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HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1347)

MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO (I) THE SUBSCRIPTION AGREEMENT, (II) THE JV AGREEMENT AND (III) THE CAPITAL INCREASE AGREEMENT

THE SUBSCRIPTION AGREEMENT

The Board is pleased to announce that the Company has entered into the Subscription Agreement with the Subscriber on 3 January 2018 (after trading hours), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 242,398,925 Subscription Shares at the Subscription Price of HK\$12.90 per Subscription Share.

The Subscription Shares represent approximately 23.36% of the total number of issued Shares as at the date of this announcement and approximately 18.94% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares.

Upon the Subscription Completion, the net proceeds of the Subscription will be approximately US\$400,000,000. The Company intends to apply the net proceeds of the Subscription to finance its capital injection into the JV Company pursuant to the terms of the JV Agreement.

The Subscription Shares will be allotted and issued under the Specific Mandate to be proposed for passing by the Independent Shareholders by ordinary resolution(s) at the EGM in accordance with the Listing Rules. The general mandate of the Company will not be used for the issue of the Subscription Shares. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

THE JV AGREEMENT

In connection with the Subscription Agreement, on 3 January 2018 (after trading hours), the Company, HHGrace, the JV Company, the Subscriber and the Wuxi Entity, entered into the JV Agreement, pursuant to which, amongst others, the Company, HHGrace, the Subscriber and the Wuxi Entity agreed to inject capital of US\$400,000,000, US\$518,000,000, US\$522,000,000 and US\$360,000,000 in cash, respectively, into the JV Company.

Pursuant to the JV Agreement, the JV Company shall engage in the design, research, manufacturing, testing, packaging and sale of integrated circuits and is expected to produce approximately 40,000 12-inch (300mm) wafers per month during its first phase of production.

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

THE CAPITAL INCREASE AGREEMENT

On 3 January 2018 (after trading hours), the Company, HHGrace, the JV Company, the Subscriber and the Wuxi Entity entered into the Capital Increase Agreement to increase the registered share capital of the JV Company from RMB6,680,000 to US\$1,800,000,000.

Pursuant to the Capital Increase Agreement, the Company, HHGrace, the Subscriber and the Wuxi Entity will each contribute US\$400,000,000, US\$518,000,000, US\$522,000,000 and US\$360,000,000 in cash, respectively as capital injection into the JV Company.

The JV Company is currently held as to 100% by HHGrace, a wholly-owned subsidiary of the Company, and will continue to be a subsidiary of the Company following the completion of the transactions contemplated under the JV Agreement and the Capital Increase Agreement. Upon completion of the injection of capital pursuant to the JV Agreement and the Capital Increase Agreement, the JV Company will be held as to approximately 51.0% by the Company, of which 22.2% will be held directly by the Company and 28.8% will be held indirectly by the Company through HHGrace, its wholly-owned subsidiary.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the entering into of the JV Agreement and the Capital Increase Agreement exceeds 25% but all are below 100%, the entering into of the JV Agreement and the Capital Increase Agreement constitutes major transactions of the Company under Chapter 14 of the Listing Rules. The entering into of the JV Agreement and the Capital Increase Agreement are therefore subject to the announcement, circular and shareholders' approval requirements under the Listing Rules.

Upon the Subscription Completion, the Subscriber will hold approximately 18.94% of the enlarged total issued Shares and will become a substantial shareholder and a connected person of the Company under the Listing Rules. Therefore, the entering into of the JV Agreement and the Capital Increase Agreement by the Company with, amongst others, the Subscriber constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. As the JV Agreement is conditional upon the performance of the Subscription Agreement, the entering into of the Subscription Agreement will also constitute a non-exempt connected transaction of the Company. Therefore, each of the Subscription Agreement, the JV Agreement and the Capital Increase Agreement is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

In accordance with the Listing Rules, the Company has established an Independent Board Committee comprising of Stephen Tso Tung Chang, Kwai Huen Wong, JP and Long Fei Ye, being all of the independent non-executive Directors, to advise and provide their recommendation to the Independent Shareholders on the Proposed Transaction and to advise the Independent Shareholders on how to vote. An Independent Financial Adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Proposed Transaction.

