

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.

This announcement appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1347)

(1) MAJOR TRANSACTIONS IN RELATION TO THE JV AGREEMENT, THE JV INVESTMENT AGREEMENT AND THE LAND TRANSFER AGREEMENT AND (2) CONNECTED TRANSACTION IN RELATION TO THE LAND TRANSFER AGREEMENT

THE JV AGREEMENT AND THE JV INVESTMENT AGREEMENT

On 18 January 2023, the Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity entered into the JV Agreement, pursuant to which, amongst others, the Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity conditionally agreed to establish a joint venture through the JV Company and invest US\$880.38 million, US\$1,169.82 million, US\$1,165.8 million and US\$804 million in cash, respectively, in the JV Company.

Pursuant to the JV Agreement, the JV Company shall engage in the manufacturing and sale of integrated circuits and 12-inch (300mm) wafers adopting 65/55 nm to 40 nm processes.

In connection with the JV Agreement, the JV Shareholders will also enter into new articles of association of the JV Company to reflect the terms as agreed under the JV Agreement.

On the same day, the Company, HHGrace, China IC Fund II, the Wuxi Municipal Entity and the JV Company entered into the JV Investment Agreement to convert the JV Company into a joint venture and increase the registered capital of the JV Company from RMB6.68 million to US\$4.02 billion.

The JV Company will become a non-wholly owned subsidiary of the Company following the completion of the transactions contemplated under the JV Agreement and the JV Investment Agreement. Upon completion of the relevant filing(s) with the PRC authorities pursuant to the JV Agreement and the JV Investment Agreement, the JV Company will be held as to approximately 51% by the Group, of which 21.9% will be held directly by the Company and 29.1% will be held indirectly by the Company through HHGrace, its wholly-owned subsidiary.

THE LAND TRANSFER AGREEMENT

On 18 January 2023, the JV Company and Hua Hong Wuxi entered into the Land Transfer Agreement pursuant to which Hua Hong Wuxi conditionally agreed to transfer and the JV Company conditionally agreed to purchase the Land for a total consideration of RMB170,100,450.00, for the purpose of developing fabs housing the JV Company's production lines for manufacturing integrated circuits and 12-inch (300mm) wafers. Completion of the transfer shall take place conditional upon, amongst others, the first tranche of funds being injected into the JV Company by the JV Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

Formation of a joint venture constitutes a notifiable transaction under Chapter 14 of the Listing Rules pursuant to Rule 14.04(1)(f). As (i) the Hua Hong Wuxi Capital Injection Agreement (which has been disclosed previously in the Company's announcement dated 29 June 2022), (ii) the JV Agreement, (iii) the JV Investment Agreement and (iv) the Land Transfer Agreement have been entered into among substantially the same parties (i.e. the Company, HHGrace, Hua Hong Wuxi, the JV Company and/or China IC Fund II) or companies in which such parties hold equity interests, for the same purpose of building up the Company's presence in the 12-inch (300mm) wafer market, such transactions shall be aggregated and treated as if they were one transaction for the purpose of computing the relevant percentage ratios pursuant to Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of (i) the Hua Hong Wuxi Capital Injection Agreement, (ii) the JV Agreement, (iii) the JV Investment Agreement and (iv) the Land Transfer Agreement exceeds 25% but all are below 100%, the aforesaid transactions constitute major transactions subject to announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Hua Hong Wuxi is a non-wholly owned subsidiary of the Company which is held as to approximately 20.58% by China IC Fund, a substantial shareholder of the Company. Accordingly, Hua Hong Wuxi is a connected subsidiary of the Company and the entering into of the Land Transfer Agreement constitutes a connected transaction of the Company under the Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Land Transfer Agreement exceeds 0.1% but is less than 5%, the entering into of the Land Transfer Agreement is subject to the reporting and announcement requirements, but is exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules on a standalone basis. For avoidance of doubt, the Land Transfer Agreement remains subject to Shareholders' approval at the EGM under Chapter 14 of the Listing Rules given it shall be aggregated with the JV Agreement and the JV Investment Agreement for the reasons explained above.

EGM, BOARD MEETING AND CIRCULAR

The EGM will be convened for the purpose of considering and, if deemed appropriate, approving, amongst other things, the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement.

A circular containing amongst other things, further details concerning the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement, together with a notice convening the EGM, is expected to be despatched to the Shareholders by March 2023, as more time is needed for the Company to finalise the contents therein.

The JV Agreement, the JV Investment Agreement and the Land Transfer Agreement are subject to the fulfilment (or waiver) of certain conditions precedent set out in the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement, including Shareholders' approval at the EGM, and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

1. THE JV AGREEMENT

On 18 January 2023 (after trading hours), the Company, HHGrace, China IC Fund II, and the Wuxi Municipal Entity entered into the JV Agreement, pursuant to which, amongst others, the Company, HHGrace, China IC Fund II, and the Wuxi Municipal Entity agreed to invest US\$880.38 million, US\$1,169.82 million, US\$1,165.8 million and US\$804 million in cash, respectively, in the JV Company.

