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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisors.

If you have sold or transferred all your shares in Hua Hong Semiconductor Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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: 01347)**

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

**(2) CONNECTED TRANSACTION IN RELATION TO
THE LAND TRANSFER AGREEMENT
AND**

(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the extraordinary general meeting (“EGM”) of Hua Hong Semiconductor Limited (the “Company”) to be held on 17 March 2023 at 10:30 a.m. with the combination of a physical meeting at Kowloon Shangri-La Hong Kong, 64 Mody Road, Kowloon, Hong Kong and a virtual meeting online is set out on pages 65 to 67 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed herein. Such form of proxy is also published on the websites of the Company (www.huahonggrace.com) and of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy for use at the EGM in accordance with the instructions printed thereon and return the same to the Company’s share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 24 February 2023 as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. In calculating the aforesaid 48 hours period, no account will be taken of any part of a day that is a public holiday. Accordingly, the form of proxy must be delivered not later than 10:30 a.m. on 15 March 2023. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

24 February 2023

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 18 January 2023 regarding the major transactions in relation to the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement, and the connected transaction relation to the Land Transfer Agreement
“Articles”	the articles of association of the Company
“CEA”	China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司)
“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

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Hua Hong Wuxi JV Agreement”	the joint venture agreement dated 3 January 2018 in relation to the establishment of Hua Hong Wuxi as a joint venture
“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 Microelectronic Co., Ltd. and renamed as Shanghai Huahong (Group) Co., Ltd. in 1998, and a substantial shareholder of the Company. It is ultimately owned as to 51.59% by Shanghai SASAC, and 18.36%, 18.36% and 11.69% respectively by Shanghai International Group Corporation Limited (上海國際集團有限公司), Shanghai Guosheng Group Co., Ltd (上海國盛(集團)有限公司) and INESA (Group) Co., Ltd. (上海儀電(集團)有限公司), all of which are wholly-owned subsidiaries of Shanghai SASAC
“Huali Integrated”	Shanghai Huali Integrated Circuit Corporation* (上海華力集成電路製造有限公司), a company incorporated in the PRC on 8 August 2016 which is a subsidiary of Shanghai Huali
“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

DEFINITIONS

“JV Business”	the manufacturing and sale of integrated circuits that the JV Company will engage in, including the production of 12-inch (300 mm) 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 conditionally 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 Property for a total consideration of RMB170,100,450.00
“Latest Practicable Date”	15 February 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers
“NVM”	non-volatile memory
“PRC”	the People’s Republic of China, but for the purposes of this circular only, excludes Hong Kong, Macau and Taiwan
“RF”	radio frequency
“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 no more than 433,730,000 RMB Shares, which will be listed on the STAR Market
“SAIL”	Shanghai Alliance Investment Ltd (上海聯和投資有限公司), a company incorporated in the PRC on 26 September 1994 and a substantial shareholder of the Company
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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 53.79% owned by Huahong Group and is a connected person of the Company
“Shanghai SASAC”	Shanghai Municipal State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
“Shareholders”	holder(s) of Shares
“Shares”	shares of the Company

DEFINITIONS

“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 the 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 issued by CEA
“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

In this circular, the terms “associate”, “connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

* For identification purpose only

LETTER FROM THE BOARD



HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 01347)

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

Kai Huen Wong, JP

Long Fei Ye

Registered Office:

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Hong Kong

Principal Place of Business in PRC:

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Shanghai, PRC

Postcode: 201203

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Xinwu District

Wuxi, Jiangsu, PRC

Postcode: 214000

24 February 2023

To the Shareholders

Dear Sir/Madam,

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

**(2) CONNECTED TRANSACTIONS IN RELATION TO
THE LAND TRANSFER AGREEMENT**

AND

(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

We refer to the Announcement in respect of the entering into of (i) the JV Agreement among the Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity, 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

LETTER FROM THE BOARD

US\$880.38 million, US\$1,169.82 million, US\$1,165.8 million and US\$804 million in cash, respectively, into the JV Company; (ii) the JV Investment Agreement among the Company, HHGrace, the JV Company, China IC Fund II and the Wuxi Municipal Entity, pursuant to which the registered capital of the JV Company shall increase from RMB6.68 million to US\$4.02 billion; and (iii) the Land Transfer Agreement 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.

The purpose of this circular is to provide you with, amongst other things, (i) further details of the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement; (ii) a notice to the Shareholders convening the EGM to approve the transactions contemplated under the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement and a proxy form; and (iii) other information as required to be disclosed under the Listing Rules.

2. THE JV 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 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 and further information about the JV Business 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 Latest Practicable Date, the Wuxi Municipal Entity, China IC Fund II and their respective ultimate beneficial owner(s) (if any) are Independent Third Parties of the Company.

LETTER FROM THE BOARD

Scope of Business: The JV Company intends to engage in the manufacturing and sale of (i) integrated circuits, (ii) 12-inch (300 mm) wafers adopting 65/55 nm to 40 nm processes and (iii) related products, as well as providing services related to the aforesaid products. These chips are used in, amongst others, embedded NVM, standalone NVM, analog & power management, power devices and other technical 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.

Based on the current budget of the JV Company, a detailed plan on how the investment amount of US\$6.7 billion will be applied to the business of the JV Company is set out below:

(in US\$ million)

Equipment and Instruments	5,000.0
Plant Facilities	703.69
Civil Engineering (or Building Construction)	485.80
Land Use Right	38.31
Technology Transfer Right	20.00
Other Capital Expenditure	328.52
Working Capital	123.68
Total	6,700.00

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.

LETTER FROM THE BOARD

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 (300 mm) fabs, and the respective share capital subscribed by each JV Shareholder.

The Company currently has no plan or intention to make any further investment commitment into the JV Company apart from (i) the investment of US\$880.38 million by the Company and US\$1,169.82 million by HHGrace into the JV Company pursuant to the JV Agreement and (ii) the Land to be transferred from Hua Hong Wuxi to the JV Company pursuant to the Land Transfer Agreement.

In the event that the Land Transfer does not proceed, the Company will proceed with the JV Agreement and the JV Investment Agreement to the extent being approved at the EGM. In such case, the Company will purchase other piece(s) of land in Wuxi for constructing the fab of the JV Company. It will holistically assess the impact on the construction timeline and the progress of implementing the JV Business and will comply with the relevant disclosure obligations under the Listing Rules as and when appropriate.

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;

LETTER FROM THE BOARD

- (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, and the Company will publish the relevant announcement or will re-comply with Shareholders' approval requirement under the Listing Rules should there be any material delay or material variation of terms of the JV Agreement.

Commencement of the production and full operation:

The JV Company is currently expected to commence production in 2025, with the monthly production capacity targeted to be 40,000 wafers by 2026, and to further increase to 83,000 wafers (reaching full operation) by 2028, along with a gradual increase in its utilisation rate and profitability.

Construction of 12-inch (300 mm) wafer fab:

Subject to the relevant construction approvals to be obtained and the timing of completion of the relevant investments pursuant to the JV Agreement and the JV Investment Agreement, the construction of the 12-inch (300 mm) wafer fab is expected to complete by the fourth quarter of 2024.

LETTER FROM THE BOARD

The aforesaid expected timeline of construction and production has been arrived at with reference to the actual construction timeline of a similar 12-inch (300 mm) fab for Hua Hong Wuxi and based on the assumptions that (i) the construction of the 12-inch (300 mm) fab will be completed within 1.5 to 2 years after which production of wafers may commence and (ii) the production capacity will reach 40,000 wafers per month within 2 years after production commenced.

Such timeline is subject to various factors, including but not limited to (i) the supply of production line facilities which will be sourced overseas, (ii) the receipt of the investment commitments from the JV Shareholders which in turn depends on the satisfaction of the relevant conditions precedent under the JV Agreement and (iii) the completion of transfer of the Land under the Land Transfer Agreement which is subject to the relevant conditions precedent under the Land Transfer Agreement, including, amongst others, approval by the Shareholders under a separate ordinary resolution to be proposed at the EGM. If the Land Transfer Agreement does not proceed, the aforesaid expected timeline of construction and production may be affected. The Company will publish the relevant announcement in accordance with the Listing Rules should there be any material delay.

Profit Sharing: The JV Shareholders will share the profits of the JV Company based on the proportion of their respective capital contribution into the JV Company.

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;

LETTER FROM THE BOARD

- (iii) the completion of all the filings in respect of, amongst others, the appointment of directors and the change in registered capital in 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.

LETTER FROM THE BOARD

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. The board of directors of the JV Company shall exercise its decision-making powers with respect to the JV Company in accordance with the law, the terms of the JV Agreement and the Articles. Certain decisions of the JV Company will require either the approval from two-thirds of all directors attending the board meeting or unanimous consent of the directors attending the board meeting of the JV Company as set out in the "*Reserved matters*" section below.

- (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.

LETTER FROM THE BOARD

- (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 China IC Fund II's and 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 (300 mm) 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;

LETTER FROM THE BOARD

- (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.

LETTER FROM THE BOARD

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 of 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 (300 mm) wafers of below 65/55 nm (exclusive of 65/55 nm) to 40 nm.