The EGM will be convened for the purpose of considering and, if deemed appropriate, approving, amongst other things, the grant of the Specific Mandate and the Proposed Transaction.

The circular will contain, amongst other things, (i) further details concerning the Proposed Transaction; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, together with (iv) a notice convening the EGM.

No Director is considered to have a material interest in the Proposed Transaction which would have required the Director to abstain from voting at the Board meeting authorising the Proposed Transaction.

The Subscription Completion and the injection of capital pursuant to the JV Agreement and the Capital Increase Agreement are subject to the fulfilment (or waiver) of certain conditions precedents set out in the Subscription Agreement, the JV Agreement and the Capital Increase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

The Board is pleased to announce that the Company has entered into the Subscription Agreement with the Subscriber on 3 January 2018 (after trading hours), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 242,398,925 Subscription Shares at the Subscription Price of HK\$12.90 per Subscription Share.

The major terms of the Subscription Agreement are set out as below:

Date: 3 January 2018

Parties: (i) The Company, as the issuer of the Subscription Shares; and
(i) China Integrated Circuit Industry Investment Fund Co., Ltd. as the Subscriber

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, the Subscriber and its ultimate beneficial owner(s) are third parties independent of the Company and the connected persons of the Company.

Upon the Subscription Completion, the Subscriber will become a substantial shareholder of the Company holding approximately 18.94% of the Company's total number of issued Shares as enlarged by the Subscription Shares issued to the Subscriber and hence a connected person of the Company.

Subscription:

The Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 242,398,925 Subscription Shares at the Subscription Price of HK\$12.90 per Subscription Share (equivalent to US\$1.65, which US\$ to HK\$ foreign currency exchange rate was agreed by the Subscriber and the Company as of the date of the Subscription Agreement, as US\$1 to HK\$7.8175), exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee.

The Subscription Shares represent approximately 23.36% of the total number of issued Shares as at the date of this announcement and approximately 18.94% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares.

Subscription Price:

The Subscription Price of HK\$12.90 per Subscription Share represents:

- (i) an approximately 18.56% discount to the closing price of HK\$15.84 per Share as quoted on the Stock Exchange as at the date of this announcement;
- (ii) an approximately 20.21% discount to the average closing price of HK\$16.17 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of this announcement; and
- (iii) an approximately 17.74% discount to the average closing price of HK\$15.68 per Share as quoted on the Stock Exchange for the last ten consecutive trading days prior to the date of this announcement;

The net price per Subscription Share is approximately HK\$12.90.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the financing requirement of the JV Company to carry out the JV business. The Directors (excluding the independent non-executive Directors who will express their opinion after taking into consideration the advice of the Independent Financial Adviser) consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

Conditions:

The Subscription Agreement is subject to certain conditions being fulfilled (or waived, if applicable (other than condition (v) set out below which is not waivable)) which include, amongst others:

- (i) the Stock Exchange granting the approval for the listing of the Subscription Shares, and such approval not having been revoked before the Subscription Completion;
- (ii) the members of the Company having passed all necessary resolutions in approving, amongst other things, the Subscription Agreement, the JV Agreement and the transactions contemplated under the Subscription Agreement and the JV Agreement (including but not limited to the allotment and issuance of the Subscription Shares) and the appointment of a person nominated by the Subscriber as a director of the Company, effective from the Subscription Completion;
- (iii) (where required) the obtaining of all necessary approvals and consents from any government or regulatory authority or any person and the completion of all necessary filings with any government or regulatory authority required for the entering into of the Subscription Agreement and the JV Agreement, and the performance of its obligations under the Subscription Agreement and the JV Agreement by the Company (including but not limited to the issue and allotment of the Subscription Shares);
- (iv) (where required) the obtaining of all necessary approvals and consents from any government or regulatory authority or any person and the completion of all necessary filings with any government or regulatory authority required for the entering into of Subscription Agreement and the JV Agreement and the performance of its obligations under the Subscription Agreement and the JV Agreement by the Subscriber (including but not limited to the obtaining of approval from the State Administration of Foreign Exchange of the PRC for the transmission of foreign currency fund out of the PRC); and
- (v) the SFC (i) confirming that there is no requirement for the Subscriber to make a mandatory offer to the Shareholders under Rule 26.1 of the Takeovers Code as a result of the Subscription pursuant to the Subscription Agreement or (ii) granting the waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code from an obligation on the part of the Subscriber to make a general offer for the issued Shares not owned or agreed to be acquired by the Subscriber and persons acting in concert with it as a result of the Subscription pursuant to the Subscription Agreement.