The major terms of the JV Agreement are set out as follows:

Date: 18 January 2023

Parties:

- (i) the Company;
- (ii) HHGrace, a wholly-owned subsidiary of the Company;
- (iii) China IC Fund II; and
- (iv) the Wuxi Municipal Entity.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, the Wuxi Municipal Entity, China IC Fund II and their respective ultimate beneficial owner(s) (if any) are Independent Third Parties of the Company.

Scope of JV Business: The JV Company intends to engage in the manufacturing and sale of (i) integrated circuits, (ii) 12-inch (300mm) wafers adopting 65/55 nm to 40 nm processes and (iii) related products, as well as providing services related to the aforesaid products.

Total Investment Amount: The total investment by the JV Company in its business will amount to US\$6.7 billion, which was determined after arm's length negotiations by all parties to the JV Agreement based on the need to finance the business contemplated under the JV Agreement.

Of the total investment amount of US\$6.7 billion, US\$4.02 billion will be funded by way of equity capital contribution by the JV Shareholders, and the rest of the total investment amount, i.e. US\$2.68 billion, will be raised by way of debt financing.

Registered Capital: The registered capital of the JV Company will be US\$4.02 billion.

Investment Commitment of the JV Shareholders: The Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity, have agreed to invest US\$880.38 million, US\$1,169.82 million, US\$1,165.8 million and US\$804 million, respectively, in the JV Company, which will be provided in cash in the RMB equivalent of such amount. For the avoidance of doubt, HHGrace's investment includes the initial capital of RMB6.68 million for the purpose of incorporating the JV Company.

The total amount of the investment commitments is determined after arm's length negotiation among the JV Shareholders with reference to the funding needs of the JV Company, in particular, the construction cost of 12-inch (300mm) fabs, and the respective share capital subscribed by each JV Shareholder.

Upon completion of the relevant filing(s) with the PRC authorities, the registered capital of the JV Company will increase from RMB6.68 million to US\$4.02 billion, and the JV Company will be owned as to 21.9%, 29.1%, 29% and 20% by the Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity respectively.

Each of the JV Shareholders has agreed to invest in the JV Company in three (3) separate tranches:

- (i) the first tranche being approximately 15% of their respective investment commitment, to be paid no later than 31 March 2023, subject to the satisfaction and/or waiver in writing by the JV Shareholders of the conditions precedent (save for conditions that cannot be waived as expressed in the JV Agreement) set out below;
- (ii) the second tranche being approximately 60% of their respective investment commitment, to be paid within nine (9) months following the full payment of the first tranche by each of the JV Shareholders (or such other time as may be unanimously approved by all JV Shareholders), subject to the satisfaction and/or waiver in writing by the JV Shareholders of the conditions precedent set out below;

- (iii) the third and final tranche being approximately 25% of their respective investment commitment, to be paid within three (3) months following the full payment of the second tranche by each of the JV Shareholders, subject to the satisfaction and/or waiver in writing by the JV Shareholders of the conditions precedent set out below.

Notwithstanding the foregoing, subject to the satisfaction of the condition(s) precedent for the payment of each tranche (if any), the JV Company may adjust the proportion and timing of each tranche of payment based on its actual capital needs after obtaining unanimous consent from the JV Shareholders. In such case, the JV Agreement and the JV Company's articles of association shall also be amended accordingly.

Conditions Precedent: **First tranche**

The payment of the first tranche by each of the JV Shareholders (being 15% of their respective investment commitment), is conditional upon the satisfaction and/or waiver in writing by the JV Shareholders (as applicable) of, amongst others, the following conditions:

- (i) each of the JV Shareholders having obtained their respective internal approvals of the transactions contemplated under the JV Agreement and the JV Investment Agreement;
- (ii) the Company having obtained its Shareholders' approval at the EGM in respect of the transactions contemplated under the JV Agreement and the JV Investment Agreement;
- (iii) the completion of all filings in respect of, amongst others, the appointment of directors and the change in registered capital of the JV Company with the State Administration for Market Regulation of the PRC; and
- (iv) the establishment of the JV Company for the purpose of engaging in the JV Business having been approved by the local development and reform commission of the PRC.

For the avoidance of doubt, the Company's obligation to seek internal approval and Shareholders' approval under conditions (i) and (ii) above in compliance with Chapters 14 and 14A of the Listing Rules must not be waived.