Hua Hong Wuxi and the JV Company

Both Hua Hong Wuxi and the JV Company engage in the production of 12-inch (300 mm) wafers to be used in embedded NVM, standalone NVM, analog & power management, power devices and other technical products. The major differences between the two joint ventures of the Company are set out as follows:

	Hua Hong Wuxi	JV Company
Process nodes adopted	90 nm to 65/55 nm (both inclusive)	65/55 nm to 40 nm (both inclusive)
Expected production capacity (wafers per month)	94,500 (2023, at full capacity)	40,000 (by 2026), 83,000 (by 2028, at full capacity)

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For the avoidance of doubt, pursuant to the Hua Hong Wuxi JV Agreement, the Company and HHGrace are restricted from competing with Hua Hong Wuxi in the business of 12-inch (300 mm) wafers adopting processes below 90 nm (exclusive of 90 nm) to 65 nm which does not overlap with the above non-compete undertaking in favour of the JV Company. Therefore, the involvement of Hua Hong Wuxi in the production of 12-inch (300 mm) wafer adopting 65/55 nm processes which overlaps with the JV Business will not affect the Company's and HHGrace's compliance with the non-compete undertaking under the JV Agreement.

For further information about the businesses of Hua Hong Wuxi and the JV Company, please refer to the section headed "5. Reasons for and benefits of entering into the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement" in this circular.

Relationship between (i) the Company/HHGrace/the JV Company and (ii) Shanghai Huali/Huali Integrated

As of the Latest Practicable Date, the Company has a 6.34% minority interest in Shanghai Huali held indirectly through HHGrace. Shanghai Huali and its subsidiary, Huali Integrated, principally engage in the production of 12-inch (300 mm) wafers adopting processes of 65/55 nm to 28 nm (both inclusive). Despite the aforesaid, the products of Shanghai Huali and Huali Integrated are distinguished from those of the JV Company. Further, Shanghai Huali and Huali Integrated adopt different market positions and technology processes from the Company and the JV Company.

The Company, HHGrace and the JV Company adopt special process technology only, which encompasses embedded NVM, standalone NVM, power discrete, analog & power management, logic & RF and other specialty technology manufacturing platforms (as the case may be).

Shanghai Huali and Huali Integrated mainly deploy advanced logic process technology in the production of logic integrated circuits, but special process technology is also currently involved in some of their products, such as embedded NVM and standalone NVM products adopting 65/55 nm process.

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Although the businesses of both (i) the Company / HHGrace / JV Company and (ii) Shanghai Huali cover the 65/55 nm process nodes, they serve different customers. As at the Latest Practicable Date, only 3 out of over 400 customers of the Group overlap with those of Shanghai Huali. The target customers of Shanghai Huali and Huali Integrated tend to attach greater importance to computing power, whereas the target customers of Company, HHGrace and the JV Company generally put greater emphasis on the performance and reliability of the products. Accordingly, they have adopted different market positions. The Company, HHGrace and the JV Company will focus on refining the structure of components and improving the manufacturing technology to enhance the performance and reliability of their products, while Shanghai Huali and Huali Integrated will step up their research and development efforts on developing products using smaller process nodes and advanced logic process technology.

Corporate structure regarding the JV Company

The Company's current intention is to operate the JV Company as a subsidiary of the Company and it does not have any plan or arrangement in place to dispose of any of its interests in the JV Company, which would result in the JV Company ceasing to be a subsidiary of the Company. In the unlikely situation that the JV Company is no longer a subsidiary of the Company, the Company expects that the terms of the JV Agreement, including the non-compete undertaking, would be negotiated and discussed with the other JV Shareholders.

On the above basis, the Board is of the view that the Company and/or HHGrace do not contravene the non-compete undertaking under the JV Agreement.

Term: 50 years from the date of the issuance of the business licence of the JV Company.

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3. 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 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;
(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 Latest Practicable Date, 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 filings in the PRC as set out in the JV Investment Agreement.

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4. 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 set out 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 CEA, 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 appraised value of the Land is higher than the book value of the land use right of the Land as at 30 September 2022 (i.e. RMB137,659,824.65) as a result of industrial agglomeration brought by the development of the surrounding areas which leads to the increase in market price of the Land. Please refer to page 64 in Appendix III to this circular for basis of valuation set out in the Valuation Report.
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.

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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.

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In the event that the Land Transfer does not proceed, the Company will proceed with the JV Agreement and the JV Investment Agreement to the extent being approved at the EGM. In such case, the Company will purchase other piece(s) of land in Wuxi for constructing the fab of the JV Company. It will holistically assess the impact on the construction timeline and the progress of implementing the JV Business and will comply with the relevant disclosure obligations under the Listing Rules as and when appropriate.

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

(1) Industry Overview

The development of Internet, big data, artificial intelligence and new energy vehicles has continued to drive up the demand for the Company's 12-inch (300 mm) products in recent years. Meanwhile, it is expected that the long-term global demand for semiconductors will continue to exceed the supply, with domestic market demand extending from the span of the 14th Five-Year Plan to beyond 2025, especially in the automobile sector which the Company has put one of its focuses on. Alongside the strong demand for semiconductor products, the PRC government has rolled out various long-term policies in support of the growth and development of the semiconductor industry in the PRC, including "Several Policies to Promote the High-Quality Development of the Integrated Circuit Industry and the Software Industry in the New Era" (《新時期促進集成電路產業和軟件產業高質量發展若干政策》) and the "14th Five-Year Plan for Economic and Social Development of the PRC and the Long-Range Objectives Through the Year 2035" (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) in March 2021, which is expected to have a positive impact on the long-term development of the domestic supply chain in the PRC.

Despite its continued capacity expansion, the Company is still unable to meet the market growth, due to the continuously robust demand for the existing 12-inch (300 mm) wafers.

(2) Hua Hong Wuxi's existing business

Despite its continued capacity expansion, Hua Hong Wuxi is still unable to meet the market growth, due to the continuously robust demand for the 12-inch (300 mm) wafers. The capacity utilisation rate of Hua Hong Wuxi remained at a very high level. Set out below is a table showing the utilisation rates of Hua Hong Wuxi's fab in 2021 and 2022:

	1Q	2Q	3Q	4Q	1Q	2Q	3Q
K Wafers per Month	2021	2021	2021	2021	2022	2022	2022
Monthly capacity	28	40	53	60	65	65	65
Wafer shipments	128	184	285	405	486	469	403
Capacity utilisation	103.8%	104.1%	108.7%	102.5%	103.9%	109.3%	107.7%

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The Company does not currently have any intention or plan to downsize or dispose of its existing business. The Company believes there will be a growing demand for products that can be manufactured on 300 mm wafers, particularly in China and especially for products using the Company's differentiated technologies such as power discrete, analog & power management, and embedded non-volatile memory.

(3) Target Customers of the JV Company

Given the strong demand for 12-inch (300 mm) wafers brought by the rapid expansion of the relevant markets and the potential development of the semiconductor industry in the PRC, the Company expects the demand for 12-inch (300 mm) wafers to remain at high levels in the future. The target customers of the JV Company are expected to be mainly existing and also future third-party customers of the Group. The Company understands that certain of its existing customers would benefit from migrating to the more technologically advanced platforms available on 12-inch (300 mm) wafers in order to better cope with the changing market environments and to satisfy the increased demand for the relevant products. The Company is also expected to actively market and leverage its leading position in the 12-inch (300 mm) wafers production to attract future third-party customers of the JV Company who are active or interested in the 12-inch (300 mm) wafer sector. It is not currently envisaged that the JV Company will sell its products to the Company or its connected persons. The Company expects that its strategic cooperation under the JV Agreement and the JV Investment Agreement with China IC Fund II, an entity with significant investment expertise in the integrated circuit field, will attract future business opportunities for the JV Company.

(4) Reasons for and benefits of entering into the JV Agreement and the JV Investment Agreement

Despite its continued capacity expansion, as set out above, 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.

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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 and onwards. 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. The Company is of the view that the JV Company will be able to extend the existing technology and product strategy of the Company and capture the increasing demand of customers using the 12-inch (300 mm) wafer technologies.

Both Hua Hong Wuxi and the JV Company engage in the production of 12-inch (300 mm) wafers to be used in embedded NVM, standalone NVM, analog & power management, power devices and other technical products. The major differences between the two joint ventures of the Company are set out as follows:

	Hua Hong Wuxi	JV Company
Process nodes adopted	90 nm to 65/55 nm (both inclusive)	65/55 nm to 40 nm (both inclusive)
Expected production capacity (wafers per month)	94,500 (2023, at full capacity)	40,000 (by 2026) 83,000 (by 2028, at full capacity)

The Company intends to diversify its coverage of process nodes through setting up the JV Company. The JV Company shall cover 12-inch (300 mm) wafers adopting process nodes from 65/55 nm down to 40 nm, complementing the business of Hua Hong Wuxi which only covers 65/55 nm up to 90 nm. Given both the JV Company and Hua Hong Wuxi offer similar products adopting 65/55 nm process, they may potentially compete with each other. However, the Company is of the view that the benefit derived from establishing the JV Company outweighs any potential competition with Hua Hong Wuxi. As mentioned above, the utilisation rate of Hua Hong Wuxi's production line has been staying above 100% since the first quarter of 2021 which signifies that Hua Hong Wuxi has been operating at its maximum capacity and is unable to address the increasing demand. The additional production capacity of the JV Company may fill the gap and offer a wider range of products, thereby further strengthening the Company's market share of the abovementioned products adopting 65/55 nm process. In any event, both joint ventures will be controlled by the Company and have been consolidated as its subsidiaries. From the Company's perspective, in light of the robust market demand, the impact of the potential competition between two subsidiaries, if any, will not affect the overall financial benefit to the Group resulting from the additional revenue and market share brought by the JV Company. Synergy will also be generated between Hua Hong Wuxi and the JV Company despite any potential competition between them. As such, the Company believes that setting up the JV Company is beneficial to the Group and the Shareholders as a whole.