Further announcement(s) will be made by the Company in the event of Condition (v) (ii) above in compliance with the Takeovers Code.

Director Nomination Right:	The Company agrees that the Subscriber shall have the right to nominate one Director with effect from the date of the Subscription Completion.
Subscription Completion:	<p>The Subscription Completion will take place on the third business day upon the satisfaction (or waiver, if applicable) of the conditions or such other date as the Company and the Subscriber may agree.</p> <p>On the date of Subscription Completion, the Subscriber shall pay to the Company the total Subscription Price of US\$400,000,000 in cash, and the Subscription Shares shall be allotted and issued to the Subscriber which shall rank pari passu among themselves (and shall rank in full for dividends and other distributions declared or paid thereafter) and with the Shares then in issue and be free from all encumbrances.</p>
Longstop Date:	Longstop Date shall mean 31 August 2018, or, if Condition (iv) (as described in “Conditions” above) is not fulfilled on or before 31 August 2018, 30 November 2018.
Termination:	<p>The Subscription Agreement may be terminated if:</p> <ul style="list-style-type: none"> (i) any of the conditions of the Subscription Agreement have not been fulfilled or waived before the Longstop Date; or (ii) upon agreement by all the parties to the Subscription Agreement in writing that the Subscription Agreement shall be terminated.
Lock-up:	The Subscription Shares will be subject to a 2-year lock-up period commencing on the day after the Subscription Completion.
Transfer Restriction:	The Subscriber shall be required to obtain the prior written consent of the Company in the event that it intends to sell, transfer or otherwise deal with any of the Subscription Shares to any Competitor (as defined in the Subscription Agreement) upon the expiry of the 2-year lock-up period.

Use of Proceeds

Upon the Subscription Completion, the net proceeds of the Subscription will be approximately US\$400,000,000. The Company intends to apply all of the net proceeds of the Subscription to finance its capital injection into the JV Company pursuant to the terms of the JV Agreement.

Specific Mandate

The Subscription Shares will be allotted and issued under the Specific Mandate to be proposed for passing by the Independent Shareholders by ordinary resolution(s) at the EGM in accordance with the Listing Rules. The general mandate of the Company will not be used for the issue of the Subscription Shares. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Equity Fund Raising Activity during the past twelve months

The Company has not carried out any equity fund raising activities during the past twelve months.

Effect on the shareholding structure of the Company as a result of the Subscription

For reference and illustrative purpose only, assuming (1) the Subscription Completion and (2) no further Shares are issued by the Company from the date of this announcement to the date of the Subscription Completion, the changes in the number of issued Shares and shareholding of the Company are set forth below:

	As a the date of this announcement		Immediately upon the Subscription Completion	
	Number of Shares	Approximately %	Number of Shares	Approximately %
Shanghai Hua Hong International, Inc. ¹	350,401,100	33.77	350,401,100	27.37
Sino-Alliance International, Ltd ²	223,474,995	21.54	223,474,995	17.46
The Subscriber	–	–	242,398,925	18.94
Directors or former Directors	988,000	0.10	988,000	0.08
Public Shareholders	462,748,233	44.60	462,748,233	36.15
Total	1,037,612,328	100.0	1,280,011,253	100.0

Notes:

1. Shanghai Hua Hong International, Inc. is a wholly-owned subsidiary of Huahong Group. Huahong Group was 47.08% owned by China Electronics Corporation and 47.08% owned by SAIL.
2. Sino-Alliance International, Ltd. is a wholly-owned subsidiary of SAIL. Of the 223,475,995 Shares, such Shares are held either directly by Sino-Alliance International, Ltd. or through its controlled corporations. In addition to the 223,475,995 Shares indirectly held through Sino-Alliance International, Ltd. and its controlled corporations, SAIL also indirectly held 350,401,100 Shares through Huahong Group. Accordingly, pursuant to Part XV of the Securities and Futures Ordinance, SAIL is deemed to be interested in an aggregate of 573,877,095 Shares.