Second tranche

The payment of the second tranche by each of the JV Shareholders (being 60% of their respective investment commitment) is conditional upon the satisfaction and/or waiver in writing by the JV Shareholders (as applicable) of, amongst others, the following conditions:

- (i) each of the JV Shareholders having duly and fully paid the first instalment of their respective investment commitment to the JV Company;
- (ii) the JV Company having completed the necessary registration(s) and obtained certificate(s) and/or permit(s) in relation to state-owned properties; and
- (iii) the Company having completed its RMB Share Issue and listing of the RMB Shares on the STAR Market.

Third tranche

The payment of the third and final tranche by each of the JV Shareholders (being 25% of their respective investment commitment) is conditional upon, amongst others, each of the JV Shareholders having duly and fully paid the second instalment of their respective investment commitment to the JV Company.

Corporate Governance: **Board of directors and senior management**

- (i) The board of directors of the JV Company shall consist of seven (7) directors, of which three (3) will be nominated by the Company and/or HHGrace, two (2) will be nominated by China IC Fund II, one (1) will be nominated by the Wuxi Municipal Entity and one (1) will be the employee representative of the JV Company to be elected among the employees. Except for the employee representative, all directors shall be appointed at a shareholders' general meeting. Each JV Shareholder undertakes to vote in favour of appointment of such director(s) nominated by the other JV Shareholders at the relevant shareholders' general meeting. If a JV Shareholder intends to remove any director(s) nominated by it, such director(s) shall be removed at a shareholders' general meeting, and each JV Shareholder undertakes to vote in favour of such removal at the relevant shareholders' general meeting.

- (ii) The JV Company shall establish a supervisory committee comprising of six (6) supervisors, of which two (2) will be nominated by the Company and/or HHGrace, one (1) each will be nominated by China IC Fund II and the Wuxi Municipal Entity, and two (2) will be the employee representatives of the JV Company to be elected among the employees. Except for the employee representatives, all supervisors shall be appointed at a shareholders' general meeting. Each JV Shareholder undertakes to vote in favour of the appointment of such supervisor(s) nominated by the other JV Shareholders at the relevant shareholders' general meeting. If a JV Shareholder intends to remove any supervisor(s) nominated by it, such supervisor(s) shall be removed at a shareholders' general meeting, and each JV Shareholder undertakes to vote in favour of such removal at the relevant shareholders' general meeting.
- (iii) The Company and/or HHGrace shall nominate one of their nominated directors to be the chairman of the board of directors of the JV Company.
- (iv) China IC Fund II and the Wuxi Municipal Entity shall jointly nominate the candidate for the chairman of the supervisory committee of the JV Company.
- (v) The Company and/or HHGrace shall nominate a general manager for the JV Company, who shall nominate the members of the senior management of the JV Company.
- (vi) The Company and/or HHGrace shall nominate the financial vice general manager of the JV Company.
- (vii) each of China IC Fund II and the Wuxi Municipal Entity has the right to make suggestions and to discuss with the JV Company and the Company and/or HHGrace in relation to the operation and management of the JV Company and/or its subsidiaries. The JV Company and the Company and/or HHGrace shall reasonably (i) consider the China IC Fund II's and the Wuxi Municipal Entity's suggestions and (ii) implement such suggestions under the supervision of shareholders' general meetings and/or board meetings accordingly (if appropriate and reasonable).

Reserved matters

The approvals from all directors of the JV Company or their authorised agents attending the board meeting (and where required under the law, approvals from shareholders of the JV Company in a general meeting) shall be obtained for, amongst others, the following matters:

- (i) any material change to the monthly production capacity of 12-inch (300mm) wafers of the JV Company;
- (ii) any issuance of bonds or financing instruments (other than bank loans) by the JV Company and/or any of its controlled corporations;
- (iii) any material change to the JV Company and/or any of its controlled corporations' scope of business;
- (iv) any change to the JV Company and/or any of its controlled corporations' registered capital;
- (v) any merger, divestment or reorganisation by the JV Company and/or any of its controlled corporations;
- (vi) any alteration to the articles of association or registered share capital of the JV Company and/or any of its controlled corporations; and
- (vii) any establishment, dissolution or sale of any entity controlled by the JV Company and/or any of its controlled corporations, or any merger or acquisition which would result in the JV Company gaining control over the target entity.

The approval from two thirds of all directors of the JV Company attending the board meeting shall be obtained for, amongst others, the following matters:

- (i) any expense of over US\$20 million on a standalone basis or US\$50 million on an aggregate basis within any fiscal year which exceeds the annual budget or annual operation plan of the JV Company and/or any of its controlled corporations;
- (ii) bringing or settling any lawsuit or arbitration by the JV Company and/or any of its controlled corporations which involves an amount of over 1% of the net assets of the JV Company as calculated based on its latest audited accounts on a standalone basis (or 1% of the registered capital of the JV Company in the first fiscal year following its establishment) or over 3% of the net assets of the JV Company as calculated based on its latest audited accounts on an aggregated basis within a 12-month period (or 3% of the registered capital of the JV Company in the first fiscal year following its establishment); and

- (iii) acquiring, selling or otherwise disposing of assets outside the JV Company's and/or any of its controlled corporations' ordinary course of business of an amount exceeding US\$10 million (whether on a standalone or an aggregated basis, calculated based on purchase price or net book value) within any fiscal year.

