the Huali Lease and Huahong Real Estate Lease were subject to the respective annual caps for the three years ending 31 December 2016.

The existing annual caps for the transactions contemplated under the Huali Lease and the Huahong Real Estate Lease will expire on 31 December 2016. As the Huali Lease will continue until 28 February 2030 and the Huahong Real Estate Lease will continue until 31 December 2033 and the Group will continue carrying out the transactions contemplated thereunder in its ordinary and usual course of business, the Board proposes to renew the annual caps for the transactions under the Huali Lease and the Huahong Real Estate Lease for the three years ending 31 December 2019.

## LISTING RULE IMPLICATIONS

As of the date of the announcement,

- (i) Huahong Zealcore is 90.66% owned by Huahong Group, a controlling shareholder of the Company;
- (ii) QST is 36.36% held by SAIL, a controlling shareholder of the Company, of which 27.27% interest is held directly by SAIL and 9.09% interest is held directly by the Company;
- (iii) INESA is a controlling shareholder of the Company by virtue of a voting bloc arrangement from INESA to SAIL;
- (iv) Shanghai Huali is 50.23% owned by SAIL, a controlling shareholder of the Company;
- (v) Huahong Real Estate is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a controlling shareholder of the Company, and 50% held by HHNEC, a wholly-owned subsidiary of the Company; and
- (vi) Huajin Property Management is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a controlling shareholder of the Company, and 50% held by HHNEC, a wholly-owned subsidiary of the Company.

Accordingly, each of Huahong Zealcore, QST, INESA Entities, Shanghai Huali, Huahong Real Estate and Huajin Property Management are connected persons of the Company, and the transactions contemplated under the Renewed Agreements, the QST Services Agreement, the Huali Lease and the Huahong Real Estate Lease constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since Huahong Zealcore and QST are connected persons of the Company by virtue of their relationships with the Group and the Group's sales transactions with these entities are of a similar nature, the sales transactions with Huahong Zealcore under the Renewed Huahong Zealcore Sales Agreement, the sales transactions with QST under the Renewed QST Sales Agreement and the provision of services transactions with QST under the QST Services 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 proposed new annual caps in respect of these transactions are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios 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 leasing and management transactions with these entities are of a similar nature, the transactions under the Huahong Real Estate Lease and the transactions under the Renewed 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 proposed new annual caps in respect of these transactions are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14A of the Listing Rules.

Since each of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the proposed new annual caps under the Renewed Agreements, the QST Services Agreement, the Huali Lease and the Huahong Real Estate Lease is, on an annual basis, above 0.1% but below 5%, each of the transactions contemplated thereunder is classified as a continuing connected transaction under Rule 14.A76(2) of the Listing Rules and is 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.

## **1. BACKGROUND**

### **1.1 RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS**

#### **The Renewed Agreements**

Reference is made to the Prospectus in relation to, inter alia, the continuing connected transactions between (i) the Group and Huahong Zealcore under the Old Huahong Zealcore Sales Agreement, (ii) the Group and QST under the Old QST Sales Agreement, (iii) the Group and Huahong Zealcore under the Old Huahong Zealcore Purchase Agreement, (iv) the Group and INESA Entities under the Old INESA Master Purchase Agreement and (v) the Group and Huajin Property Management under the Old Huajin Management Agreement.

At the time of the listing of the Shares on the Stock Exchange in October 2014, the Stock Exchange granted a waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions under the aforementioned agreements from strict compliance with the announcement, circular and independent shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules. Pursuant to the waiver, the transactions under the aforementioned agreements were subject to the respective annual caps for the three years ending 31 December 2016.

The Old QST Sales Agreement expired on 1 November 2016. The Old Huahong Zealcore Sales Agreement, the Old Huahong Zealcore Purchase Agreement, the Old INESA Master Purchase Agreement and the Old Huajin Management Agreement will expire on 31 December 2016. The existing annual caps in respect of the transactions contemplated under the Old Agreements will expire on 31 December 2016. As the Group intends to continue carrying out such transactions in the ordinary and usual course of business, the Group proposes to enter into the following Renewed Agreements with the relevant parties to renew the Old Agreements on 1 January 2017:

- (i) the Renewed Huahong Zealcore Sales Agreement;
- (ii) the Renewed QST Sales Agreement;
- (iii) the Renewed Huahong Zealcore Purchase Agreement;
- (iv) the Renewed INESA Master Purchase Agreement; and
- (v) the Renewed Huajin Management Agreement.

Accordingly, the Company has proposed new annual caps for the transactions contemplated under the Renewed Huahong Zealcore Sales Agreement, the Renewed QST Sales Agreement, the Renewed Huahong Zealcore Purchase Agreement and the Renewed INESA Master Purchase Agreement for the three years ending 31 December 2019. The Company has also proposed a new annual cap for the transactions under the Renewed Huajin Management Agreement for the year ending 31 December 2017.

## **1.2 PROPOSED NEW ANNUAL CAPS**

### **The QST Services Agreement**

Further reference is made to the Prospectus in relation to, inter alia, the continuing connected transactions between the Group and QST under the QST Services Agreement.

At the time of the listing of the Shares on the Stock Exchange in October 2014, the Stock Exchange granted a waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions under the QST Services Agreement from strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Pursuant to the waiver, the transactions under the QST Services Agreement were subject to the respective annual caps for the three years ending 31 December 2016.