2. THE JV AGREEMENT

In connection with the Subscription Agreement, on 3 January 2018 (after trading hours), the Company, HHGrace, the Subscriber, the Wuxi Entity and the JV Company, entered into the JV Agreement, pursuant to which, amongst others, the Company, HHGrace, the Subscriber and the Wuxi Entity agreed to inject capital of US\$400,000,000, US\$518,000,000, US\$522,000,000 and US\$360,000,000 in cash, respectively into the JV Company.

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

Date: 3 January 2018

Parties: (i) the Company;
(ii) HHGrace;
(iii) the Subscriber;
(iv) the Wuxi Entity; and
(v) the JV Company.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, the Subscriber, the Wuxi Entity and their respective ultimate beneficial owner(s) are third parties independent of the Company and the connected persons of the Company.

Upon the Subscription Completion, the Subscriber will become a substantial shareholder of the Company holding approximately 18.94% of the Company's total number of issued Shares as enlarged by the Subscription Shares issued to the Subscriber and hence a connected person of the Company.

Scope of Business: The JV Company intends to engage in the design, research, manufacturing, testing, packaging and sale of integrated circuits. The JV Company is expected to have a monthly production capacity of approximately 40,000 12-inch (300mm) wafers during its first phase.

Total Investment Amount: The total investment amount by the JV Company in the JV Business will amount to US\$2,500,000,000, 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\$2,500,000,000, US\$1,800,000,000 will be by funded by way of equity capital contribution by the JV Shareholders, and the rest of the total investment amount, i.e. US\$700,000,000, will be raised by way of debt financing.

Registered Capital: The registered capital of the JV Company will be US\$1,800,000,000.

Capital Commitment: The Company, HHGrace, the Subscriber and the Wuxi Entity, have each agreed to inject capital of US\$400,000,000, US\$518,000,000, US\$522,000,000 and US\$360,000,000 in cash, respectively into the JV Company, in the following manner:

- (i) the Company agreed to inject US\$400,000,000 in cash into the JV Company before 30 September 2018, representing in total approximately 22.2% of the enlarged registered capital of the JV Company. The JV Shareholders agree that if the Subscription Completion cannot take place on or before the Longstop Date (as defined in the Subscription Agreement) and as a result of which the Company is unable to inject part or all of the US\$400,000,000 before 30 September 2018, the Company will not be considered to be in breach of the JV Agreement and the JV Shareholders shall negotiate in good faith to seek an amicable solution;
- (ii) HHGrace agreed to inject US\$112,000,000 in cash into the JV Company three (3) business days after the completion of the registration and filings with the State Administration for Industry and Commerce of the PRC by the JV Company in respect of the JV Agreement and the appointment of directors in the JV Company and the completion of record-keeping in respect of the JV Agreement by the Ministry of Commerce of the PRC, to further inject US\$223,000,000 in cash before 30 June 2018 and to inject US\$183,000,000 in cash before 31 March 2019, representing in total approximately 28.8% of the enlarged registered capital of the JV Company;
- (iii) the Subscriber agreed to inject US\$112,000,000 in cash into three (3) business days after the completion of the registration and filings with the State Administration for Industry and Commerce of the PRC by the JV Company in respect of the JV Agreement and the appointment of directors in the JV Company and the completion of record-keeping in respect of the JV Agreement by the Ministry of Commerce of the PRC, to further inject US\$223,000,000 in cash before 30 June 2018 and to inject US\$187,000,000 in cash before 31 March 2019, representing in total approximately 29.0% of the enlarged registered capital of the JV Company; and
- (iv) the Wuxi Entity agreed to inject US\$76,000,000 in cash into the JV Company three (3) business days after the completion of the registration and filings to the State Administration for Industry and Commerce of the PRC by the JV Company in respect of the JV Agreement and the appointment of directors in the JV Company and the completion of record-keeping in respect of the JV Agreement by the Ministry of Commerce of the PRC, to further inject US\$154,000,000 in cash before 30 June 2018 and to inject US\$130,000,000 in cash before 31 March 2019, representing in total approximately 20.0% of the enlarged registered capital of the JV Company.