Articles of Association

In connection with the JV Agreement, the JV Shareholders will also enter into new articles of association of the JV Company.

Restrictions on
Transfer:

Each of the JV Shareholders is entitled to exercise its right of first refusal to purchase any equity interest of the JV Company that another JV Shareholder intends to transfer to any third party, who is not a JV Shareholder nor its affiliate, in proportion to its then existing shareholding in the JV Company in accordance with the terms and conditions of the transfer notice.

Non-compete
undertaking:

The Company and HHGrace shall not, and shall procure their respective affiliates (other than the JV Company and/or any of the corporations directly or indirectly controlled by it) not to, compete with the JV Company in the business of 12-inch (300mm) wafers of below 65/55 nm (exclusive of 65/55 nm) and 40 nm.

For the avoidance of doubt, pursuant to the joint venture agreement dated 3 January 2018 in relation to the establishment of Hua Hong Wuxi, the non-compete undertaking by HHGrace and the Company in favour of Hua Hong Wuxi only covers the business of 12-inch (300mm) wafers adopting processes below 90nm (exclusive of 90nm) to 65nm, which does not overlap with the above non-compete undertaking in favour of the JV Company. Please refer to the circular of the Company dated 30 January 2018 for further details.

Term:

50 years from the date of the issuance of the business licence of the JV Company

2. THE JV INVESTMENT AGREEMENT

On 18 January 2023, the Company, HHGrace, China IC Fund II, the Wuxi Municipal Entity and the JV Company entered into the JV Investment Agreement to convert the JV Company into a joint venture and increase the registered capital of the JV Company from RMB6.68 million to US\$4.02 billion.

The major terms of the JV Investment Agreement are as follows:

Date: 18 January 2023

Parties:

- (i) the Company;
- (ii) HHGrace, a wholly-owned subsidiary of the Company;
- (iii) China IC Fund II;
- (iv) the Wuxi Municipal Entity; and
- (v) the JV Company.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, the Wuxi Municipal Entity, China IC Fund II and their respective ultimate beneficial owner(s) (if any) are Independent Third Parties of the Company.

Subscription of capital: The registered capital of the JV Company will be increased from RMB6.68 million to US\$4.02 billion.

In consideration of the capital contribution from the Company, HHGrace, the Wuxi Municipal Entity and China IC Fund II, the JV Company will issue share capital in the JV Company to each of the aforementioned subscribing JV Shareholders.

The terms governing each party's subscription of the registered capital of the JV Company under the JV Investment Agreement are the same as those set out in the JV Agreement. Please refer to "Investment Commitment" under the summary of the terms of the JV Agreement above for details regarding such subscription.

Other terms: The JV Company will be converted into a joint venture. The contribution of the increased capital will be conditional upon, amongst others, approval by the Shareholders at the EGM and the completion of the relevant registration and filing in the PRC as set out in the JV Investment Agreement.

3. THE LAND TRANSFER AGREEMENT

On 18 January 2023, the JV Company and Hua Hong Wuxi entered into the Land Transfer Agreement under which Hua Hong Wuxi conditionally agreed to transfer the Land to the JV Company.

The major terms of the Land Transfer Agreement are as follows:

Date:	18 January 2023
Parties:	(i) The JV Company; and (ii) Hua Hong Wuxi
Subject:	Part of the land use right of several plots of land of 249,049 square meters located at Nos. 28 and 30, Xinzhou Road and Nos. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province, PRC
Total consideration:	RMB170,100,450.00 (i.e. approximately RMB683 per square meter) (excluding tax)
Basis of consideration:	The consideration under the Land Transfer Agreement was determined and agreed between the parties on an arm's length basis in accordance with the appraised value of the Land as at 30 September 2022 (i.e. RMB170,100,450.00) as stated in the Valuation Report, which was prepared by a qualified asset valuer in the PRC based on (i) the market approach and (ii) the base land price modification method. According to the Valuation Report, the book value of the land use right of the Land as at 30 September 2022 was RMB137,659,824.65.
Original cost of acquisition:	The Land was originally acquired by Hua Hong Wuxi from the then Ministry of Land and Resources of the PRC in 2018, together with other plots nearby amounting to a total area of 466,456.1 square meters, for a total consideration of RMB265,880,000 on the basis of RMB570 per square meter.
Conditions precedent:	The completion of transfer is conditional upon the satisfaction and/or waiver (as applicable) of, amongst others, the following conditions: (i) each of Hua Hong Wuxi and the JV Company having obtained their respective internal approvals of the transactions contemplated under the Land Transfer Agreement; (ii) the Company having obtained its Shareholders' approval at the EGM in respect of the transfer contemplated under the Land Transfer Agreement;