The existing annual caps for the transactions contemplated under the QST Services Agreement will expire on 31 December 2016. As the QST Services Agreement will only expire on 31 March 2017 and the Group will continue carrying out the transactions contemplated thereunder in its ordinary and usual course of business, the Board proposes to renew the annual cap for the transactions under the QST Services Agreement for the year ending 31 December 2017.

### **The Huali Lease and the Huahong Real Estate Lease**

Further reference is made to the Prospectus in relation to, inter alia, the continuing connected transactions between (i) the Group and Shanghai Huali under the Huali Lease and (ii) the Group and Huahong Real Estate under the Huahong Real Estate Lease.

At the time of the listing of the Shares on the Stock Exchange in October 2014, the Stock Exchange granted a waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions under the Huali Lease and the Huahong Real Estate Lease from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules and the requirement of limiting the respective term of the Huali Lease and the Huahong Real Estate Lease to three years or less. Pursuant to the waiver, the transactions under the Huali Lease and Huahong Real Estate Lease were subject to the respective annual caps for the three years ending 31 December 2016.

The existing annual caps for the transactions contemplated under the Huali Lease and the Huahong Real Estate Lease will expire on 31 December 2016. As the Huali Lease will continue until 28 February 2030 and the Huahong Real Estate Lease will continue until 31 December 2033 and the Group will continue carrying out the transactions contemplated thereunder in its ordinary and usual course of business, the Board proposes to renew the annual caps for the transactions under the Huali Lease and the Huahong Real Estate Lease for the three years ending 31 December 2019.

## **2. THE CONTINUING CONNECTED TRANSACTIONS**

### **2.1 SALES AND PROVISION OF SERVICES TRANSACTIONS WITH HUAHONG ZEALCORE AND QST**

#### **2.1.1 Summary of the terms of the Renewed Huahong Zealcore Sales Agreement, the Renewed QST Sales Agreement and the QST Services Agreement**

Before the listing of the Shares on the Stock Exchange, the Group entered into the Old Huahong Zealcore Sales Agreement, the Old QST Sales Agreement and the QST Services Agreement to regulate the sales and provision of services transactions with Huahong Zealcore and QST, respectively. The principal terms of the Renewed Huahong Zealcore Sales Agreement and the Renewed QST Sales Agreement, which shall replace the Old Huahong Zealcore Sales Agreement and Old QST Sales Agreement, with effect from 1 January 2017, and the QST Services Agreement are summarised below:

**Date:** The Renewed Huahong Zealcore Sales Agreement will be entered into on 1 January 2017.

The Renewed QST Sales Agreement will be entered into on 1 January 2017.

The QST Services Agreement was entered into on 1 November 2013.

**Parties:** The Renewed Huahong Zealcore Sales Agreement will be entered into between the Group and Huahong Zealcore.

The Renewed QST Sales Agreement will be entered into between the Group and QST.

The QST Services Agreement was entered into between the Group and QST.

**Term:** The Renewed Huahong Zealcore Sales Agreement shall become effective from 1 January 2017 to 31 December 2019.

The Renewed QST Sales Agreement shall become effective from 1 January 2017 to 31 December 2019.

The QST Services Agreement will expire on 31 March 2017.

Nature of transactions: Pursuant to the Renewed Huahong Zealcore Sales Agreement, the Group will sell IC and other semiconductor products to Huahong Zealcore as part of its ordinary and usual course of business.

Pursuant to the Renewed QST Sales Agreement, the Group will sell IC and other semiconductor products to QST as part of its ordinary and usual course of business.

Pursuant to the QST Services Agreement, the Group has agreed to provide certain services, including technology, development services and facility maintenance services, to QST in its ordinary course of business.

Pricing basis: The sales prices of the IC or the other semiconductor products under the Renewed Huahong Zealcore Sales Agreement and the Renewed QST Sales Agreement are determined by reference to market prices.

The services fees under the QST Services Agreement are determined by reference to market prices.

### **2.1.2 Reasons and benefits for entering into the Renewed Huahong Zealcore Sales Agreement and the Renewed QST Sales Agreement**

The Group has been selling IC and other semiconductor products to each of Huahong Zealcore and QST as part of its ordinary and usual course of business, and it is expected that such transactions will continue after 31 December 2016.

The Group has been providing certain services, including technology and development services and facility maintenance services to QST, as part of its ordinary and usual course of business, and it is expected that such transactions will continue after 31 December 2016.

The Directors (including the Independent Non-Executive Directors) consider that the Renewed Huahong Zealcore Sales Agreement, the Renewed QST Sales Agreement and the QST Services Agreement are on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group.