The amount of the capital 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 constriction cost of 12-inch (300mm) fab, and the agreed share by each JV Shareholder.

- Conditions:
- The payment of the respective capital contribution to the JV Company by each of the JV Shareholders in cash, amongst others, is conditional upon satisfaction and/or waiver by the JV Shareholders of the following conditions:
- (i) each of the JV Shareholders obtaining internal approval to set up the JV Company and approve the transactions contemplated under the JV Agreement;
 - (ii) the Company obtaining its shareholders' approval in respect of the transactions contemplated under the JV Agreement and to set up the JV Company;
 - (iii) the issuance of business licence in respect of the JV Company from and the completion of all the filings in respect of the appointment of the directors in the JV Company to the State Administration for Industry and Commerce of the PRC ("SAIC Filing");
 - (iv) the completion of all the filings in respect of the transactions contemplated under the JV Agreement and the setup of the JV Company in the form of a foreign-investment enterprise to the Ministry of Commerce of the PRC ("MOFCOM Filing"); and
 - (v) the tabling of the management method established among the JV Shareholders in respect of the JV Company's connected transaction(s) at the first board meeting of the JV Company after the SAIC Filing and the MOFCOM Filing and the unanimous approval of the directors of the JV Company regarding such management method.

Future Capital Contributions:

Any increase in the registered capital of the JV Company shall be unanimously approved by the board of directors of the JV Company. Each JV Shareholder has the right to subscribe for any increased registered capital of the JV Company in proportion to their then respective shareholdings in the JV. Such JV Shareholder shall be deemed to surrender such right if it fails to notify the JV Company of its intention to subscribe within 30 days of receipt of such notice by the Company.

The JV Company may obtain its future financing from third parties or by way of shareholders' loan in accordance with the terms of the JV Agreement.

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 appointed by the Company and/or HHGrace, two (2) will be appointed by the Subscriber, one (1) will be appointed by the Wuxi Entity and one (1) will be the employee representative of the JV Company to be elected.
- (ii) The JV Company shall establish a supervision committee comprising of five (5) members, of which two (2) will be appointed by the Company and/or HHGrace, one each will be appointed by the Subscriber and the Wuxi Entity, and one (1) will be the employee representative of the JV Company to be elected.
- (iii) The Company and/or HHGrace and the Subscriber shall appoint the chairman and vice chairman of the board of directors of the JV Company respectively.
- (iv) The Company and/or HHGrace shall nominate the general manager of the JV Company, who shall nominate the vice general manager(s) of the JV Company.
- (v) The Company and/or HHGrace shall nominate the financial controller of the JV Company.
- (vi) The Subscriber or Wuxi Entity has the right to make suggestions and to discuss with the JV Company and the Company and/or HHGrace in relation to the operation and management of the JV Company and/or its subsidiaries. The JV Company and the Company and/or HHGrace shall reasonably (i) consider the Subscriber's on Wuxi Entity's suggestion and (ii) execute accordingly (if appropriate and reasonable).

Reserved matters

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

- (i) any material change to the monthly production capacity of 40,000 12-inch (300mm) wafers during the first phase of production;
- (ii) any issuance of bonds or financing instrument (other than bank loans) by the JV Company and/or any of its controlled corporations;
- (iii) any material change to the JV Company and/or any of its controlled corporations' scope of business;
- (iv) any change to the JV Company and/or any of its controlled corporations' registered capital; and
- (v) any change to the JV Company and/or any of its controlled corporations' articles of associations.

