

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 IN RELATION TO THE HUAHONG ZEALCORE PURCHASE AGREEMENT AND REVISION OF ANNUAL CAPS IN RELATION TO THE HUAHONG ZEALCORE SALES AGREEMENT

CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAP

The Huahong Zealcore Purchase Agreement

The Company announces that on 30 July 2021, the Company entered into the Huahong Zealcore Purchase Agreement with Huahong Zealcore. Pursuant to the Huahong Zealcore Purchase Agreement, the Group has agreed to purchase chemicals for its manufacturing processes of semiconductor products from Huahong Zealcore.

Revision of Annual Caps under the Renewed Huahong Zealcore Sales Agreement

Reference is made to the announcements of the Company dated 28 December 2016, 9 January 2017 and 31 December 2019 in relation to, inter alia, the continuing connected transactions between the Group and Huahong Zealcore under the Renewed Huahong Zealcore Sales Agreement.

As the actual transaction amount of the transactions in 2021 contemplated under the Huahong Zealcore Sales Agreement may exceed the annual cap as set out in the Announcement, the Company proposes to revise the existing annual caps in respect of the two years ending 31 December 2022.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Huahong Zealcore is 93.02% owned by Huahong Group, a substantial shareholder of the Company.

Accordingly, Huahong Zealcore is a connected person of the Company, and the transactions contemplated under each of the Huahong Zealcore Purchase Agreement and the Renewed Huahong Zealcore Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of (i) the proposed annual caps under the Huahong Zealcore Purchase Agreement and (ii) the Revised Caps is, on an annual basis, above 0.1% but below 5%, the transactions contemplated thereunder are only subject to the reporting, annual review and announcement requirements but are 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.

1. BACKGROUND

The Company announces that on 30 July 2021, (i) the Company entered into the Huahong Zealcore Purchase Agreement with Huahong Zealcore; and (ii) the annual cap under the Renewed Huahong Zealcore Sales Agreement is revised.

Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed to them in the announcement of the Company dated 31 December 2019 (the "**Announcement**").

2. THE HUAHONG ZEALCORE PURCHASE AGREEMENT

The Company announces that on 30 July 2021, the Company entered into the Huahong Zealcore Purchase Agreement with Huahong Zealcore. Pursuant to the Huahong Zealcore Purchase Agreement, the Group has agreed to purchase chemicals for its manufacturing processes of semiconductor products from Huahong Zealcore.

2.1 Summary of the terms of the Huahong Zealcore Purchase Agreement

The principal terms of the Huahong Zealcore Purchase Agreement are summarised below:

Date: 30 July 2021

Parties: (i) the Company; and
(ii) Huahong Zealcore

Term: The Huahong Zealcore Purchase Agreement shall take effect from 30 July 2021 and end on 31 December 2022.

Nature of transactions: The Group has agreed to purchase chemicals for its manufacturing processes of semiconductor products from Huahong Zealcore as part of its ordinary and usual course of business.

2.2 Historical amounts

The table below sets out the historical transaction amounts paid by the Group to Huahong Zealcore during the periods indicated below:

(Unit: USD '000)

**For the six
months ended
30 June
2021**
(unaudited)

Transaction amounts	313
---------------------	-----

As the applicable ratios of the historical amounts paid by the Group to Huahong Zealcore for the six months ended 30 June 2021 is below 0.1%, these transactions fell within the de minimis threshold set out in Rule 14A.76 of the Listing Rules, and is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

2.3 Proposed annual caps for the transactions under the Huahong Zealcore Purchase Agreement

The table below sets out the proposed annual caps for the transactions under the Huahong Zealcore Purchase Agreement for the two years ending on 31 December 2022.

(Unit: USD '000)

	For the year ending 31 December 2021	For the year ending 31 December 2022
Annual caps	1,060	3,100

2.4 Basis of determination of the proposed annual caps

The purchase prices payable by the Group under the Huahong Zealcore Purchase Agreement are determined with reference to the market prices of comparable products which are available on an arm's length basis and on terms no less favourable than those provided by at least two independent suppliers for identical or comparable products.

Although it is not part of the terms of the Huahong Zealcore Purchase Agreement, the Group follows its relevant internal standard operating procedure to determine the purchase prices of the products under the Huahong Zealcore Purchase Agreement. The internal standard operating procedure requires the procurement team of the Group to collect the relevant market information (e.g. costs and qualities of identical or comparable products, services and reputations of relevant suppliers), to review and compare the quotations obtained from at least two independent suppliers for identical or comparable products, and to convene meetings with the relevant personnel of the Group to discuss and assess the procurement criteria on an ongoing basis. According to the internal standard operating procedure, the relevant internal team of the Group will review the purchase prices of the products under the Huahong Zealcore Purchase Agreement on a regular and ongoing basis.