### 2.1.3 Historical amounts and existing annual caps

The table below sets out the historical transaction amounts received by the Group from Huahong Zealcore and QST under the Old Huahong Zealcore Sales Agreement, the Old QST Sales Agreement and the QST Services Agreement during the periods indicated below and the respective existing annual caps (as aggregated):

| <b>Transaction</b>                              | <b>For the<br/>year ended<br/>31 December<br/>2014<br/>(audited)</b> | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(audited)<br/>(USD '000)</b> | <b>For the<br/>six months<br/>ended 30 June<br/>2016<br/>(unaudited)</b> |
|---|--|---|--|
| <b>The Old Huahong Zealcore Sales Agreement</b> | 11,303   | 9,929   | 4,292  |
| <b>The Old QST Sales Agreement</b>              | 408  | 911   | 492  |
| <b>The QST Services Agreement</b>               | 1,059 <sup>(1)</sup>   | 445   | 212  |
| <b>Sub-total</b>                                | 12,770   | 11,285  | 4,996  |

#### **EXISTING ANNUAL CAPS**

|   | <b>For the<br/>year ended<br/>31 December<br/>2014</b> | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(USD '000)</b> | <b>For the<br/>year ending<br/>31 December<br/>2016</b> |
|---|--|---|---|
| <b>The Old Huahong Zealcore Sales Agreement</b> | 12,600   | 13,200  | 13,900  |
| <b>The Old QST Sales Agreement</b>              | 1,000  | 8,000   | 16,000  |
| <b>The QST Services Agreement</b>               | 500  | 500   | 500   |
| <b>Sub-total</b>                                | 14,100   | 21,700  | 30,400  |

*Note:*

- (1) The actual amount of service fees recognized for the year ended 31 December 2014 is USD0.453 million. As a result, this falls within the annual cap of USD0.5 million approved for 2014. The amount of USD1.059 million represents the amount of service fees recognized for the two years ended 31 December 2014. As disclosed in the Prospectus, the Company had accumulated services fees of USD0.606 million for the year ended 31 December 2013 together with service fees of USD0.23 million for the six months ended 30 June 2014. For the six months ended 31 December 2014, the Group recognized USD0.223 million in fees from QST.



## 2.1.4 Proposed new annual caps

The Board proposes that the below new annual caps be set for the transactions with Huahong Zealcore and QST under the Renewed Huahong Zealcore Sales Agreement and the Renewed QST Sales Agreement in respect of the three years ending 31 December 2019, respectively. The Board also proposes that the below new annual cap be set for the transactions with QST under the QST Services Agreement for the year ending 31 December 2017.

| <b>Transaction</b>                                      | <b>PROPOSED NEW ANNUAL CAPS</b>                         |   |   |
|---|---|---|---|
|   | <i>(USD '000)</i>                                       |   |   |
|   | <b>For the<br/>year ending<br/>31 December<br/>2017</b> | <b>For the<br/>year ending<br/>31 December<br/>2018</b> | <b>For the<br/>year ending<br/>31 December<br/>2019</b> |
| <b>The Renewed Huahong Zealcore<br/>Sales Agreement</b> | 12,000  | 12,600  | 13,230  |
| <b>The Renewed QST Sales Agreement</b>                  | 5,400   | 7,200   | 9,600   |
| <b>The QST Services Agreement</b>                       | 200   | N/A   | N/A   |
| <b>Sub-total</b>  | 17,600  | 19,800  | 22,830  |

In arriving at the above proposed new annual cap in respect of the Renewed Huahong Zealcore Sales Agreement for 2017, the Directors considered the expected sales orders received from Huahong Zealcore, including a 39.8% increase in the expected sales amount in the first half of 2017 as compared to the historical transaction amounts in the six months ended 30 June 2016. The proposed new annual caps for 2018 and 2019 assume that the expected sales amount will grow at a rate of 5% as compared to the previous year. The increase in the proposed new annual caps in these three years as compared with the actual historical transaction amounts was predominantly due to an expected increase in the production capacity of the Group such that it would be able to meet an increased amount of sales orders from Huahong Zealcore from 2017 onwards.

In arriving at the above proposed new annual cap in respect of the Renewed QST Sales Agreement for 2017, the Directors took into account the expected sales orders received by QST from its end customers. The increase in the proposed new annual caps for 2018 and 2019 is due to the Group's gradual introduction of magnetic sensor products, gyroscope products and pressure sensor products into the market.

In arriving at the above proposed new annual cap in respect of the QST Services Agreement for 2017, the Directors considered the expected fixed fees from QST of approximately USD200,000 for the technology, development and maintenance services provided by the Group in 2017.

Since Huahong Zealcore and QST are connected persons of the Company by virtue of their relationships with the Group and the Group's transactions with these entities, being the sale of IC and semiconductor products and the provision of technology, development services and facility maintenance services, are of a similar nature, the sales transactions with Huahong Zealcore under the Renewed Huahong Zealcore Sales Agreement, the sales transactions with QST under the Renewed QST Sales Agreement and the provision of services to QST under the QST Services 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 proposed new annual caps in respect of these transactions are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14A of the Listing Rules.

## **2.2 PURCHASE TRANSACTIONS WITH HUAHONG ZEALCORE**

### **2.2.1 Summary of the terms of the Renewed Huahong Zealcore Purchase Agreement**

Before the listing of the Shares on the Stock Exchange, the Group entered into the Old Huahong Zealcore Purchase Agreement to regulate the purchase transactions with Huahong Zealcore. The principal terms of the Renewed Huahong Zealcore Purchase Agreement, which shall replace the Old Huahong Zealcore Purchase Agreement with effect from 1 January 2017, are summarised below:

|                         |  |
|-------------------------|--|
| Date:                   | 1 January 2017   |
| Parties:                | The Group and Huahong Zealcore   |
| Term:                   | 1 January 2017 to 31 December 2019   |
| Nature of transactions: | Pursuant to the Renewed Huahong Zealcore Purchase Agreement, the Group will purchase chemicals for its manufacturing processes of semiconductor products from Huahong Zealcore as part of its ordinary and usual course of business. |
| Pricing basis:          | The purchase prices of the materials under the Renewed Huahong Zealcore Purchase Agreement are determined by reference to market prices.   |

### **2.2.2 Reasons for entering into the Renewed Huahong Zealcore Purchase Agreement**

The Group has been purchasing chemicals for its manufacturing processes of semiconductors from Huahong Zealcore as part of its ordinary and usual course of business, and it is expected that such transactions will continue after 31 December 2016.