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 set-up, dissolution or sale of any entity controlled by the JV Company and/or any of its controlled corporations;
- (ii) total expenses over US\$20 million for any single case or US\$50 million in an aggregate basis within any fiscal year of the annual budget or annual operation plan of the JV Company and/or any of its controlled corporations;
- (iii) bringing or settling any legal lawsuit or arbitration by the JV Company and/or any of its controlled corporations, over 1% of the net assets of the JV Company as calculated in its latest audited accounts for any single case or 3% of the net assets of the JV Company as calculated in its latest audited accounts in an aggregated basis within a 12-month period; and
- (iv) any acquisition of material assets outside the JV Company and/or any of its controlled corporations' ordinary course of business exceeding US\$2,000,000 within any fiscal year.

Articles of Association

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

Restrictions on Transfer: Any JV Shareholder 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 parties in proportion to its then existing shareholding of the JV Company in accordance with the terms and conditions of the JV Agreement.

Other JV Shareholders shall not transfer all or any of its shares in the JV Company to any Competitor(s) (as defined in the JV Agreement) without the prior written consent of the Company and/or HHGrace.

Non-compete: The Company and HHGrace shall not and shall procure their respective subsidiaries (other than the JV Company and/or any of its subsidiaries to be set-up) not to compete with the JV Company in the business of 12-inch (300mm) wafers below 90nm (exclusive of 90nm) to 65nm.

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

3. THE CAPITAL INCREASE AGREEMENT

On 3 January 2018 (after trading hours), the Company, HHGrace, the Subscriber, the Wuxi Entity and the JV Company entered into the Capital Increase Agreement to increase the registered capital of the JV Company from RMB6,680,000 to US\$1,800,000,000.

The major terms of the Capital Increase agreement are set out as follows:

Date: 3 January 2018

Parties: (i) the Company;
(ii) HHGrace;
(iii) the Subscriber;
(iv) the Wuxi Entity; and
(v) the JV Company.

To the best of the Director's knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, the Subscriber, the Wuxi Entity and their respective ultimate beneficial owner(s) are third parties independent of the Company and the connected persons of the Company.

Upon the Subscription Completion, the Subscriber will become a substantial shareholder of the Company holding approximately 18.94% of the Company's total issued Shares as enlarged by the Subscription Shares issued to the Subscriber and hence a connected person of the Company.

Subscription of Registered Capital: The registered capital of the JV Company will be increased from RMB6,680,000 to US\$1,800,000,000.

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

Other terms: The contribution of the increased capital will be conditional upon, amongst others, approval by the Independent Shareholders at the EGM, the Subscription Completion and the approvals by the relevant registration and filing in the PRC as set out in the Capital Increase Agreement.

4. REASONS FOR AND BENEFITS OF ENTERING INTO THE PROPOSED TRANSACTION

Despite its continued capacity expansion, the Company is still unable to meet the market growth, thanks to the continuously robust demand for the existing 8-inch (200mm) wafers. The capacity utilization rate of the Company remained at a very high level. The 12-inch (300mm) wafer production line can not only expand the capacity required by the Company's specialty technologies, but also extend the Company's specialty technologies to 65nm to cover a wider range of product applications. There has been a rapid development in the global markets, in particular in China, relating to cloud computation, IoT, big data, wisdom city and 5G telecommunication applications and technologies which drive up the demand for related applications and products of relevant specialty technologies. The Company intends to capture and capitalize on this attractive and significant market opportunity by entering into the JV Agreement for production of 12-inch (300mm) wafers.

In addition, as the Company's existing 200mm production line has successfully commenced the mass-production of 90nm technology products, a process node that typically starts with the 12-inch production line, our specialty technologies, including embedded Non-Volatile Memory (eNVM), RF, power management and related IPs can be easily transferred and built on the 12-inch (300mm) wafers, will provide crucial support to the development of the JV Business. The specialty technology platform has further extended to the 65nm node which can achieve higher performance at lower cost. For example, the extension of the Company's embedded Non-Volatile Memory technology from 0.11um to 65nm would allow the Company to expand from low speed MCU products to high speed MCU products.