Having reviewed the terms and the pricing basis of the Huahong Zealcore Purchase Agreement, the Directors (including the Independent Non-Executive Directors) consider that:

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

2.5 Reasons for and benefits of entering into the 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. By comparison, the products of Huahong Zealcore are of high quality with price competitiveness and stable supply, which are in line with the various procurement requirements of the Company.

3. REVISION OF ANNUAL CAPS UNDER THE RENEWED HUAHONG ZEALCORE SALES AGREEMENT

3.1 Revision of Annual Caps under the Renewed Huahong Zealcore Sales Agreement

Due to the overall improvement of the semiconductor market, Huahong Zealcore saw a noticeable increase in market demand and a significant increase in orders from the Group. Therefore, the Company proposes to revise the existing annual caps in respect of the two years ending 31 December 2022.

Save for the revision in the annual caps as described below, the terms of the Renewed Huahong Zealcore Sales Agreement have not been changed or modified in any way and the major terms were set out in the section headed “2.1.1 Summary of the terms of the Renewed Huahong Zealcore Sales Agreement” in the Announcement.

3.2 Historical amounts and existing annual caps

The table below sets out the historical transaction amounts received by the Group from Huahong Zealcore under the Renewed Huahong Zealcore Sales Agreement during the periods indicated below and the existing annual caps:

(Unit: USD '000)

Transaction amounts	For the year ended 31 December 2020 (audited)	For the six months ended 30 June 2021 (unaudited)
The Renewed Huahong Zealcore Sales Agreement	2,797	3,168

(Unit: USD '000)

Existing annual caps	For the year ended 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
The Renewed Huahong Zealcore Sales Agreement	5,000	5,500	6,050

The Company confirms that as at the date of this announcement, the transaction amount for the Renewed Huahong Zealcore Sales Agreement has not exceeded the existing annual cap for the year ending 31 December 2021.

3.3 Revised Caps

The Company proposes that the below Revised Caps be set for the transactions with Huahong Zealcore under the Renewed Huahong Zealcore Sales Agreement in respect of the two years ending 31 December 2022:

(Unit: USD '000)

Revised Caps	For the year ending 31 December 2021	For the year ending 31 December 2022
The Renewed Huahong Zealcore Sales Agreement	6,500	9,500

3.4 Basis of determination of the Revised Caps

Although it is not part of the terms of the Renewed Huahong Zealcore Sales Agreement, the Group follows its price quotation management system under its relevant internal standard operating procedure to determine the sales prices of the products under the Renewed Huahong Zealcore Sales Agreement. The price quotation management system requires the relevant internal sales team of the Group to consider and evaluate various factors including the business objectives, strategy and operational factors of the Group on an ongoing basis. In particular, in determining the sales prices of such products, the relevant internal sales team of the Group considers the costs of the products, the prices of comparable products offered by at least two independent third party competitors in the market and the consumers' likely perception of the values of the products.

As the specifications of the integrated circuits and other semiconductor products sold to Huahong Zealcore under the Renewed Huahong Zealcore Sales Agreement are customized to meet the specific requirements of end customers, the actual demand of the end customers of Huahong Zealcore and the development of the chips application industry in the PRC will also affect the determination of the sales prices for such products.

The Group also adheres strictly to its internal approval procedure under the price quotation management system for the pricing of such products which applies equally to independent third party customers as well as its connected persons to ensure that the transactions under the Renewed Huahong Zealcore Sales Agreement shall be conducted on normal commercial terms. The relevant internal sales team of the Group will review the sales prices of the products under the Renewed Huahong Zealcore Sales Agreement on a regular and ongoing basis.

3.5 Reasons for and benefits of the Revised Caps

Due to the overall improvement of the semiconductor market, Huahong Zealcore saw a noticeable increase in market demand and a significant increase in orders from the Group. The Directors anticipate that there will be an increase in the annual transaction amount and therefore the existing annual caps should be revised upward accordingly.

4. 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.

Huahong Zealcore

Huahong Zealcore is a 93.02% owned by Huahong Group, a substantial 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.

5. LISTING RULES IMPLICATIONS

As at the date of this announcement, Huahong Zealcore is 93.02% owned by Huahong Group, a substantial shareholder of the Company.

Accordingly, Huahong Zealcore is a connected person of the Company, and the transactions contemplated under each of the Huahong Zealcore Purchase Agreement and the Renewed Huahong Zealcore Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of (i) the proposed annual caps under the Huahong Zealcore Purchase Agreement and (ii) the Revised Caps is, on an annual basis, above 0.1% but below 5%, the transactions contemplated thereunder are only subject to the reporting, annual review and announcement requirements but are 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.

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

Shanghai, PRC, 30 July 2021

As of 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