The Directors (including the Independent Non-Executive Directors) consider that the Renewed Huahong Zealcore Purchase Agreement is on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group.

### 2.2.3 Historical amounts and existing annual caps

The table below sets out the historical transaction amounts paid by the Group to Huahong Zealcore under the Old Huahong Zealcore Purchase Agreement during the periods indicated below and the respective existing annual caps:

|                             | <b>For the<br/>year ended<br/>31 December<br/>2014<br/>(audited)</b> | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(audited)<br/>(USD '000)</b> | <b>For the<br/>six months<br/>ended 30 June<br/>2016<br/>(unaudited)</b> |
|-----------------------------|--|---|--|
| <b>Transaction amounts</b>  | 448  | 495   | 205  |
|                             | <b>For the<br/>year ended<br/>31 December<br/>2014</b>               | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(USD '000)</b>               | <b>For the<br/>year ending<br/>31 December<br/>2016</b>                  |
| <b>Existing annual caps</b> | 800  | 800   | 900  |

### 2.2.4 Proposed new annual caps

The Board proposes that the below new annual caps be set for the transactions with Huahong Zealcore under the Renewed Huahong Zealcore Purchase Agreement in respect of the three years ending 31 December 2019.

|                                 | <b>For the<br/>year ending<br/>31 December<br/>2017</b> | <b>For the<br/>year ending<br/>31 December<br/>2018<br/>(USD '000)</b> | <b>For the<br/>year ending<br/>31 December<br/>2019</b> |
|---------------------------------|---|--|---|
| <b>Proposed new annual caps</b> | 710   | 725  | 740   |

In arriving at the above proposed new annual caps, the Directors considered (i) the actual transaction values and volumes of materials purchased from Huahong Zealcore in the year ended 31 December 2015 and the six months ended 30 June 2016; (ii) the need for the Group to increase its purchase orders from Huahong Zealcore to support the expansion of its production capacity from 2017 onwards; and (iii) the proposed new annual caps for 2018 and 2019 assume that the business would be similar to 2017 levels.

## **2.3 PURCHASE TRANSACTIONS WITH INESA ENTITIES**

### **2.3.1 Summary of the terms of the Renewed INESA Master Purchase Agreement**

Before the listing of the Shares on the Stock Exchange, the Group entered into the Old INESA Master Purchase Agreement to regulate the purchase transactions with INESA Entities. The principal terms of the Renewed INESA Master Purchase Agreement, which shall replace the Old INESA Master Purchase Agreement with effect from 1 January 2017, are summarised below:

|                         |   |
|-------------------------|---|
| Date:                   | 1 January 2017  |
| Parties:                | The Group and INESA Entities  |
| Term:                   | 1 January 2017 to 31 December 2019  |
| Nature of transactions: | Pursuant to the Renewed INESA Master Purchase Agreement, the Group will purchase goods and services including packaging, testing, consulting services and software licenses in relation to the Group's semiconductor manufacturing operations from INESA Entities as part of its ordinary and usual course of business. |
| Pricing basis:          | The purchase prices of the goods and services under the Renewed INESA Master Purchase Agreement are determined by reference to market prices.   |

### **2.3.2 Reasons for entering into the Renewed INESA Master Purchase Agreement**

The Group has been purchasing goods and services including packaging, testing, consulting services and software licenses in relation to the Group's semiconductor manufacturing operations from INESA Entities as part of its ordinary and usual course of business.

The Directors (including the Independent Non-Executive Directors) consider that the Renewed INESA Master Purchase Agreement is on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group.

### 2.3.3 Historical amounts and existing annual caps

The table below sets out the historical transaction amounts paid by the Group to INESA Entities under the Old INESA Master Purchase Agreement during the periods indicated below and the respective existing annual caps:

|                            | <b>For the<br/>year ended<br/>31 December<br/>2014<br/>(audited)</b> | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(audited)<br/>(USD '000)</b> | <b>For the<br/>six months<br/>ended 30 June<br/>2016<br/>(unaudited)</b> |
|----------------------------|--|---|--|
| <b>Transaction amounts</b> | 278  | 382   | 233  |

  

|                             | <b>For the<br/>year ended<br/>31 December<br/>2014</b> | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(USD '000)</b> | <b>For the<br/>year ending<br/>31 December<br/>2016</b> |
|-----------------------------|--|---|---|
| <b>Existing annual caps</b> | 300  | 1,300   | 1,400   |

### 2.3.4 Proposed new annual caps

The Board proposes that the below new annual caps be set for the purchase transactions with INESA Entities under the Renewed INESA Master Purchase Agreement in respect of the three years ending 31 December 2019.

|                                 | <b>For the<br/>year ending<br/>31 December<br/>2017</b> | <b>For the<br/>year ending<br/>31 December<br/>2018<br/>(USD '000)</b> | <b>For the<br/>year ending<br/>31 December<br/>2019</b> |
|---------------------------------|---|--|---|
| <b>Proposed new annual caps</b> | 2,800   | 2,800  | 2,800   |

In arriving at the above proposed new annual caps, which represent a significant increase as compared with the actual historical amounts, the Directors considered (i) the Group's expected production of new products which the INESA Entities will provide packaging and testing services from 2017 onwards; and (ii) the proposed new annual caps for 2018 and 2019 assume that the level of goods and services purchased would be similar to 2017 levels.