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The implementation of the JV Business requires substantial capital commitment including those from the external investors. While considering this business opportunity, the Company understood that a newly incorporated company may be eligible for certain preferential tax policies of the PRC. It also understood that some of the shareholders of Hua Hong Wuxi had no plan to make further investment in light of its recent capital increase in June 2022, and a non-pro rata capital increase of the scale anticipated in the JV Agreement may lead to changes in corporate governance of Hua Hong Wuxi which require re-negotiation of the Hua Hong Wuxi JV Agreement. Therefore, upon arm's length discussion with the other JV Shareholders, the Company has opted for establishing a new company to carry out the JV Business instead of expanding Hua Hong Wuxi.

Further, by cooperating with the Wuxi Municipal Entity, the JV Company would also be able to benefit from certain policies and/or subsidies of the Wuxi Municipal People's Government of the PRC in relation to the recruitment of talent, procurement of equipment, financing discounts and land, all of which would facilitate the development of the projects of the JV Company and save costs of the JV Company's operations. Such benefits would not be available, wholly or partially, if the Company decided to engage other investors for the JV Agreement and the JV Investment Agreement.

(5) Reasons and benefits of entering into the Land Transfer Agreement

Hua Hong Wuxi originally acquired the Land in 2018 which has been reserved for the future development and expansion of its business and fab. The Land currently remains undeveloped. 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 given Hua Hong Wuxi currently has no plan to further expand its business following the capital increase in June 2022. The proposed transfer of the Land does not involve any change in its intended use since it is still purposed for the construction of a 12-inch (300 mm) fab of the Group. 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.

In the event that the Land Transfer does not proceed, the Company will proceed with the JV Agreement and the JV Investment Agreement to the extent being approved at the EGM. In such case, the Company will purchase other piece(s) of land in Wuxi for constructing the fab of the JV Company as the Company does not have another piece of land which is fit for such purpose. The Land will continue to be reserved for the future development and expansion of business of the Group, including Hua Hong Wuxi. The Company will holistically assess the impact on the construction timeline and the progress of implementing the JV Business and will comply with the relevant disclosure obligations under the Listing Rules as and when appropriate.

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(6) Potential Disadvantages

Notwithstanding the cash outlay of the Company and HHGrace for the settlement of the investment into the JV Company, the Company is not aware of any material disadvantage brought by the JV Agreement, the JV Investment Agreement, the Land Transfer Agreement and the transactions contemplated thereunder.

(7) 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.

(8) Summary

Given (i) the increasing demand for the 12-inch (300 mm) wafers due to the rapid expansion of the relevant markets, (ii) the relative ease of the Company in transferring its existing technologies offerings to the 12-inch (300 mm) wafer production, (iii) the maintenance of the Company's continuing growth in the middle to long term and (iv) the strategic and cooperative relationship between the Company and China IC Fund II under the JV Agreement, the Directors (including the independent non-executive Directors) have confirmed that the terms of the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement were entered into by the Company after arm's length negotiations with the relevant parties and the terms set out therein are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

6. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

The Company and HHGrace intend to finance the investment commitment in the JV Company of a total of US\$2,050.2 million mainly by the proceeds of the RMB Share Issue.

The JV Company will be owned as to approximately 21.9% by the Company and 29.1% by HHGrace and therefore its results will be consolidated into the financial statements of the Group. As the Company and HHGrace will subscribe for the JV Company's share capital in cash, the cash balance of the Group will increase. Of the total investment amount of US\$6.7 billion in the JV Company, US\$2.68 billion will be raised by way of debt financing. As such, upon completion of the investment under the JV Agreement and the JV Investment Agreement, the assets of the Group will increase by approximately US\$4.65 billion and the liabilities of the

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Group will increase by approximately US\$2.68 billion, assuming that the debt financing has been arranged. The overall effects of the transactions on the future earnings of the Group will depend on the return to be generated from the projects of the JV Company shall operate and/or invest in.

As of the Latest Practicable Date, the Company has submitted the application materials in respect of the RMB Share Issue, including the draft prospectus, to the Shanghai Stock Exchange, which has issued a letter of acceptance as disclosed in the Company's announcement dated 4 November 2022. The Company has also responded to the first round of vetting queries issued by the Shanghai Stock Exchange as disclosed in the Company's announcement dated 30 January 2023.

The RMB Share Issue remains subject to necessary regulatory approvals by the relevant authorities in the PRC, including further vetting and approval by the Shanghai Stock Exchange and the China Securities Regulatory Commission, and thus may or may not proceed. Should the RMB Share issue not proceed, the Company will consider other options of financing, including equity and debt financing, to fulfil its contractual obligations under the JV Agreement and the JV Investment Agreement. Further announcement(s) will be made by the Company in accordance with the Listing Rules and other applicable laws and regulations regarding (i) any material updates and progress in connection with the RMB Share Issue and/or (ii) any material variation of terms of the JV Agreement and JV Investment Agreement or any delay thereof brought by the RMB Share Issue, as and when appropriate. **Shareholders and potential investors of the Company should be aware that there is no assurance that the RMB Share Issue will materialise or as to when it may materialise. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares. This circular is for information purposes only and does not and is not intended to constitute any invitation or offer to acquire, purchase or subscribe for the Share(s) or the RMB Share(s).**

7. 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.

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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 Latest Practicable Date, 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 Latest Practicable Date and based on the information provided by China IC Fund II, there were 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%
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. (江蘇蕪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%

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Fund investor	Percentage of equity interest
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) (上海矽啟企業管理合夥企業(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.

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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 Latest Practicable date which is 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 established by municipal and district-level state-owned enterprises. It principally engages in equity investment in major semiconductor projects in Wuxi. As at the Latest Practicable Date, the Wuxi Municipal Entity was 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

LETTER FROM THE BOARD

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 Latest Practicable Date, 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)。

8. 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 (300 mm) 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 Latest Practicable Date, 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 requirement under Chapter 14A of the Listing Rules on a standalone basis. For the 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.

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.

LETTER FROM THE BOARD

Given (a) Hua Hong Wuxi is owned by China IC Fund as to 20.58% as at the Latest Practicable Date, 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 Latest Practicable Date, 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 Latest Practicable Date, 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.

9. EXTRAORDINARY GENERAL MEETING AND VOTING

A notice of the EGM, which contains separate ordinary resolutions to approve, amongst others, the entering into of the JV Agreement, the JV Investment Agreement, the Land Transfer Agreement and the transactions contemplated thereunder, is set out from pages 65 to 67 of this circular. Shareholders will have to vote for each of the ordinary resolutions proposed at the EGM separately. The completion of transfer of the Land from Hua Hong Wuxi to the JV Company as contemplated under the Land Transfer Agreement is conditional upon (amongst other things) 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 (if so approved by the Shareholders at the EGM), whereas the performance of the obligations contemplated under the JV Agreement and the JV Investment Agreement is not conditional upon the transfer of the Land pursuant to the Land Transfer Agreement.

LETTER FROM THE BOARD

The Company will conduct a hybrid extraordinary general meeting with the combination of a physical meeting and a virtual meeting online. Shareholders will have the option of joining the EGM either (a) through the physical meeting at Kowloon Shangri-La Hong Kong, 64 Mody Road, Kowloon, Hong Kong; or (b) through the Internet by using their computer, tablet device or smartphone. Registered Shareholders will be able to attend the EGM, vote and submit questions online. Non-registered Shareholders whose Shares are held in the Central Clearing and Settlement System through banks, brokers, custodians or Hong Kong Securities Clearing Company Limited may also be able to attend the EGM, vote and submit questions online. In this regard, you should consult directly with your banks, brokers, custodians, nominees or HKSCC Nominees Limited through which your shares are held (as the case may be) (collectively the “Intermediary”) and instruct the Intermediary to appoint you as proxy or corporate representative to attend and vote at the EGM electronically and in doing so, you will be asked to provide your email address, before the time limit required by the relevant Intermediary. Details regarding the e-Meeting System including the login details will be emailed to you by the Company’s Share Registrar, Tricor Investor Services Limited.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.huahonggrace.com). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited at the Company’s share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. In calculating the aforesaid 48 hours period, no account will be taken of any part of a day that is a public holiday. Accordingly, the form of proxy must be delivered not later than 10:30 a.m. on Wednesday, 15 March 2023. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 14 March 2023 to Friday, 17 March 2023 (both days inclusive), during which period no transfer of Shares in the Company will be registered. In order to qualify for attending and voting at the EGM, all transfers, accompanied by the relevant certificates, must be lodged with the Company’s share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on Monday, 13 March 2023. All persons who are registered holders of the Shares on Friday, 17 March 2023, the record date for the EGM, will be entitled to attend and vote at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM shall therefore demand voting on the resolution set out in the notice of the EGM be taken by way of poll pursuant to Article 64 of the Articles. An announcement on the poll vote results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby such Shareholder had or might have temporarily or permanently passed control over the exercise of the voting right in respect of its/his Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the branch share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion of a form of proxy will not preclude you from attending and voting at the EGM in person.

10. RECOMMENDATIONS

The Board (including the independent non-executive Directors) considers that it is in the best interests of the Company and the Shareholders as a whole to enter into the JV Agreement, the JV Investment Agreement, the Land Transfer Agreement and the transactions contemplated thereunder; the terms of the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement are fair and reasonable; and the entering into of the JV Agreement, the JV Investment Agreement, the Land Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

11. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Hua Hong Semiconductor Limited
Suxin Zhang
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021 are disclosed in the annual reports of the Company for the years ending 31 December 2019, 2020 and 2021 published on 8 April 2020, 13 April 2021 and 7 April 2022 respectively. There was no qualified audit opinion expressed on the financial statements of the Group for the aforementioned three years.