- (iii) each of the JV Shareholders having duly and fully paid the first tranche of their respective investment commitments to the JV Company in accordance with the JV Agreement and the JV Investment Agreement;
- (iv) Hua Hong Wuxi having obtained the consent of the chargee(s) of the Land in relation to the proposed transfer;
- (v) the JV Company having paid the total consideration to Hua Hong Wuxi within five business days following the satisfaction of the specified conditions precedent in accordance with the terms of the Land Transfer Agreement; and
- (vi) each of Hua Hong Wuxi and the JV Company having completed the relevant registration(s) and filing(s) with the relevant government departments in the PRC in relation to the Land.

For the avoidance of doubt, the obligations of the Company, Hua Hong Wuxi and the JV Company to seek internal approval and Shareholders' approval under conditions (i) and (ii) above in compliance with Chapters 14 and 14A of the Listing Rules must not be waived.

Payment terms: The JV Company shall pay Hua Hong Wuxi the total consideration in cash within five business days upon the satisfaction of all conditions precedent numbered (i) to (iv) above.

4. REASONS FOR AND BENEFITS OF ENTERING INTO THE JV AGREEMENT, THE JV INVESTMENT AGREEMENT AND THE LAND TRANSFER AGREEMENT

(i) The JV Agreement and the JV Investment Agreement

Despite its continued capacity expansion, Hua Hong Wuxi is unable to meet the market growth in light of the continuously robust demand for semiconductors in recent years. The capacity utilization rates of Hua Hong Wuxi's fab remained at very high levels.

Following the capital increase of Hua Hong Wuxi disclosed in the Company's announcement dated 29 June 2022 and approved by the Shareholders at the extraordinary general meeting dated 29 August 2022, the Company would like to further extend its business in 12-inch (300 mm) wafers and deepen its cooperation with China IC Fund II to set up another joint venture. Coupled with the JV Agreement and the JV Investment Agreement, the expertise of the Group and Hua Hong Wuxi enables the JV Company to fulfill the strong market demand in the coming years. The Company's and HHGrace's investment commitments in the JV Company will largely be contributed by the proceeds from the proposed RMB Share Issue, which was disclosed in the Company's circular dated 7 June 2022 and approved by the Shareholders at the extraordinary general meeting on 27 June 2022. The Company intends to capture and capitalize on this attractive and significant market opportunity to further drive the growth of its business in future years.

In light of the strong performance of Hua Hong Wuxi and the Company's "8-inch + 12-inch" corporate strategy, the Company will continue to expand the capacity of its production lines in 2023. The JV Agreement and the JV Investment Agreement fall in line with the Company's strategy to strengthen its market position and competitiveness in various wafer fields.

(ii) The Land Transfer Agreement

Hua Hong Wuxi originally acquired the Land in 2018 for future development and expansion of its business. As the Company further strengthens its cooperation with China IC Fund II, which is an experienced investor in the integrated circuit industry, by setting up the JV Company, it has decided to make good use of its land reserve by conducting an intra-group transfer of the Land from Hua Hong Wuxi to the JV Company. The Directors believe that the land transfer will lay the foundation for the future construction of the JV Company's fab for its production of 12-inch (300 mm) wafers and is an important first step of setting up the JV Business.

(iii) View of the Directors

Having reviewed the terms of the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement, the Directors (including the independent non-executive Directors) are of the view that:

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

5. INFORMATION ABOUT THE PARTIES

The Company

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

HHGrace

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

The JV Company

The JV Company was duly established on 17 June 2022 in the PRC and is currently an indirectly wholly-owned subsidiary of the Company. As a special purpose vehicle, as at the date of this announcement, it has no operating business and therefore does not have any assets apart from the conditional right to acquire the land use rights of the Land pursuant to the Land Transfer Agreement.

Upon completion of the relevant filing(s) with the PRC authorities under the JV Agreement and the JV Investment Agreement, the JV Company will be held as to approximately 51% by the Group, of which 21.9% will be held directly by the Company and 29.1% will be held indirectly by the Company through HHGrace, its wholly-owned subsidiary.