## 2.4 LEASING TRANSACTIONS WITH SHANGHAI HUALI

### 2.4.1 Summary of the terms under the Huali Lease

The Group entered into the Huali Lease with Shanghai Huali in relation to the leasing of the fab space in the Group's existing facilities to Shanghai Huali. The principal terms of the Huali Lease are summarised below:

Date: The Huali Lease Agreement was entered into on 25 February 2010.

The Huali Lease Supplemental Agreements were entered into on 10 June 2011 and 25 July 2014.

Parties: The Group and Shanghai Huali

Term: 1 March 2010 to 28 February 2030.

Nature of transactions: Pursuant to the Huali Lease Agreement, the Group has agreed to lease the Factory Premise to Shanghai Huali to house their 300mm wafer production line as well as certain administrative functions.

Pursuant to the Huali Lease Supplemental Agreements, the lease to Shanghai Huali was extended to include the leasing of warehouse space ("**Warehouse Space**") with gross floor area of up to 4,536.1 square meters.

Pricing basis: The annual rental for the Factory Premise was on a fixed amount of RMB75,501,616.5 for factory area leased, including a daily rental of approximately RMB2.9 per square meter for office space for the first 5 years and thereafter adjusted every year by the then relevant PRC consumer price index. The total gross floor area of the Factory Premise and office space was 91,512.1 square meters. The annual rental from the sixth year onwards is calculated according to a formula based on the rental of the previous year and the PRC consumer price index rate.

The annual rental under the Huali Lease for 2016 is approximately RMB79,500,000. The respective expected annual rental for 2017, 2018 and 2019 is RMB84,000,000, RMB88,000,000 and RMB92,000,000, which is calculated according to a formula based on the rental of the previous year and the PRC consumer price index rate.

## 2.4.2 Reasons for entering into the Huali Lease

The lease of fab space from the Group to Shanghai Huali is a critical part of the Group's strategic investment in 300mm wafer manufacturing capacity. Given (i) the strategic importance of the Group's investment in Shanghai Huali's wafer production line; (ii) the synergy effect expected to be generated from housing the production line in the Group's fab; and (iii) the substantial investment involved in building the 300mm wafer fabrication project at the relevant property, the Directors considered that it is both essential and beneficial for the Group to enter into the Huali Lease with Shanghai Huali.

The Directors (including the Independent Non-Executive Directors) consider that the Huali Lease was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group.

## 2.4.3 Historical amounts and existing annual caps

The table below sets out the historical transaction amounts received by the Group from Shanghai Huali under the Huali Lease during the periods indicated below and the respective existing annual caps:

|                             | <b>For the<br/>year ended<br/>31 December<br/>2014<br/>(audited)</b> | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(audited)<br/>(RMB '000)</b> | <b>For the<br/>six months<br/>ended 30 June<br/>2016<br/>(unaudited)</b> |
|-----------------------------|--|---|--|
| <b>Transaction amounts</b>  | 81,051   | 79,605  | 39,650   |
|                             | <b>For the<br/>year ended<br/>31 December<br/>2014</b>               | <b>For the<br/>year ended<br/>31 December<br/>2015<br/>(RMB '000)</b>               | <b>For the<br/>year ending<br/>31 December<br/>2016</b>                  |
| <b>Existing annual caps</b> | 87,500   | 93,400  | 98,900   |

#### 2.4.4 Proposed new annual caps

The Board proposes that the below new annual caps be set for the leasing transactions with Shanghai Huali under the Huali Lease in respect of the three years ending 31 December 2019.

|                                 | <b>For the<br/>year ending<br/>31 December<br/>2017</b> | <b>For the<br/>year ending<br/>31 December<br/>2018<br/><i>(RMB '000)</i></b> | <b>For the<br/>year ending<br/>31 December<br/>2019</b> |
|---------------------------------|---|---|---|
| <b>Proposed new annual caps</b> | 84,000  | 88,000  | 92,000  |

The proposed new annual caps were decided taking into account the expected inflation, as the terms of the Huali Lease Agreement provides that the rental for each year shall be determined based on the rental rate in the lease agreement adjusted by the PRC consumer price index rate for the previous year.

#### 2.5 LEASING AND MANAGEMENT TRANSACTIONS WITH HUAHONG REAL ESTATE

##### 2.5.1 Summary of the terms under the Huahong Real Estate Lease and the Renewed Huajin Management Agreement

The Group entered into the Huahong Real Estate Lease with Huahong Real Estate to rent one of their buildings for use as staff quarters for the Group's employees. Also, before the listing of the Shares on the Stock Exchange, the Group entered into the Old Huajin Management Agreement with Huajin Property Management. The principal terms of the Huahong Real Estate Lease and the Renewed Huajin Management Agreement (which shall replace the Old Huajin Management Agreement with effect from 1 January 2017) are summarised below:

Date: The Huahong Real Estate Lease was entered into on 10 January 2013, supplemented by a supplemental agreement dated 10 June 2014.