The above annual reports of the Company have been published on both the website of the Stock Exchange and the website of the Company, and the relevant links to these annual reports are set out below:

2021 annual report:

- (i) <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0407/2022040700261.pdf>
- (ii) http://media-huahonggrace.todayir.com/20220407121601367010205034_en.pdf

2020 annual report:

- (i) <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0413/2021041300163.pdf>
- (ii) http://media-huahonggrace.todayir.com/2021041312080183749715768_en.pdf

2019 annual report:

- (i) <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0408/2020040800125.pdf>
- (ii) http://media-huahonggrace.todayir.com/2020040812160264299229355_en.pdf

2. STATEMENT OF INDEBTEDNESS

Debt securities and term loans

As at the close of business of 31 December 2022, save as disclosed in respect of the borrowings and indebtedness of the Group below, the Group has no debt securities issued or outstanding, or authorised or otherwise created but unissued, and no term loans, including those guaranteed, unguaranteed, secured (whether the security is provided by the Company or by independent third parties) or unsecured.

Borrowings and indebtedness

As at the close of business of 31 December 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group has outstanding borrowings and indebtedness of approximately US\$1,910.41 million. Group's bank loans were all secured.

Contingent liabilities

As at the close of business of 31 December 2022, the Group has no material contingent liability or guarantees.

Mortgage and charges

As at the close of business of 31 December 2022, the Group's above outstanding secured borrowings were secured by the Group's property, plant and equipment, inventory, land-use right, cash deposit and credit.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, bank loans and overdrafts or other similar borrowings or indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 31 December 2022.

The Directors confirm that there was no material change in the indebtedness status of the Group since 31 December 2022 up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the effect of the JV Agreement, the JV Investment Agreement and the Land Transfer Agreement and the transactions contemplated thereunder, its internal resources, the financial resources available to the Group, including its existing cash and cash equivalents on hand, its cash flow from operating activities, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Looking ahead to 2023, the global economic recovery is still facing many uncertainties. The slowdown of global economic growth and the decline of traditional consumer demand may become the common challenges for players in the semiconductor industry in the coming year. In light of the declining external demand and accelerating upgrade and transformation of domestic demand, the Company actively expands into emerging markets such as electric vehicles, new energy power generation and other fields to accelerate the matching of the new market demand and to maintain sustainable and healthy business development in line with the market trend.

In 2023, the Company will continue to further enhance the competitiveness of its 12-inch production platform with more diversified and advanced differentiated technology. In terms of production capacity, in order to better meet the long-term demand of the domestic semiconductor market, the Company will continue adopting its "8-inch + 12-inch" strategy of

optimizing the existing 8-inch platform and expanding production capacity of the 12-inch platform, and start the construction of the JV Company in due course. In terms of products, all fabs of the Company are IATF16949 compliant. In 2023, the Company will continuously improve its automotive electronics product lines to seize the market opportunity of great demand for semiconductor components in the supply chain of the domestic automotive market. In terms of technology research and development, the Company is actively promoting the logic RF technology and the embedded flash (eFlash) technology platform to further increase output, as well as optimizing the performance and power consumption indicators to make the eFlash platform more competitive for Micro Controller Unit (MCU) market applications. In the field of power discrete, the 12-inch SJ and Insulated Gate Bipolar Transistor (IGBT) technology platform will continue to iterate and optimize device structures to maintain product performance at an industry-leading level. In the field of PMIC, the 100V Bipolar-CMOS-DMOS BCD technology will soon be completed, while the 12-inch BCD + eFlash platform will soon commence mass production. In addition, the 12-inch production platform enhances the Company's development of smaller nodes, and the Company plans to continuously upgrade its differentiated technologies to more advanced nodes.

2023 will continue to be a year of both challenges and opportunities for the Company. The Company will unswervingly focus on promoting its differentiation strategy, and the original "IC+ Power Discrete" product strategy will be enhanced with the support of the "8-inch +12-inch" production platforms.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interest or short position of the Directors of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register; or (iii) required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, are as follows:

Name of Director	Nature of interest	Number of underlying shares held in long position (Note 1)	Approximate percentage of interests as at the Latest Practicable Date
Mr. Junjun TANG	Beneficial owner	437,500	0.03%

Note:

- (1) Long position in the underlying shares of the Company under share options granted pursuant to the share option scheme adopted by the Company on 1 September 2015. The exercisable price per Share is HK\$18.400. As of the Latest Practicable Date, Mr. Junjun TANG had not exercised any of such share options.

Save as disclosed above, so far as known to any Directors, as at the Latest Practicable Date, none of the Directors of the Company or any of their associates had or was deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company and its associated corporations as defined in Part XV of the SFO, which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register; or (iii) required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as was known to the Directors, the persons or entities, other than a Director or chief executive of the Company, who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Name of substantial Shareholder	Nature of interest	Number of Shares directly or indirectly held	Approximate percentage of interests (%)
Shanghai Hua Hong International, Inc. ("Hua Hong International") (Note 1)	Legal and beneficial owner	347,605,650	26.59
Huahong Group (Note 1)	Interest in a controlled corporation	347,605,650	26.59
Sino-Alliance International, Ltd. ("Sino-Alliance International") (Note 2)	Legal and beneficial owner	160,545,541	12.28
Sino-Alliance International (Note 2)	Interest in a controlled corporation	28,415,606	2.17
SAIL (Note 3)	Interest in a controlled corporation	188,961,147	14.45
Xinxin (Hongkong) Capital Co., Limited (Note 4)	Legal and beneficial owner	178,705,925	13.67
Xun Xin (Shanghai) Investment Co., Ltd. (Note 4)	Interest in a controlled corporation	178,705,925	13.67
China IC Fund	Interest in a controlled corporation	178,705,925	13.67

Notes:

1. Hua Hong International is a wholly-owned subsidiary of Huahong Group.
2. Including 3,084 shares held in escrow by Sino-Alliance International pursuant to an escrow arrangement. As at Latest Practicable Date, Sino-Alliance International directly held 160,545,541 shares and indirectly held 28,415,606 shares in the Company through its wholly-owned subsidiary.
3. SAIL indirectly held beneficial ownership in the Company through two wholly-owned subsidiaries, including Sino-Alliance International.
4. Xinxin (Hongkong) Capital Co., Limited is a wholly-owned subsidiary of Xun Xin (Shanghai) Investment Co., Ltd., which is in turn a wholly-owned subsidiary of China IC Fund.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, the Company has not been notified by any persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

4. DIRECTORS' OTHER INTERESTS

- (a) Save as disclosed in this circular, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.
- (b) None of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or lease to member of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Group were made up.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any of its subsidiaries which is expiring within one year or determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, as far as the Directors were aware of, none of the Directors and their respective close associates (as defined under the Listing Rules) was interested in any business which competes or was likely to compete, either directly or indirectly, with the business of the Company or the Group.

7. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claims of material importance is pending or threatened by or against the Company and any of its subsidiaries.

9. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Expert	Qualification
CEA	Qualified Asset Valuer in the PRC

CEA has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, CEA did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, CEA did not have any interest, direct or indirect, in any assets which since 31 December 2021, the date to which the latest published audited financial statements of the Company were made up, had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. DOCUMENTS ON DISPLAY

Copies of the following documents are published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.huahonggrace.com) during the period of 14 days from the date of this circular:

- (a) the JV Agreement;
- (b) the JV Investment Agreement;

- (c) the Land Transfer Agreement;
- (d) the Valuation Report referred to in Appendix III of this circular;
- (e) the written consent of CEA referred to in the section headed “Expert’s Qualification And Consent” in this appendix; and
- (f) this circular.

11. GENERAL

- (a) The company secretary of the Company is Ms. Sui Har Lee, who is a practicing solicitor admitted in the Hong Kong.
- (b) The registered office of the Company is at Room 2212, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

This report is prepared in accordance with the Chinese Valuation Standards

**Asset Valuation Report on the Proposed Transfer
of the Rights to Use Certain Parcels
Located at Nos. 28 and 30, Xinzhou Road and
Nos. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province
Held by Hua Hong Semiconductor (Wuxi) Limited
Zhong Qi Hua Ping Bao Zi (2023) No. 3005 (1 of 1)**

**China Enterprise Appraisals Co., Ltd.
5 January 2023**

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STATEMENT

1. This Asset Valuation Report was prepared in accordance with the Basic Rules for Asset Valuation issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and the Code of Ethics for Asset Valuation issued by the China Appraisal Society.

2. The consignor or other users of the Asset Valuation Report should use the Asset Valuation Report in accordance with the provisions of laws and administrative regulations and within the scopes as specified in the Asset Valuation Report. The asset valuation agency and the asset valuers take no responsibility for any non-compliance of the above-mentioned requirements for the use of the Asset Valuation Report by the consignor or other users of the Asset Valuation Report.

This Asset Valuation Report shall only be used by the consignor, other users of the Asset Valuation Report stipulated in the asset valuation engagement contract, and users of the Asset Valuation Report as required by laws and administrative regulations. Save for the above, any other institutions or individuals may not use the Asset Valuation Report.

The asset valuation agency and the asset valuers advise that users of the Asset Valuation Report should correctly acknowledge the valuation conclusions, which are not equivalent to the realisable values of the valuation subject and should not be considered as a guarantee for the realisable value of the valuation subject.

3. The asset valuation agency and its asset valuers comply with the laws, administrative regulations and asset valuation standards, adhere to the principles of independence, objectivity and impartiality, and assume the legal responsibility for the Asset Valuation Report issued by them.

4. The list of assets involved in the valuation subject has been reported and confirmed with signature, seals or other ways permitted by law by the consignor and the property right holder. The consignor and other relevant parties are legally responsible for the information provided by them as to its authenticity, completeness and legality.

5. The asset valuation agency and the asset valuers have no existing or expected interests either in the valuation subject as referred to in the Asset Valuation Report, or in the relevant parties, and have no prejudice against the relevant parties.