Furthermore, the short term strong demand for the 8-inch (200mm) wafers means that 8-inch (200mm) wafer manufacturing equipment is difficult and costly to acquire, which leads to relatively higher production cost structure for the 8-inch (200mm) wafers as compared to the 12-inch (300mm) wafers. The addition of the 12-inch (300mm) wafer production capacity will enhance the Company's present core competitiveness and allow the Company to develop into one of the leaders in both the 8-inch (200mm) and 12-inch (300mm) wafers fields. By entering into the JV Agreement and the Capital Increase Agreement, the Company intends to extend its value proposition to obtain favourable financial returns for the medium to long term in the 12-inch (300mm) wafers market.

By entering into the Subscription Agreement, the Company will be able to secure the necessary funding for its capital injection into the JV Company in accordance with the JV Agreement and foster the strategic cooperation between the Company and the Subscriber in relation to the performance of the JV Agreement.

Given (i) the increasing demand for the 12-inch (300mm) 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 (300mm) 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 the Subscriber in relation to the performance of the JV Agreement as described above, the Directors (excluding independent non-executive Directors whose view will be given after taking into account the advice from the Independent Financial Adviser) have confirmed that the terms of the Proposed Transaction 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.

5. INFORMATION ABOUT THE PARTIES

The Company

The Company primarily currently focuses on research and manufacturing of semiconductors on 8-inch (200mm) wafers for specialty applications, in particular eNVM and power discretes.

HHGrace

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

The JV Company

The JV Company was duly established on 10 October 2017 and is an indirectly wholly-owned subsidiary of the Company. As the JV Company is newly established, it has had no operating business to date and therefore does not have any assets.

The JV Company is currently held as to 100% by HHGrace, a wholly-owned subsidiary of the Company, and will continue to be a subsidiary of the Company following the completion of the transactions contemplated under the JV Agreement and the Capital Increase Agreement. Upon completion of the capital injection under the JV Agreement and the Capital Increase Agreement, the JV Company will be held as to approximately 51.0% by the Company, of which 22.2% will be held directly by the Company and 28.8% will be held indirectly by the Company through HHGrace, its wholly-owned subsidiary.

The Subscriber

The Subscriber is a company established in September 2014 under the PRC laws. It mainly invests in the integrated circuit ("IC") enterprises, including IC manufacturing, IC design, IC packaging and testing, IC equipment and materials.

The Wuxi Entity

The Wuxi 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.

6. IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the entering into of the JV Agreement and the Capital Increase Agreement exceeds 25% but all are below 100%, the entering into of the JV Agreement and the Capital Increase Agreement constitute major transactions of the Company under Chapter 14 of the Listing Rules. The entering into of the JV Agreement and the Capital Increase Agreement are therefore subject to the announcement, circular and shareholders' approval requirements under the Listing Rules.

Upon the Subscription Completion, the Subscriber will hold approximately 18.94% of the enlarged total issued Shares and will become a substantial shareholder and a connected person of the Company under the Listing Rules. Therefore, the entering into of the JV Agreement and the Capital Increase Agreement by the Company with, amongst others, the Subscriber constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. As the JV Agreement is conditional upon the performance of the Subscription Agreement, the entering into of the Subscription Agreement will also constitute a non-exempt connected transaction of the Company. Therefore, each of the Subscription Agreement, the JV Agreement and the Capital Increase Agreement is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

In accordance with the Listing Rules, the Company has established an Independent Board Committee comprising of Stephen Tso Tung Chang, Kwai Huen Wong, JP and Long Fei Ye, being all of the independent non-executive Directors, to advise and provide their recommendation to the Independent Shareholders on the Proposed Transaction and to advise the Independent Shareholders on how to vote. An Independent Financial Adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Proposed Transaction.

The EGM will be convened for the purpose of considering and, if deemed appropriate, approving, amongst other things, the grant of the Specific Mandate and the Proposed Transaction.

The circular will contain, amongst other things, (i) further details concerning the Proposed Transaction; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, together with (iv) a notice convening the EGM.

No Director is considered to have a material interest in the Proposed Transaction which would have required the Director to abstain from voting at the Board meeting authorising the Proposed Transaction.