China IC Fund II

China IC Fund II mainly invests via equity investment in the value chain of integrated circuit industry, primarily in integrated circuit chip manufacturing as well as chip designing, packaging test and equipment and materials. As at the date of this announcement and based on the information provided by China IC Fund II, there are 27 fund investors in China IC Fund II, as set out below:

Fund investor	Percentage of equity interest
Ministry of Finance [#]	11.02%
China Development Bank Capital Co., Ltd. (國開金融有限責任公司) [#]	10.78%
Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (Limited Partnership) (重慶戰略性新興產業股權投資基金合夥企業(有限合夥))	7.35%
Chengdu Tianfu Guoji Investment Co., Ltd. (成都天府國集投資有限公司)	7.35%
Wuhan Optics Valley Financial Holding Group Co., Ltd. (武漢光谷金融控股集團有限公司)	7.35%
Zhejiang Fuzhe Integrated Circuit Industry Development Co., Ltd. (浙江富浙集成電路產業發展有限公司)	7.35%
China National Tobacco Corporation (中國煙草總公司) [#]	7.35%
Shanghai Guosheng (Group) Co., Ltd. (上海國盛(集團)有限公司) [#]	7.35%

Fund investor	Percentage of equity interest
Beijing E-Town International Investment & Development Co., Ltd. (北京亦莊國際投資發展有限公司)#	4.90%
Jiangsu Wanquan Integrated Circuit Industry Investment Co., Ltd. (江蘇韋泉集成電路產業投資有限公司)	4.90%
Beijing Guoyi Hospital Co., Ltd. (北京國誼醫院有限公司)	4.90%
China Mobile Capital Holding Co., Ltd. (中移資本控股有限責任公司)	4.90%
Anhui Xinhuo IC Industry Investment Partnership (Limited Partnership) (安徽省芯火集成電路產業投資合夥企業(有限合夥))	3.67%
Anhui Wantou Anhua Modern Industrial Investment Partnership (Limited Partnership) (安徽皖投安華現代產業投資合夥企業(有限合夥))	3.67%
Guangzhou Industrial Investment Fund Management Co., Ltd. (廣州產業投資基金管理有限公司)	1.47%
Fujian State Owned Integrated Circuit Investment Co., Ltd. (福建省國資集成電路投資有限公司)	1.47%
Shenzhen Shenchao Technology Investment Co., Ltd. (深圳市深超科技投資有限公司)	1.47%
Huangpu Investment Holding (Guangzhou) Co., Ltd. (黃埔投資控股(廣州)有限公司)	0.98%
China Telecommunications Corporation (中國電信集團有限公司)#	0.73%
Unicom Capital Investment Holding Co., Ltd. (聯通資本投資控股有限公司)	0.49%
China Electronics Corporation (中國電子信息產業集團有限公司)#	0.24%
Sino IC Capital#	0.07%
Shanghai Siqi Enterprise Management Partnership (Limited Partnership) (上海矽啓企業管理合夥企業(有限合夥))	0.05%
Beijing Jianguang Asset Management Co., Ltd. (北京建廣資產管理有限公司)	0.05%
Fujian San'an Group Co., Ltd. (福建三安集團有限公司)#	0.05%
Beijing Unis Communications Technology Group Ltd. (北京紫光通信科技集團有限公司)#	0.05%
GCL Capital Management Co., Ltd. (協鑫資本管理有限公司)	0.05%
Total:	100.00%

Note: #denotes an overlapping shareholder of China IC Fund and China IC Fund II.

China IC Fund II is not regarded as a subsidiary of its single largest shareholder, the Ministry of Finance. There is no ultimate beneficial owner who controls, directly or indirectly, one-third or more of the equity interest in China IC Fund II. China IC Fund II is managed by Sino IC Capital. The voting right of Sino IC Capital (as a shareholder but not as the fund manager) at shareholders' meetings of China IC Fund II is proportional to its shareholding interest in China IC Fund II.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, the Directors are of the view, and each of China IC Fund and China IC Fund II confirms, that:

- (1) China IC Fund II is an Independent Third Party of the Company, given it only holds 8.42% of the equity interest in Hua Hong Wuxi as at the date of this announcement and is therefore not considered as a connected person at subsidiary level; and
- (2) Sino IC Capital does not control China IC Fund nor China IC Fund II because (i) there is no ultimate beneficial owner directly or indirectly controlling China IC Fund II, (ii) China IC Fund and China IC Fund II are not regarded as subsidiaries of their single largest shareholder, (iii) none of the 13 overlapping shareholders of China IC Fund and China IC Fund II can exert majority control over both China IC Fund and China IC Fund II and (iv) Sino IC Capital manages the investments of China IC Fund and China IC Fund II in accordance with the respective mandates it entered into with China IC Fund and China IC Fund II separately. In particular, based on the information from Sino IC Capital, China IC Fund and China IC Fund II have established independent investment policies and management processes, appointed independent committee members in their respective investment committees to ensure independence in investment decisions, and each has its separate accounts with independent financial accounting treatments.