6. The asset valuers have carried out inspections on the valuation subject in the Asset Valuation Report and its assets involved; paid necessary attention to the legal titles of the valuation subject and its assets involved; verified the information related to the legal titles of the valuation subject and its assets involved; made truthful disclosure in respect of the identified issues; and requested the consignor and other relevant parties to remove title defects in order to fulfill the requirements for the issuance of the Asset Valuation Report.

7. The analyses, judgments and results in the Asset Valuation Report issued by the asset valuation agency are subject to the assumptions and limiting conditions set out in the Asset Valuation Report. The users of the Asset Valuation Report shall take into full consideration of the assumptions, limiting conditions and special notes specified in the Asset Valuation Report and their impact on the valuation conclusions.

SUMMARY OF THE ASSET VALUATION REPORT**Important Notice**

The following content is excerpted from the full text of the asset valuation report. For the detailed information and reasonable understanding of the valuation conclusions of this valuation, please refer to the full text of the Asset Valuation Report.

To Hua Hong Semiconductor (Wuxi) Limited:

China Enterprise Appraisals Co., Ltd. has been engaged by the Company to assess the market value of the rights to use certain parcels located at Nos. 28 and 30, Xinzhou Road and Nos. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province held by Hua Hong Semiconductor (Wuxi) Limited as of 30 September 2022, using the market comparison approach and the land datum value approach, in accordance with laws, administrative regulations and the asset valuation standards, and the principles of independence, objectivity and impartiality, and required valuation procedures. The summary of the Asset Valuation Report is as follows:

Purpose of valuation: Hua Hong Semiconductor (Wuxi) Limited intends to transfer the rights to use certain parcels located at Nos. 28 and 30, Xinzhou Road and Nos. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province held by it. For this purpose, it is necessary to appraise the market value of the above assets at the Valuation Benchmark Date and provide a professional opinion on the value for the economic behavior.

Valuation subject: The rights to use certain parcels held by Hua Hong Semiconductor (Wuxi) Limited.

Scope of valuation: the rights to use certain parcels located at Nos. 28 and 30, Xinzhou Road and Nos. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province held by Hua Hong Semiconductor (Wuxi) Limited. The real estate ownership certificate number is Su (2020) Wuxi City Real Estate Ownership Certificate No. 0178538; the type of rights is state-owned construction land; the nature of rights is for transfer; the use is industrial land; and the use period ends on 27 February 2068. The area of the land use rights stated in the real estate ownership certificate is 466,456.10 m², and the area of land use rights under the proposed transfer is 249,049.00 m². For the specific scope, please refer to the land areas for the second and third phases within the red line of the Master Layout Plan. The land under the proposed transfer has not yet been used under the current status. The carrying amount of the land use rights within the scope of valuation is RMB137,659,824.65.

Valuation Benchmark Date: 30 September 2022

Type of value: market value

Valuation method: market comparison approach and land datum value approach

Valuation conclusion: as at the Valuation Benchmark Date, the carrying amount of the land use rights of Hua Hong Semiconductor (Wuxi) Limited within the scope of valuation was RMB137,659,824.65, and the appraised value was RMB170,100,450.00, representing an increase of RMB32,440,625.35 or 23.57%.

The Asset Valuation Report only provides a value reference for the economic behaviors herein, and the effective term for the use of the valuation conclusion shall be one year from the Valuation Benchmark Date.

The users of the Asset Valuation Report shall take into full consideration of the assumptions, limiting conditions and special notes specified in the Asset Valuation Report and their impact on the valuation conclusions.

The above content is excerpted from the full text of the Asset Valuation Report. For the detailed information and reasonable understanding of the valuation conclusions of this valuation, please refer to the full text of the Asset Valuation Report.

**ASSET VALUATION REPORT FOR THE PROPOSED TRANSFER
OF THE RIGHTS TO USE CERTAIN PARCELS
LOCATED AT NO. 28 AND 30,
XINZHOU ROAD AND NO. 27 AND 29, XIXING ROAD,
WUXI CITY, JIANGSU PROVINCE
HELD BY HUA HONG SEMICONDUCTOR (WUXI) LIMITED**

To Hua Hong Semiconductor (Wuxi) Limited:

China Enterprise Appraisals Co., Ltd. has been engaged by the Company to assess the market value of the rights to use certain parcels located at No. 28 and 30, Xinzhou Road and No. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province held by Hua Hong Semiconductor (Wuxi) Limited as of 30 September 2022, using the market comparison approach and the land datum value approach, in accordance with laws, administrative regulations and the asset valuation standards, and the principles of independence, objectivity and impartiality, and required valuation procedures. The asset valuation is hereby reported as follows:

I. THE CONSIGNOR AND PROPERTY RIGHT HOLDER AND OTHER USERS OF THE ASSET VALUATION REPORT SPECIFIED IN THE ASSET VALUATION ENGAGEMENT CONTRACT

For the valuation, the consignor and property right holder is Hua Hong Semiconductor (Wuxi) Limited. This valuation report is only for use by the consignor specified in the asset valuation engagement contract and users as required by laws and administrative regulations.

(I) Profile of the consignor and property right holder

Company name: Hua Hong Semiconductor (Wuxi) Limited (hereinafter referred to as “Hua Hong Wuxi”)

Registered address: No. 30, Xinzhou Road, Xinwu District, Wuxi City

Legal representative: Suxin Zhang

Registered capital: US\$2,536,851,800,690

Type of company: limited liability company (with Hong Kong, Macau, Taiwan investment, non-wholly owned)

Scope of business: the design, development, manufacturing, testing, packaging and sales of IC products, and technical services. (Businesses subject to approval by law shall be conducted with approval of relevant authorities).

Unified social credit code: 91320214MA1R9H5T8X

Date of establishment: 2017-10-10

Duration: from 2017-10-10 to 2068-02-13

(II) Relationship between the consignor and the property right holder

The consignor is the property right holder.

(III) Other users of the Asset Valuation Report specified in the asset valuation engagement contract

This Asset Valuation Report is only for the use of the consignor and the users of the Asset Valuation Report specified by national laws and regulations, and shall not be used or relied on by any other third party.

II. PURPOSE OF VALUATION

Hua Hong Semiconductor (Wuxi) Limited intends to transfer the rights to use certain parcels located at No. 28 and 30, Xinzhou Road and No. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province held by it. For this purpose, it is necessary to appraise the market value of the above assets at the Valuation Benchmark Date and provide a professional opinion on the value for the economic behavior.

Hua Hong Semiconductor (Wuxi) Limited held a board meeting on the matter and adopted the Resolution of the Board of Directors of Hua Hong Semiconductor (Wuxi) Limited (Xi Hua Hong Board (2022) No. 7) on 30 December 2022.

III. SUBJECT AND SCOPE OF VALUATION***(I) Valuation subject***

The valuation subject is the value of the rights to use certain parcels held by Hua Hong Semiconductor (Wuxi) Limited.

(II) Scope of valuation

The scope of valuation is the rights to use certain parcels located at No. 28 and 30, Xinzhou Road and No. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province held by Hua Hong Semiconductor (Wuxi) Limited. The real estate ownership certificate number is Su (2020) Wuxi City Real Estate Ownership Certificate No. 0178538; the type of rights is state-owned construction land; the nature of rights is for transfer; the use is industrial land; and the use period ends on 27 February 2068. The area of the land use rights stated in the real estate ownership certificate is 466,456.10 m², and the area of land use rights under the proposed transfer is 249,049.00 m². The land under the proposed transfer has not yet been used under the current status. The carrying amount of the land use rights within the scope of valuation is RMB137,659,824.65.

The valuation subject and scope in the engagement are consistent with those involved in economic behaviors. As at the Valuation Benchmark Date, the carrying amount of the assets within the scope of valuation has not been audited.

(III) Main assets within the scope of valuation are as follows:

As at the Valuation Benchmark Date, there was one land use right within the scope of valuation, the specific details of which are as follows:

Real Estate Ownership Certificate

Real Estate Ownership Certificate No.	Su (2020) Wuxi City Real Estate Ownership Certificate No. 0178538
Property owner	Hua Hong Semiconductor (Wuxi) Limited
State of joint-ownership	Individually owned
Location	No. 28 and 30, Xinzhou Road, and No. 27 and 29, Xixing Road
Unit number of real estate	320292001197GB00017F00070002
Type of rights	State-owned construction land
Nature of rights	Transfer
Use	Industrial land
Area	466,456.10 m ²
Use period	Until 27 February 2068
Other status of rights	Area of land with exclusive use rights: 466,456.10 m ²

The area of land use rights under the proposed transfer is 249,049.00 m². For the specific scope, please refer to the land areas for the second and third phases within the red line of the Master Layout Plan. The land under the proposed transfer has not yet been used under the current status, and is bare and vacant land as at the Valuation Benchmark Date.

As at the Valuation Benchmark Date, the rights to use certain parcels located at No. 28 and 30, Xinzhou Road and No. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province (Su (2020) Wuxi City Real Estate Ownership Certificate No. 0178538) held by the property right holder have been mortgaged. The mortgagees are China Development Bank Jiangsu Branch, China Construction Bank Corporation Wuxi Branch, Agricultural Bank of China Wuxi Branch, Bank of China Limited Wuxi Branch, China CITIC Bank Corporation Limited Wuxi Branch, Bank of Shanghai Co., Ltd. Wuxi Branch and China Merchants Bank Co., Ltd. Wuxi Branch, and the guarantee agency is Agricultural Bank of China Wuxi Xinwu Subbranch. The amount of the secured debt under the general mortgage is US\$1,500,000,000.00. The debt performance period is from 28 December 2020 to 27 December 2030, and the mortgage registration date is 13 September 2021. The name of the mortgage is balance mortgage. The real estate certificate number is Su (2021) Wuxi City Real Estate Certificate No. 0179129.