The Renewed Huajin Management Agreement will be entered into on 1 January 2017.

Parties: The Huahong Real Estate Lease was entered into between the Group and Huahong Real Estate.

The Renewed Huajin Management Agreement will be entered into between the Group and Huajin Property Management.



|                         |   |
|-------------------------|---|
| Term:                   | <p>The Huahong Real Estate Lease was effective from 1 January 2014 to 31 December 2033.</p> <p>The Renewed Huajin Management Agreement shall become effective from 1 January 2017 to 31 December 2017.</p>  |
| Nature of transactions: | <p>Pursuant to the Huahong Real Estate Lease, the Group has agreed to lease the Dormitory Premises from Huahong Real Estate for use as staff quarters for the Group's employees for a term of 20 years.</p> <p>Pursuant to the Renewed Huajin Management Agreement, the Group will engage Huajin Property Management to provide property management services for the Dormitory Premises. The total gross floor area of the Dormitory Premises is 17,412.87 square meters.</p>   |
| Pricing basis:          | <p>In relation to the Huahong Real Estate Lease, the annual rental payable for 2014, 2015 and 2016 was RMB10,100,000 on a daily rental basis of RMB1.6 per square metre, and for the following years, the parties will mutually agree on a new rental every three years determined after arms' length negotiation with reference to prevailing market rates in neighbouring areas. The parties have agreed the annual rental payable for 2017, 2018 and 2019 to be approximately RMB11,100,000.</p> <p>The parties have agreed the management fee for 2017 under the Renewed Huajin Management Agreement to be approximately RMB2,000,000 which includes a basic monthly fee of RMB6.48 per square meter of the Dormitory Premises, together with security fees and maintenance fees, which is determined after arms' length negotiation with reference to management fee rates for similar and comparable buildings to the Dormitory Premises.</p> |

## 2.5.2 Reasons for entering into the Huahong Real Estate Lease and the Renewed Huajin Management Agreement

Given (i) the Dormitory Premises are in an ideal location in close proximity with the Group's principal place of business and (ii) the importance of the Dormitory Premises housing the Group's employees and providing staff quarters to the Group, the Directors considered that it is both essential and beneficial for the Group to enter into the Huahong Real Estate Lease with Huahong Real Estate and the Renewed Huajin Management Agreement with Huajin Property Management.

The Directors (including the Independent Non-Executive Directors) consider that the Huahong Real Estate Lease and the Renewed Huajin Management Agreement are on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group.

## 2.5.3 Historical amounts and the existing annual caps

The table below sets out the historical transaction amounts paid by the Group to Huahong Real Estate under the Huahong Real Estate Lease and the Old Huajin Management Agreement during the periods indicated below and the respective existing annual caps:

| Transaction                         | For the  | For the  | For the  |
|-------------------------------------|--|--|--|
|                                     | year ended<br>31 December<br>2014<br>(audited) | year ended<br>31 December<br>2015<br>(audited)<br>(RMB '000) | six months<br>ended 30 June<br>2016<br>(unaudited) |
| The Huahong Real Estate Lease       | 10,095   | 10,095   | 5,048  |
| The Old Huajin Management Agreement | 1,254  | 1,254  | 627  |
| <b>Sub-total</b>                    | <b>11,349</b>                                  | <b>11,349</b>  | <b>5,675</b>                                       |
|                                     | Existing annual caps                           |  |  |
|                                     | For the  | For the  | For the  |
|                                     | year ended<br>31 December<br>2014              | year ended<br>31 December<br>2015<br>(RMB '000)              | year ending<br>31 December<br>2016                 |
| The Huahong Real Estate Lease       | 10,100   | 10,100   | 10,100   |
| The Old Huajin Management Agreement | 1,300  | 1,300  | 1,300  |
| <b>Sub-total</b>                    | <b>11,400</b>                                  | <b>11,400</b>  | <b>11,400</b>                                      |

## 2.5.4 Proposed new annual caps

The Board proposes that the below new annual caps be set for the transactions with Huahong Real Estate under the Huahong Real Estate Lease in respect of the three years ending 31 December 2019. The Board also proposes that the below annual cap be set for the transactions with Huajin Property Management under the Renewed Huajin Management Agreement in respect of the year ending 31 December 2017.

| <b>Transaction</b>                             | <b>Proposed new annual caps</b><br><i>(RMB '000)</i>    |   |   |
|--|---|---|---|
|  | <b>For the<br/>year ending<br/>31 December<br/>2017</b> | <b>For the<br/>year ending<br/>31 December<br/>2018</b> | <b>For the<br/>year ending<br/>31 December<br/>2019</b> |
| <b>The Huahong Real Estate Lease</b>           | 13,000  | 13,000  | 13,000  |
| <b>The Renewed Huajin Management Agreement</b> | 2,000   | N/A   | N/A   |
| <b>Sub-total</b>                               | 15,000  | 13,000  | 13,000  |

In arriving at the above proposed new annual caps, the Directors considered the rental and fee payable for the three years ending 31 December 2019 under the Huahong Real Estate Lease and the Renewed Huajin Management Agreement, which have been determined after arm's length negotiation with reference to (i) the actual historical transaction amounts for the three years ending 31 December 2016 under the Huahong Real Estate Lease and the Old Huajin Management Agreement and (ii) the prevailing market rates in neighbouring areas; and (iii) the expected increase in rental payable under the Huahong Real Estate Lease as its terms provide for the parties to agree on a new rental every three years. In determining the rental payable under the Huahong Real Estate Lease, the Group has compared the rental prices of other similar buildings in the surrounding neighbourhood, taking into account the age and state of renovation of the buildings, and their respective facilities. In addition, the Group also compared the management fee rates for such similar and comparable buildings when determining the management fees payable under the Renewed Huajin Management Agreement.