On the above basis, the Company confirms that China IC Fund II is not an associate of China IC Fund under Chapter 14A of the Listing Rules.

Based on the information provided by China IC Fund II and to the best knowledge of the Company, China IC Fund II is an experienced investor in the integrated circuit industry and it has invested in several listed and non-listed companies in the integrated circuit manufacturing field as a substantial shareholder or in certain cases as a controlling shareholder in such entities, which may include entities that engage in businesses which are in competition with the Company, Hua Hong Wuxi and/or the JV Business proposed to be undertaken by the JV Company. Save for such investments, based on the confirmation from China IC Fund II and to the best knowledge of the Company, China IC Fund II itself does not engage in any other businesses which are in competition with the Company, Hua Hong Wuxi and/or the JV Business proposed to be undertaken by the JV Company.

The Wuxi Municipal Entity

The Wuxi Municipal Entity is a professional investment company jointly controlled by municipal and district-level state-owned enterprises. It principally engages in equity investment in major semiconductor projects in Wuxi. As at the date of this announcement, the Wuxi Municipal Entity is held as to 45% by Yunnan International Trust Co., Ltd.* (雲南國際信託有限公司), 19.50% by Wuxi Guolian Industrial Investment Group Co., Ltd.* (無錫國聯實業投資集團有限公司), 19.00% by Wuxi Guofa Asset Operation Co., Ltd.* (無錫市國發資本運營有限公司) and 16.50% by Wuxi Industry Development Group Co., Ltd.* (無錫產業發展集團有限公司). Based on the information provided by the Wuxi Municipal Entity and to the best knowledge of the Company, as at the date of this announcement, the Wuxi Municipal Entity is ultimately owned as to 55% by Wuxi State-owned Assets Supervision and Administration Commission (無錫市國有資產監督管理委員會).

6. IMPLICATIONS UNDER THE LISTING RULES

Formation of a joint venture constitutes a notifiable transaction under Chapter 14 of the Listing Rules pursuant to Rule 14.04(1)(f). As (i) the Hua Hong Wuxi Capital Injection Agreement, (ii) the JV Agreement, (iii) the JV Investment Agreement and (iv) the Land Transfer Agreement have been entered into among substantially the same parties (i.e. the Company, HHGrace, Hua Hong Wuxi, the JV Company and/or China IC Fund II) or companies in which such parties hold equity interests, for the same purpose of building up the Company's presence in the 12-inch (300mm) wafer market, such transactions shall be aggregated and treated as if they were one transaction for the purpose of computing the relevant percentage ratios pursuant to Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of (i) the Hua Hong Wuxi Capital Injection Agreement (which has been disclosed previously in the Company's announcement dated 29 June 2022), (ii) the JV Agreement, (iii) the JV Investment Agreement and (iv) the Land Transfer Agreement exceeds 25% but all are below 100%, the aforesaid transactions constitute major transactions subject to announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Hua Hong Wuxi is a non-wholly owned subsidiary of the Company which is held as to approximately 20.58% by China IC Fund, a substantial shareholder of the Company. Accordingly, Hua Hong Wuxi is a connected subsidiary of the Company and the entering into of the Land Transfer Agreement constitutes a connected transaction of the Company under the Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Land Transfer Agreement exceeds 0.1% but is less than 5%, the entering into of the Land Transfer Agreement is subject to the reporting and announcement requirements, but is exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules on a standalone basis. For avoidance of doubt, the Land Transfer Agreement remains subject to Shareholders' approval at the EGM under Chapter 14 of the Listing Rules given it shall be aggregated with the JV Agreement and the JV Investment Agreement for the reasons explained above.

7. EGM, BOARD MEETING AND CIRCULAR

The EGM will be convened for the purpose of considering and, if deemed appropriate, approving, amongst other things, the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement.

A circular containing amongst other things, further details concerning the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement, together with a notice convening the EGM, is expected to be despatched to the Shareholders by March 2023, as more time is needed for the Company to finalise the contents therein.

Given (a) Hua Hong Wuxi is owned by China IC Fund as to 20.58% as at the date of this announcement, and is the transferor under the Land Transfer Agreement, and (b) Sino IC Capital is the fund manager of China IC Fund,

- (i) Xinxin (Hongkong) Capital Co., Limited, a wholly-owned subsidiary of China IC Fund, is considered to have material interest in the Land Transfer Agreement and will abstain from voting on the ordinary resolution to be proposed at the EGM to approve the Land Transfer Agreement. As at the date of this announcement, Xinxin (Hongkong) Capital Co., Limited holds 178,705,925 Shares, representing approximately 13.67% of the total number of issued Shares. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, apart from Xinxin (Hongkong) Capital Co., Limited, no other Shareholder will be required to abstain from voting at the EGM, including resolutions to approve the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement; and
- (ii) Mr. Guodong Sun, a non-executive Director of the Company, is currently the managing director of Sino IC Capital. Therefore, to avoid potential conflict of interest, he abstained from voting at the Board meeting authorising the entering into of the Land Transfer Agreement. Apart from Mr. Guodong Sun, no Director was required to abstain from voting at the Board meeting approving the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement.