IV. TYPE OF VALUE

According to the purpose of the valuation, market conditions and the conditions of the valuation subject, the value type of the valuation subject is determined to be market value.

Market value means the estimated amount which the valuation subject should bring in an arm's length transaction between a willing buyer and a willing seller acting knowledgeably, prudently and without compulsion on the Valuation Benchmark Date.

V. VALUATION BENCHMARK DATE

The Valuation Benchmark Date of this report is 30 September 2022.

The Valuation Benchmark Date was determined by the consignor. In determining the Valuation Benchmark Date, the realization of economic behaviors and the factors as at the end of the accounting period were mainly taken into consideration. Based on the principle of helping ensure that the valuation results effectively serve the purpose of the valuation, accurately defining the scope of valuation, accurately and efficiently checking and verifying the assets, reasonably selecting valuation references, a date closer to the date of implementing the relevant economic behavior plan was selected as the Valuation Benchmark Date.

VI. BASIS OF VALUATION

(I) *Basis of economic behaviors*

1. Resolution of the Board of Directors of Hua Hong Semiconductor (Wuxi) Limited (Xi Hua Hong Board (2022) No. 7);
2. Asset valuation engagement contract.

(II) *Basis of laws and regulations*

1. Asset Appraisal Law of the People's Republic of China (adopted at the 21st meeting of the 12th session of the Standing Committee of the National People's Congress on 2 July 2016);
2. Company Law of the People's Republic of China (the fourth amendment adopted at the 6th meeting of the 13th session of the Standing Committee of the National People's Congress on 26 October 2018);
3. Civil Code of the People's Republic of China (adopted at the 3rd session of the 13th National People's Congress on 28 May 2020);
4. Measures for Financial Supervision and Administration of the Asset Valuation Industry (promulgated by Order No. 86 of the Ministry of Finance of the People's Republic of China and revised by Order No. 97 of the Ministry of Finance);
5. Land Administration Law of the People's Republic of China (adopted at the 12th meeting of the 13th session of the Standing Committee of the National People's Congress on 26 August 2019);

6. Enterprise Income Tax Law of the People's Republic of China (the second amendment adopted at the 7th meeting of the 13th Standing Committee of the National People's Congress on 29 December 2018);
7. Law of the People's Republic of China on State-owned Assets of Enterprises (adopted at the 5th meeting of the 11th session of the Standing Committee of the National People's Congress on 28 October 2008);
8. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council and revised by Order No. 709 of the State Council);
9. Measures for Administration of Appraisal of State-owned Assets (Order No. 91 of the State Council);
10. Notice on Issuing the Detailed Rules for the Implementation of the Measures for Administration of Appraisal of State-owned Assets (GZBF [1992] No. 36);
11. Interim Measures for Administration of Appraisal of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);
12. Notice on Matters Related to the Enhancement of Administration of Appraisal of State-owned Assets of Enterprises (GZWQC [2006] No. 274);
13. Notice on Matters Regarding Review of Valuation Reports of State-owned Assets of Enterprises (GZCQ [2009] No. 941);
14. Work Guidelines for Filing of Projects for Appraisal of State-owned Assets of Enterprises (GZFCQ [2013] No. 64);
15. Measures for Supervision and Administration of State-owned Asset Transactions of Enterprises (Order No. 32 of the State-owned Assets Supervision and Administration Commission and the Ministry of Finance of the State Council);
16. Manual for Approval and Filing of State-owned Asset Appraisal Projects of Enterprises in Shanghai (Shanghai SASAC Appraisal [2020] No.100);
17. Manual for Review of State-owned Asset Appraisal Reports of Enterprises in Shanghai (Shanghai SASAC Appraisal [2018] No.353);
18. Accounting Standards for Business Enterprises – Basic Standards (Order No.33 of the Ministry of Finance), and Decisions of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises – Basic Standards (Order No.76 of the Ministry of Finance);

19. Detailed Rules for the Implementation of the Interim Regulation of the People's Republic of China on Value-Added Tax (Order No.691 of the State Council);
20. Notice of the Ministry of Finance and the State Taxation Administration on Adjusting the Value-added Tax Rate (Cai Shui [2018] No.32);
21. Announcement on Deepening of Reform of Policies in Relation to Value-added Tax (Announcement No.39 of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs in 2019); and
22. Provisions on the Agreement-based Assignment of the Right to Use State-Owned Land (Order No.21 of the Ministry of Land and Resources).

(III) Basis of valuation standards

1. Basic Standards for Asset Valuation (CZ [2017] No. 43);
2. Professional Codes of Ethics for Asset Valuation (China Appraisal Society [2017] No. 30);
3. Practice Guidelines for Asset Valuation – Asset Valuation Report (China Appraisal Society [2018] No. 35);
4. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (China Appraisal Society [2018] No. 36);
5. Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (China Appraisal Society [2017] No. 33);
6. Practice Guidelines for Asset Valuation – Asset Valuation Files (China Appraisal Society [2018] No. 37);
7. Practice Guidelines for Asset Valuation – Real Estate (China Appraisal Society [2017] No. 38);
8. Practice Standards for Assets Appraisal–Asset Appraisal Approach (China Appraisal Society [2019] No. 35);
9. Guidance on Valuation Report of State-owned Assets of Enterprises (China Appraisal Society [2017] No. 42);
10. Quality Control Guidance on the Business of Asset Valuation Agencies (China Appraisal Society [2017] No. 46);

11. Guiding Opinions on Types of Value under Asset Valuation (China Appraisal Society [2017] No. 47);
12. Guiding Opinions on Legal Ownership of Asset Valuation subjects (China Appraisal Society [2017] No. 48); and
13. Terminology of Asset Appraisal Criteria 2020 (China Appraisal Society [2020] No. 31).

(IV) Basis of ownership

1. Real estate right certificate;
2. Transfer contract on state-owned construction land use rights; and
3. Other relevant property right certificates.

(V) Pricing basis

1. Records of field survey by valuers and other relevant valuation information collected;
2. Wind Information Finance Terminal; and
3. Other information related to the asset valuation.

(VI) Other reference bases

1. Asset Appraisal Expert Guideline No.10 – Reasonable Performance of Asset Valuation Procedures During COVID-19 (Zhong Ping Xie [2020] No.6);
2. Regulations for Valuation on Urban Land (GB/T18508-2014);
3. Technical Specifications on Land Price Evaluation for Transfer of State-Owned Construction Land Use Rights ((Guo Tu Zi Ting Fa [2018] No.4);
4. Handbook of Common Data and Parameters for Asset Valuation;
5. Asset lists and valuation declaration forms provided by the property right holder; and
6. Information database of China Enterprise Appraisals Co., Ltd.

VII. VALUATION METHOD

According to the Practice Guidelines for Asset Valuation – Real Estate (China Appraisal Society [2017] No. 38) and with reference to the Regulations for Valuation on Urban Land, the common valuation methods include market comparison approach, income approach, residual approach, cost approach, and land datum value approach. Based on the developments of the local real estate market and the specific characteristics and valuation purposes of the valued land, the valuation adopted the market comparison approach and the land datum value approach mainly due to the following considerations:

1. Market comparison approach: There were many transactions of similar lands surrounding the valued land in recent years in an active open market, and the market comparison approach can reflect its market value, so that the market comparison approach is applicable.
2. Income approach: As there are few land lease cases surrounding the valued land, it is difficult to collect information on rents which can objectively reflect the price of the valuation subject, so that the income approach is not suitable for the valuation;
3. Cost approach: As the valued land is industrial land, the information and data on local land compensation fees, resettlement compensation fees and land development costs are no longer applicable to the established area where the valuation subject is located, so that the cost approach is not suitable for the valuation;
4. Land datum value approach: The valued land is industrial land, and the Wuxi Municipal Bureau of Natural Resources and Planning released the results of the public land price system of Wuxi City in 2021, so that the land datum value approach is applicable; and
5. Residual approach: It is applicable to the price valuation of the land for sale or lease after the completion of development, undeveloped land, or projects under redevelopment. As the valued land has not been developed and has no defined development products and plans, the total price of the real estate can not be reasonably determined, so that the residual approach is not suitable for the valuation.

(I) Market comparison approach

Under the market comparison approach, when determining the price of the valued land, it compares the valued land with similar land transactions conducted in a relatively recent period according to the substitution principle, and makes appropriate adjustments based on the known prices of these similar land transactions and with reference to the differences in the transactions, date, region and individual factors of the land.

Formula of the market comparison approach:

$$V = VB \times A \times B \times C \times D$$

Where: V: Price of the valued land

VB: Price of the comparable

A: Index of the valued land/index of the comparable

B: Land price index of the valued land on the valuation date/land price index of the comparable on the transaction date

C: Index of regional factors of the valued land/index of regional factors of the comparable

D: Index of individual factors of the valued land/index of individual factors of the comparable

(II) Land datum value approach

The land datum value approach uses the valuation results (such as the urban land datum value and the table of correction coefficients for land datum values), compares the regional and individual conditions of the parcel to be valued with the average conditions of the area in which the parcel is located, according to the substitution principle, and selects the corresponding correction coefficient to correct the land datum value with reference to the correction coefficient table, so as to arrive at the price of the parcel to be valued on the Valuation Benchmark Date.