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 Renewed 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 proposed new annual caps in respect of these transactions are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14A of the Listing Rules.

### **3. INFORMATION OF THE COMPANY AND THE COUNTERPARTIES**

#### **The Company**

The Company primarily focuses on research and manufacturing of semiconductors on 200mm wafers for specialty applications, in particular eNVM and power discretetes.

#### **Huahong Zealcore**

Huahong Zealcore is a 90.66% owned by Huahong Group, a controlling shareholder of the Company. Huahong Zealcore's principal business is research, development and sales of integrated circuits and ancillary products. Huahong Zealcore also engages in import and export business of goods and technology relating to the research, development and sales of integrated circuits.

#### **QST**

QST is 36.36% held by SAIL, a controlling shareholder of the Company, of which 27.27% interest is held directly by SAIL and 9.09% interest is held directly by the Company. QST's principal business is researching, developing, designing and selling high-end magnetic sensors and MEMS sensors.

#### **INESA Entities**

INESA is a controlling shareholder of the Company by virtue of a voting bloc arrangement from INESA to SAIL. INESA Entities' principal business is to provide overall services ranging from top-level design and planning to integrated execution, operation, maintenance and financing.

#### **Shanghai Huali**

Shanghai Huali is 50.23% owned by SAIL, a controlling shareholder of the Company. Shanghai Huali's principal business is developing and operating a 300mm wafer fab.

#### **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 controlling shareholder of the Company, and 50% held by HHNEC, 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 controlling shareholder of the Company, and 50% held by HHNEC, a substantial subsidiary. Huajin Property Management's principal business is in property management.

#### 4. LISTING RULE IMPLICATIONS

As of the date of the announcement,

- (i) Huahong Zealcore is 90.66% owned by Huahong Group, a controlling shareholder of the Company;
- (ii) QST is 36.36% held by SAIL, a controlling shareholder of the Company, of which 27.27% interest is held directly by SAIL and 9.09% interest is held directly by the Company;
- (iii) INESA is a controlling shareholder of the Company by virtue of a voting bloc arrangement from INESA to SAIL;
- (iv) Shanghai Huali is 50.23% owned by SAIL, a controlling shareholder of the Company;
- (v) Huahong Real Estate is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a controlling shareholder of the Company, and 50% held by HHNEC, a wholly-owned subsidiary of the Company; and
- (vi) Huajin Property Management is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a controlling shareholder of the Company, and 50% held by HHNEC, a wholly-owned subsidiary of the Company.

Accordingly, each of Huahong Zealcore, QST, INESA Entities, Shanghai Huali, Huahong Real Estate and Huajin Property Management are connected persons of the Company, and the transactions contemplated under the Renewed Agreements, the Huali Lease and the Huahong Real Estate Lease constitute continuing connected transactions of the Company under the Listing Rules.

Since Huahong Zealcore and QST are connected persons of the Company by virtue of their relationships with the Group and the Group's sales transactions with these entities are of a similar nature, the sales transactions with Huahong Zealcore under the Renewed Huahong Zealcore Sales Agreement, the sales transactions with QST under the Renewed QST Sales Agreement and the provision of services transactions with QST under the QST Services 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 proposed new annual caps in respect of these transactions are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios 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 leasing and management transactions with these entities are of a similar nature, the transactions under the Huahong Real Estate Lease and the transactions under the Renewed 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 proposed new annual caps in respect of these transactions are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14A of the Listing Rules.

Since each of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the proposed new annual caps under the Renewed Agreements, the QST Services Agreement, the Huali Lease and the Huahong Real Estate Lease is, on an annual basis, above 0.1% but below 5%, each of the transactions contemplated thereunder is classified as a continuing connected transaction under Rule 14.A76(2) of the Listing Rules and is 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.

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:

|                           |  |
|---------------------------|--|
| “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   |
| “controlling shareholder” | has the meaning ascribed to it under the Listing Rules   |
| “Directors”               | 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   |
| “Factory Premise”         | the factory premise situated at Hill 2, 13th Street, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai, PRC   |
| “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)           |
| “HHNEC”                   | Shanghai Huahong NEC Electronics Co., Ltd (上海華虹NEC電子有限公司), a company incorporated in the PRC on 17 July 1997 and a wholly-owned subsidiary of the Company  |
| “Hong Kong”               | The 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 controlling 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.    |
| “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 HHNEC  |
| “Huahong Zealcore”                    | Shanghai Huahong Zealcore Electronics Co., Ltd. (上海華虹摯芯科技有限公司), a company incorporated in the PRC on 30 December 2000 which is 90.66% owned by Huahong Group, and a connected person of the Company   |
| “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  |
| “Huali Lease”                         | the Huali Lease Agreement and the Huali Lease Supplemental Agreements   |
| “Huali Lease Agreement”               | the lease agreement entered into between the Group and Shanghai Huali on 25 February 2010, pursuant to which the Group leased the Factory Premise to Shanghai Huali for a term of 20 years commencing on 1 March 2010   |
| “Huali Lease Supplemental Agreements” | the supplemental agreements between the Group and Shanghai Huali dated 10 June 2011 and 25 July 2014, pursuant to which the lease to Shanghai Huali was extended to include the leasing of warehouse space with gross floor area of up to 4,536.1 square metres for a term of 20 years, commencing on 1 July 2014 |
| “INESA”                               | INESA Holding Group, a company incorporated in the PRC in December 1993, a controlling shareholder of the Company by virtue of a voting bloc arrangement from INESA to SAIL   |
| “INESA Entities”                      | INESA and its subsidiaries  |