The Subscription Completion and the injection of capital pursuant to the JV Agreement and the Capital Increase Agreement are subject to the fulfilment (or waiver) of certain conditions precedents set out in the Subscription Agreement, the JV Agreement and the Capital Increase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Capital Increase Agreement”	the capital increase and subscription agreement dated 3 January 2018 entered into among the Company, HHGrace, the JV Company, the Subscriber and the Wuxi Entity
“Company”	Hua Hong Semiconductor Limited, a company incorporated in Hong Kong with limited liability on 21 January 2005, 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 Specific Mandate and the Proposed Transaction
“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 WFOE incorporated in the PRC on January 24, 2013 and a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Huahong Group”	Shanghai Huahong (Group) Co., Ltd (上海華虹(集團)有限公司), a company incorporated in the PRC on 9 April 1996 as Shanghai Hua Hong Microelectronic Co., Ltd. and renamed as Shanghai Huahong (Group) CO., Ltd. in 1998, and a controlling shareholder of the Company
“Independent Board Committee”	an independent committee of the Board that consists of all independent non-executive Directors who have no direct or indirect interest in the Proposed Transaction
“Independent Financial Adviser”	The independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the independent Shareholders in respect of the Proposed Transaction
“Independent Shareholder(s)”	Shareholders who are entitled to vote in the EGM in respect of the Specific Mandate and the Proposed Transaction pursuant to the Listing Rules and all applicable laws
“JV Agreement”	the joint venture agreement dated 3 January 2018 entered into among the Company, HHGrace, the JV Company, the Subscriber and the Wuxi Entity

“JV Business”	the design, research, manufacturing, testing, packaging and sale of integrated circuits business that the JV Company will engage in, including the production of 12-inch (300mm) wafers
“JV Company”	Hua Hong Semiconductor (Wuxi) Co., Ltd, a company incorporated in the PRC on 10 October 2017, the registered capital of which is currently held as to 100% by HHGrace and will, upon completion of the JV Agreement and the Capital Increase Agreement, be owned as to approximately 22.2% by the Company, 28.8% by HHGrace, 29.0% by the Subscriber and 20% by the Wuxi Entity
“JV Shareholders”	the Company, HHGrace, the Subscriber and the Wuxi Entity
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan
“Proposed Transaction”	the transactions contemplated under the Subscription Agreement, the JV Agreement and the Capital Increase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SAIL”	Shanghai Alliance Investment Ltd (上海聯和投資有限公司), a company incorporated in the PRC on September 26, 1994 and a controlling shareholder of the Company
“SFC”	the Securities and Futures Commission
“Shareholders”	holder(s) of Shares
“Shares”	shares of the Company
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM to authorise the Directors to allot and issue the Subscription Shares under the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	China Integrated Circuit Industry Investment Fund Co., Ltd., a company established in September 2014 under the PRC laws.
“Subscription”	the subscription of the Subscription Shares by the Subscriber
“Subscription Agreement”	the subscription agreement dated 3 January 2018 entered into between the Company and the Subscriber in respect of the Subscription
“Subscription Completion”	the completion of the Subscription in accordance with the terms of the Subscription Agreement

“Subscription Price”	the subscription price of HK\$12.90 per Subscription Share (equivalent to US\$1.65, which US\$ to HK\$ foreign currency exchange rate was agreed by the Subscriber and the Company as of the date of the Subscription Agreement, as US\$1 to HK\$7.8175), exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee
“Subscription Share(s)”	242,398,925 new Shares to be allotted and issued under the Subscription Agreement to the Subscriber upon the Subscription Completion in respect of the Subscription
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollar, the lawful currency of the United States
“Wuxi Entity”	Wuxi Xi Hong Lian Xin Investment Co., Ltd.*, a professional investment company jointly established by municipal and district-level state-owned enterprises
“%”	per cent.

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

* For Identification purpose only

Hong Kong, 3 January 2018

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

Executive Directors

Suxin Zhang (*Chairman*)

Yu Wang (*President*)

Non-executive Directors

Jianbo Chen

Yuchuan Ma

Takayuki Morita

Jun Ye

Independent Non-executive Directors

Stephen Tso Tung Chang

Kwai Huen Wong, JP

Long Fei Ye

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.