The parcel price under the development level set for the land datum value = land datum value \times K1 \times K2 \times K3 \times (1+ \sum K) + K4

Where: K1 – Duration correction coefficient

K2 – Correction coefficient for the land use period

K3 – Correction coefficient for the plot ratio

\sum K – Sum of correction coefficients affecting regional and individual factors of land prices

K4 – Correction of the development level

VIII. IMPLEMENTATION OF VALUATION PROCEDURES

The valuers have valued the assets involved in the valuation subject from 26 October 2022 to 5 January 2023. The implementation of the main valuation procedures is as follows:

(I) Acceptance of the engagement

On 26 October 2022, our company reached an agreement with the consignor on the basic matters of the valuation business, such as the purpose of the valuation, the subject of valuation, the scope of valuation and the Valuation Benchmark Date, and the rights and obligations of each party, and developed a corresponding valuation plan through negotiation with the consignor.

(II) Preliminary preparation

After the engagement was accepted, the project team worked out a specific valuation plan and formed a valuation team according to the valuation purpose, characteristics of the valuation subject and schedule. Meanwhile, according to the actual needs of the project, a list of information required for the valuation and a declaration form were prepared.

(III) On-site inspection

The valuers conducted the necessary inspection and verification of the assets involved in the valuation subject on 26 October 2022.

1. *Guidance to the property right holder on filling and preparation of information to be provided to the valuation agency*

The valuers guided the financial and assets management personnel of the property right holder on filling the “Asset Valuation Schedules” provided by the valuation agency and its filling requirements, information list on the basis of voluntary asset inspection, and accurately filled in details of assets included in the scope of valuation while collected and prepared property ownership certificate documents and documents that reflect the performance, status, economic and technical indicators, etc.

2. *Preliminary review and improvement of the Asset Valuation Schedules filled in by the property right holder*

The valuers understood the detailed status of the specific assets included in the valuation scope by reviewing the relevant information, then carefully reviewed various “Asset Valuation Schedules” and checked whether there were incomplete, mistaken or unclear asset items, as well as any omissions in the “Asset Valuation Schedules” based on their experience and the information obtained while gave feedback to the property right holder on improvement of the “Asset Valuation Schedules”.

3. *On-site inspection*

Based on the types, quantities and distribution of assets involved in the valuation subject, the valuers adopted alternative check methods such as video, photo and questionnaire due to the impact of COVID-19.

4. *Supplement, modification and improvement of the Asset Valuation Schedules*

The valuers further improved the “Asset Valuation Schedules” based on the results of the on-site inspection and extensive communication with relevant personnel of the property right holder, so that the accounting books and statements were consistent with the actual conditions.

5. *Verification of property ownership certificate documents*

The valuers verified the property ownership certificate documents of the land use rights within the scope of valuation.

(IV) Information collection

The valuers collected information for the valuation based on the specifics of the valuation project, including information independently and directly obtained from channels such as market, information obtained from relevant parties such as the consignor, and information obtained from government authorities, various professional bodies and other relevant departments, and conducted necessary analysis, conclusion and compilation of the valuation information collected, serving as reference for valuation estimation.

(V) Valuation and estimation

The valuers adopted the formulas and parameters for analysis, calculation and determination based on the specifics of land use rights and the chosen valuation approaches to arrive at preliminary valuation conclusion, and then summed up a preliminary Asset Valuation Report.

(VI) Internal review

According to the requirements of our management measures for valuation business process, the project manager completes the preliminary assets valuation report and submits it to the company for internal review. After completion of the internal audit, the project manager communicates with the consignor or other relevant parties agreed by the consignor on the relevant contents of the assets valuation report provided that such communication shall not affect the independent judgment on the valuation conclusion. After completion of the above asset valuation procedures, a formal Asset Valuation Report is issued and submitted.

IX. ASSUMPTIONS OF VALUATION

The assumptions adopted for the analysis and estimations in the Asset Valuation Report are as below:

(I) It is assumed that all valuation subjects are already in the process of transaction and the professional asset valuers conduct valuations based on the simulated market such as the transaction conditions of the valued assets; and that there are no material changes in national and regional political, economic and social conditions after the Valuation Benchmark Date;

(II) It is assumed that there are no material changes in relevant national macroeconomic policies, industrial policies and regional development policies after the Valuation Benchmark Date;

(III) It is assumed that there are no material changes in relevant interest rates, exchange rates, tax bases and tax rates, and policy-based charges after the Valuation Benchmark Date;

(IV) It is assumed that there are no material adverse effects caused by force majeure and unforeseen factors after the Valuation Benchmark Date;

(V) It is assumed that the land use rights within the scope of valuation will continue to be used according to its current use;

(VI) It is assumed that the assets within the scope of valuation are traded in the open market, and both parties to the transaction of assets rank pari passu with each other and have the opportunity and time to obtain sufficient market information and carry out the transaction behavior on a voluntary, rational, and non-compulsory basis;

(VII) The valuation report is based on the assumption that the property owner has the legal property rights of the valuation subject.

The valuation conclusion of the Asset Valuation Report is tenable on the Valuation Benchmark Date, subject to the above assumptions. If there are significant changes in the above assumptions, the valuers and the valuation agency will not have the responsibility to arrive at different valuation conclusions due to the changes in the assumptions.

X. VALUATION CONCLUSIONS

Based on the above valuation work, the valuation conclusions are as follows:

As at the Valuation Benchmark Date, the carrying amount of the land use rights of Hua Hong Semiconductor (Wuxi) Limited within the scope of valuation was RMB137,659,824.65, and the appraised value was RMB170,100,450.00, representing an increase of RMB32,440,625.35 or 23.57%.

XI. EXPLANATIONS ON SPECIAL MATTERS

It was discovered in the course of valuation that the following matters may affect the valuation conclusion; however, they are beyond the valuation and estimation of the valuers by virtue of the standards of valuation practice and professional competence:

(I) In the Asset Valuation Report, all tables or textual expressions are denominated in RMB ten thousands, and any difference between the total amount and the sum of the individual sub-values is due to rounding off;

(II) According to the Asset Appraisal Law, relevant valuation standards and the Guiding Opinions on Legal Ownership of Asset Valuation subjects, the consignor and the relevant parties shall be responsible for the truthfulness, completeness and legality of the ownership certificates, financial accounting information and other information provided by it for assets

valuation purpose. The purpose of assets valuation is to estimate the value of the subject of assets valuation and thereby express professional opinions, and it is beyond the working scope of valuers to confirm or express an opinion on the legal ownership of the subject of assets valuation. The valuers shall not provide guarantees for the legal ownership of the subject of assets valuation;

(III) As at the Valuation Benchmark Date, the rights to use certain parcels located at No. 28 and 30, Xinzhou Road and No. 27 and 29, Xixing Road, Wuxi City, Jiangsu Province (Su (2020) Wuxi City Real Estate Ownership Certificate No. 0178538) held by the property right holder have been mortgaged. The mortgagees are China Development Bank Jiangsu Branch, China Construction Bank Corporation Wuxi Branch, Agricultural Bank of China Wuxi Branch, Bank of China Limited Wuxi Branch, China CITIC Bank Corporation Limited Wuxi Branch, Bank of Shanghai Co., Ltd. Wuxi Branch and China Merchants Bank Co., Ltd. Wuxi Branch, and the guarantee agency is Agricultural Bank of China Wuxi Xinwu Subbranch. The amount of the secured debt under the general mortgage is US\$1,500,000,000.00. The debt performance period is from 28 December 2020 to 27 December 2030, and the mortgage registration date is 13 September 2021. The name of the mortgage is balance mortgage. The real estate certificate number is Su (2021) Wuxi City Real Estate Certificate No. 0179129. The valuation did not consider the impact of the mortgage on the appraised value;

(IV) The valuation conclusion did not include value-added tax, deed tax and stamp duty;

(V) The real estate ownership certificate number covering the land use rights within the valuation scope is Su (2020) Wuxi City Real Estate Ownership Certificate No. 0178538. The area of the land use rights stated in the real estate ownership certificate is 466,456.10 m², and the area of land use rights under the proposed transfer is 249,049.00 m². As at the Valuation Benchmark Date, the parcel corresponding to the land use rights and the area of land use rights within the scope of valuation were reported by the property right holder. For details, please refer to the land areas for the second and third phases within the red line of the Master Layout Plan provided by the property right holder. The valuers conducted the valuation based on the reported area after verification. For any division of the real estate ownership certificate or any transaction of ownership, the area shall be subject to the measurement result of a professional surveying and mapping agency recognized by the property registration agency. In case of any differences between the actual measured area and the area used for valuation, the corresponding value shall be adjusted accordingly. The valuation did not consider the impact of the above special matters on the appraised value;

(VI) Due to the impact of COVID-19, the valuers adopted alternative check methods such as video, photo and questionnaire;

(VII) The valuation did not consider the impact of changes in the corporate land value-added tax, corporate income tax and other taxes due to the appreciation of the appraised value;

(VIII) The valuation did not consider the impact of additional payments caused by mortgages and guarantees and special transaction methods as at the Valuation Benchmark Date.

The users of the Asset Valuation Report shall pay attention to the impact of the above special matters on the valuation conclusion.

XII. RESTRICTIONS ON THE USE OF THE ASSET VALUATION REPORT

(I) The scope of the use of the Asset Valuation Report

1. The users of the Asset Valuation Report shall be the consignor and the users of the Asset Valuation Report specified by national laws and administrative regulations.

2. The valuation conclusion disclosed by Asset Valuation Report is only valid for the corresponding economic behavior of the project.

3. The effective term for the use of the valuation conclusion of the Asset Valuation Report shall be one year from the Valuation Benchmark Date. The consignor or other users of the Asset Valuation Report shall use the report within the effective term of the valuation conclusion as stated.

4. The assets valuation agency and its professional asset valuers shall not provide the contents of the Asset Valuation Report to a third party or make it available to the public without the written permission of the consignor, except as otherwise provided for by laws and administrative regulations.