|   |   |
|---|---|
| “Listing Rules”                           | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited  |
| “Old Agreements”                          | together, the Old Huahong Zealcore Sales Agreement, the Old QST Sales Agreement, the Old Huahong Zealcore Purchase Agreement, the Old INESA Master Purchase Agreement and the Old Huajin Property Management Agreement                                      |
| “Old Huahong Zealcore Purchase Agreement” | the purchase agreement entered into between the Group and Huahong Zealcore on 1 July 2014 to regulate the transactions between the Group and Huahong Zealcore in connection with the purchase of materials  |
| “Old Huahong Zealcore Sales Agreement”    | the sales agreement entered into between the Group and Huahong Zealcore on 1 July 2014 to regulate the transactions between the Group and Huahong Zealcore in connection with the sales of IC and other semiconductor products                              |
| “Old Huajin Management Agreement”         | the management agreement entered into between the Group and Huajin Property Management on 10 June 2014, pursuant to which the Group has engaged Huajin Property Management to provide property management service   |
| “Old INESA Master Purchase Agreement”     | the master purchase agreement entered into between the Group and INESA Entities on 23 September 2014 to regulate the transactions between the Group and INESA Entities in connection with the purchase of materials   |
| “Old QST Sales Agreement”                 | the sales agreement entered into between the Group and QST on 1 November 2013 to regulate the transactions between the Group and QST in connection with the sales of IC and other semiconductor products  |
| “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)  |
| “Prospectus”                              | the Company’s prospectus dated 3 October 2014   |
| “QST”                                     | QST Corporation (上海矽睿科技有限公司), a company incorporated in PRC on 13 September 2012 which is 36.36% held by SAIL (of which 27.27% interest is held directly by SAIL and 9.09% interest is held directly by the Company), and a connected person of the Company |
| “QST Services Agreement”                  | the agreement entered into between the Group and Huahong Zealcore on 1 November 2013 to regulate the transactions between the Group and QST in connection with the provision of services to QST   |
| “Renewed Agreements”                      | together, the Renewed Huahong Zealcore Sales Agreement, the Renewed QST Sales Agreement, the Renewed Huahong Zealcore Purchase Agreement, the Renewed INESA Master Purchase Agreement and the Renewed Huajin Management Agreement                           |



|   |   |
|---|---|
| “Renewed Huahong Zealcore Purchase Agreement” | the purchase agreement to be entered into between the Group and Huahong Zealcore on 1 January 2017 to regulate the transactions between the Group and Huahong Zealcore in connection with the purchase of materials                     |
| “Renewed Huahong Zealcore Sales Agreement”    | the sales agreement to be entered into between the Group and Huahong Zealcore on 1 January 2017 to regulate the transactions between the Group and Huahong Zealcore in connection with the sales of IC and other semiconductor products |
| “Renewed Huajin Management Agreement”         | the management agreement to be entered into between the Group and Huajin Property Management on 1 January 2017, pursuant to which the Group will engage Huajin Property Management to provide property management service               |
| “Renewed INESA Master Purchase Agreement”     | the master purchase agreement to be entered into between the Group and INESA Entities on 1 January 2017 to regulate the transactions between the Group and INESA Entities in connection with the purchase of materials                  |
| “Renewed QST Sales Agreement”                 | the sales agreement to be entered into between the Group and QST on 1 January 2017 to regulate the transactions between the Group and QST in connection with the sales of IC and other semiconductor products                           |
| “RMB”   | Renminbi, the lawful currency of the PRC  |
| “SAIL”  | Shanghai Alliance Investment Ltd (上海聯和投資有限公司), a company incorporated in the PRC on September 26,1994 and a controlling shareholder of the Company  |
| “Shanghai Huali”                              | Shanghai Huali Microelectronic Co. Ltd (上海華力微電子有限公司), a company incorporated in the PRC on 18 January 2010 which is 50.23% owned by SAIL, and a connected person of the Company   |
| “Shares”                                      | shares of the Company   |
| “Stock Exchange”                              | The Stock Exchange of Hong Kong Limited   |
| “subsidiaries”                                | has the meaning ascribed thereto in the Listing Rules   |
| “USD”   | United States dollar, the lawful currency of United States  |
| “%”   | per cent  |

On behalf of the Board  
**Hua Hong Semiconductor Limited**  
**Mr. Suxin Zhang**  
*Chairman and Executive Director*

Hong Kong, 28 December 2016

As of the date of this announcement, the directors of the Company are:

**Executive Directors**

Suxin Zhang (*Chairman*)

Yu Wang (*President*)

**Non-Executive Directors**

Jianbo Chen

Yuchuan Ma

Takayuki Morita

Jun Ye

**Independent Non-Executive Directors**

Stephen Tso Tung Chang

Kwai Huen Wong, JP

Long Fei Ye