The JV Agreement, the JV Investment Agreement and the Land Transfer Agreement are subject to the fulfilment (or waiver) of certain conditions precedent set out in the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement, including Shareholders' approval at the EGM, and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“China IC Fund”	China Integrated Circuit Industry Investment Fund Co., Ltd.* (國家集成電路產業投資基金股份有限公司), a company incorporated in the PRC on 26 September 2014 and a substantial shareholder of the Company
“China IC Fund II”	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.* (國家集成電路產業投資基金二期股份有限公司), a company established in the PRC on 22 October 2019
“Company”	Hua Hong Semiconductor Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to approve, amongst other things, the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement
“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 company incorporated in the PRC on 24 January 2013 and a wholly-owned subsidiary of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hua Hong Wuxi”	Hua Hong Semiconductor (Wuxi) Limited, a company incorporated in the PRC on 10 October 2017 and a non-wholly-owned subsidiary of the Company
“Hua Hong Wuxi Capital Injection Agreement”	the capital injection agreement dated 29 June 2022 entered into among the Company, HHGrace, Wuxi Xi Hong Lian Xin Investment Co., Ltd.* (無錫錫虹聯芯投資有限公司), China IC Fund, China IC Fund II and Hua Hong Wuxi, pursuant to which the aforesaid parties (except China IC Fund and Hua Hong Wuxi) injected a total sum of US\$800 million into Hua Hong Wuxi
“Independent Third Party(ies)”	person(s) who is not a connected person of the Company pursuant to Chapter 14A of the Listing Rules
“JV Agreement”	the joint venture agreement dated 18 January 2023 entered into among the Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity for the purpose of setting up a joint venture to carry out the JV Business
“JV Business”	the manufacturing and sale of integrated circuits that the JV Company will engage in, including the production of 12-inch (300mm) wafers adopting 65/55 nm to 40 nm processes
“JV Company”	Hua Hong Semiconductor Manufacturing (Wuxi) Co., Ltd.* (華虹半導體製造(無錫)有限公司), a company incorporated in the PRC on 17 June 2022 for the purpose of the JV Business, the registered capital of which is currently held as to 100% by HHGrace and will, upon completion of the relevant filing(s) with the PRC authorities under the JV Agreement and the JV Investment Agreement, be owned as to approximately 21.9% by the Company, 29.1% by HHGrace, 29% by China IC Fund II and 20% by the Wuxi Municipal Entity

“JV Investment Agreement”	the investment agreement dated 18 January 2023 entered into among the JV Shareholders and the JV Company, pursuant to which the JV Shareholders agreed to increase the registered capital of the JV Company to US\$4.02 billion
“JV Shareholders”	the Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity
"Land"	several plots of land located at Nos. 28 and 30, Xinzhou Road and Nos. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province, PRC, which are the subject matters of the Land Transfer Agreement
“Land Transfer Agreement”	the land transfer agreement dated 18 January 2023 entered into between the JV Company and Hua Hong Wuxi, pursuant to which Hua Hong Wuxi conditionally agreed to transfer and the JV Company conditionally agreed to purchase the Land for a total consideration of RMB170,100,450.00
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, but for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“RMB Share(s)”	the ordinary Share(s) to be subscribed for in RMB by target subscribers in the PRC, to be listed on the STAR Market and traded in RMB
“RMB Share Issue”	the Company’s proposed issue of RMB Shares, the details of which have been set out in the Company’s circular dated 7 June 2022
“Shareholders”	holder(s) of Shares
“Shares”	shares of the Company
“Sino IC Capital”	Sino IC Capital Co., Ltd.* (華芯投資管理有限責任公司), the fund manager of both China IC Fund and China IC Fund II. Its ultimate beneficial owner is China Development Bank Capital Co., Ltd. (國開金融有限責任公司), which is an Independent Third Party of the Company
“STAR Market”	the Science and Technology Innovation Board of the Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollar, the lawful currency of the United States

“Valuation Report”	the valuation report in respect of the value of the Land as at 30 September 2022
“Wuxi Municipal Entity”	Wuxi Xi Hong Guo Xin Investment Co., Ltd.* (無錫錫虹國芯投資有限公司), a professional investment company jointly controlled by municipal and district-level state-owned enterprises
“%”	per cent

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

* *For identification purpose only*

Hong Kong, 18 January 2023

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