5. The contents of the Asset Valuation Report shall not be extracted, quoted or disclosed in the media without the consent from the assets valuation agency, except as otherwise provided for by laws and administrative regulations or otherwise agreed by relevant parties.

(II) The assets valuation agency and its professional asset valuers take no responsibility if the consignor or other users of the Asset Valuation Report fail to use the Asset Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in the Asset Valuation Report.

(III) Except for the consignor, the other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract and the users of the Asset Valuation Report as stipulated in the laws and administrative regulations, no other institutions or individuals shall be the user of this report.

(IV) Users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation subject and should not be considered as a guarantee for the realizable value of the valuation subject.

(V) The Asset Valuation Report is a professional report issued by the assets valuation agency as to the value of the valuation subject for specified purposes on the Valuation Benchmark Date on condition that the assets valuation agency and its professional asset valuers complied with laws, administrative regulations and asset valuation standards and performed necessary asset valuation procedures of the assignment. This Asset Valuation Report is signed by asset valuers conducting the valuation and stamped by the assets valuation agency, and may be used only after it is filed with state-owned assets supervision and administration agency if the economic behaviors are required to complete the filing procedures of the state-owned assets valuation report.

XIII. DATE OF THE ASSET VALUATION REPORT

The submission date of the Asset Valuation Report is 5 January 2023.

Legal representative: Quan Zhongguang

Valuer: Shi Yumeng

Valuer: Zhang Xiaohui

China Enterprise Appraisals Co., Ltd.

5 January 2023

EXPLANATIONS ON THE VALUATION

The evaluation results of the market comparison approach and the benchmark land value approach are integrated in this valuation. In which, the market comparison approach is derived by comparison made between the land parcel and the alternative similar land parcel that transacted near the valuation reference date in the market and make corrections to transaction price for the similar land parcel, so as to calculate the market price of the land for the evaluated object. The calculation results have certain credibility. Therefore, the evaluation approach is reasonably applied. The evaluated object is state-owned transferred industrial land and the evaluated land is for industrial use. According to the construction results of the official land price system in Wuxi urban area published by Wuxi City Bureau of National Resources and Planning (無錫市自然資源和規劃局), the land parcel where the evaluated object is situated belongs to the industrial grade 3 area, it is appropriate to adopt the benchmark land value approach for valuation. To conclude, 50% is taken by the two methods in this valuation. Therefore,

$$\begin{aligned} \text{appraisal value of land use rights} &= 166,862,800.00 \times 50\% + 173,338,100.00 \times 50\% \\ &= 170,100,450.00 \text{ (RMB)} \end{aligned}$$

Intangible assets under valuation – one land use right

The evaluation results are as follows:

Unit: RMB				
Real Estate Ownership Certificate No.	Carrying Value	Appraised Value	Appreciation Amount	Appreciation Rate
Su (2020) Wuxi City Real Estate Ownership Certificate No. 0178538	137,659,824.65	170,100,450.00	32,440,625.35	23.57%

The reasons for the changes in valuation: as the development of the surrounding area, the industrial concentration increases and the market price of land rises accordingly. Therefore, the value in this valuation appreciated.

NOTICE OF EXTRAORDINARY GENERAL MEETING



HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 01347)

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an extraordinary general meeting (the “EGM”) of Hua Hong Semiconductor Limited (the “Company”) will be held at 10:30 a.m. on Friday, 17 March 2023 at Kowloon Shangri-La Hong Kong, 64 Mody Road, Kowloon, Hong Kong for considering and, if thought fit, passing, with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** the joint venture agreement dated 18 January 2023 (the “**JV Agreement**”) entered into among the Company, Shanghai Huahong Grace Semiconductor Manufacturing Corporation (“**HHGrace**”), 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) (“**China IC Fund II**”) and Wuxi Xi Hong Guo Xin Investment Co., Ltd.* (無錫錫虹國芯投資有限公司) (the “**Wuxi Municipal Entity**”) in relation to the formation of a joint venture through a special purpose vehicle, namely Hua Hong Semiconductor Manufacturing (Wuxi) Co., Ltd.* (華虹半導體製造(無錫)有限公司) (the “**JV Company**”), to engage in the manufacturing and sale of integrated circuits, in particular, the production of 12-inch (300 mm) wafers (a copy of which has been produced to the EGM marked “**A**” and signed by the chairman of the EGM for identification purpose), pursuant to which the Company, HHGrace, China IC Fund II and the Wuxi Municipal Entity will inject capital of US\$880.38 million, US\$1,169.82 million, US\$1,165.8 million and US\$804 million, respectively, into the JV Company, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified.”
2. “**THAT** the JV investment agreement dated 18 January 2023 (the “**JV Investment Agreement**”) entered into among the Company, HHGrace, the JV Company, China IC Fund II and the Wuxi Municipal Entity in relation to the increase in the registered share capital of the JV Company from RMB6.68 million to US\$4.02 billion, of which the Company, HHGrace, China IC Fund II, and the Wuxi Municipal Entity will each contribute US\$880.38 million, US\$1,169.82 million, US\$1,165.8 million and US\$804 million, respectively, as capital into the JV Company (a copy of which has been produced to the EGM marked “**B**” and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. “**THAT** the land transfer agreement dated 18 January 2023 (the “**Land Transfer Agreement**”) entered into among the JV Company and Hua Hong Semiconductor (Wuxi) Limited (“**Hua Hong Wuxi**”) in relation to the transfer of 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, from Hua Hong Wuxi to the JV Company for a consideration of RMB170,100,450.00 (a copy of which has been produced to the EGM marked “C” and signed by the chairman of the EGM for identification purpose) be and is hereby approved, confirmed and ratified.”

4. “**THAT** any one director of the Company be and is hereby authorized to do all such acts and things, to sign and execute documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the JV Agreement, the JV Investment Agreement, the Land Transfer Agreement and/or any transactions contemplated thereunder (to the extent being approved by the shareholders of the Company at the EGM pursuant to the ordinary resolutions numbered 1 to 3 above), and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of such director, in the interests of the Company and its shareholders as a whole.”

By Order of the Board
Hua Hong Semiconductor Limited
Suxin Zhang
Chairman

24 February 2023

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- The Company will conduct a hybrid Extraordinary General Meeting with the combination of a physical meeting and a virtual meeting online. Shareholders will have the option of joining the Extraordinary General Meeting either (a) through the physical meeting at Kowloon Shangri-La Hong Kong, 64 Mody Road, Kowloon, Hong Kong; or (b) through the Internet by using their computer, tablet device or smartphone. Registered Shareholders will be able to attend the Extraordinary General Meeting, vote and submit questions online. Each registered Shareholder's personalized login and access code will be sent to him or her under separate letter.

Non-registered Shareholders whose Shares are held in the Central Clearing and Settlement System through banks, brokers, custodians or Hong Kong Securities Clearing Company Limited may also be able to attend the Extraordinary General Meeting, vote and submit questions online. In this regard, you should consult directly with your banks, brokers, custodians, nominees or HKSCC Nominees Limited through which your shares are held (as the case may be) (collectively the "Intermediary") and instruct the Intermediary to appoint you as proxy or corporate representative to attend and vote at the EGM electronically and in doing so, you will be asked to provide your email address, before the time limit required by the relevant Intermediary. Details regarding the e-Meeting System including the login details will be emailed to you by the Company's Share Registrar, Tricor Investor Services Limited.
- The proposed resolutions at the Extraordinary General Meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
- A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company. If more than one proxy is appointed, the number of Shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.
- In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or via the designated URL (<https://spot-e-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 24 February 2023, not less than 48 hours before the time fixed for holding the Extraordinary General Meeting or any adjourned meeting thereof. In calculating the aforesaid 48 hours period, no account will be taken of any part of a day that is a public holiday. Accordingly, the form of proxy must be delivered not later than 10:30 a.m. on 15 March 2023. Delivery of the form of proxy shall not preclude a Shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- Registered Shareholders are requested to provide a valid email address of his or her proxy (except appointment of "The Chairman of the Meeting") for the proxy to receive the login and access code to participate online to the e-Meeting System.
- For determining the entitlement to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Tuesday, 14 March 2023 to Friday, 17 March 2023 (both days inclusive), during which period no transfer of Shares in the Company will be registered. In order to qualify for attending and voting at the Extraordinary General Meeting, all transfers, accompanied by the relevant certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on Monday, 13 March 2023. All persons who are registered holders of the Shares on Friday, 17 March 2023, the record date for the Extraordinary General Meeting, will be entitled to attend and vote at the Extraordinary General Meeting.
- Upon arrival at the venue of the Extraordinary General Meeting, voting slip(s) will be given to every Shareholder present in person (or in the case of a corporation by its authorized representative) or by proxy to cast his/her/its vote(s). Each Shareholder/authorized representative/proxy present in venue will have to access to the e-Meeting System via the QR Code given on the voting slip and cast his/her vote(s) on the e-Meeting System. If registered Shareholders would like to participate online, he/she can log on to the e-Meeting System using his/her personalized login and access code and cast his/her vote(s) on the e-Meeting System. Each Shareholders' proxy authorization and instruction will be revoked if he/she attend in person at the Extraordinary General Meeting or attend via the e-Meeting System. For details, please refer to the Online Meeting User Guide available at the e-Meeting System.
- Since the Company will conduct a hybrid Extraordinary General Meeting with the combination of a physical meeting and a virtual meeting online, certain Director(s) may attend the Extraordinary General Meeting through telephone/video conference or similar electronic means.
- A circular containing further details concerning paragraph 1 in this notice will be sent to all Shareholders of the Company.