

**HUA HONG SEMICONDUCTOR LTD:
THE FINANCIALS ARE FLAT;
THE FUTURE SEEMS BLEAK**

The Net Profit Attributable to Shareholders of Hua Hong Semiconductor Ltd () (Code: 1347, Main Board, The Stock Exchange of Hongkong Ltd), excluding foreign-exchange translation gains and ‘*Other Income and Gains*’ in respect of the past three Financial Years, ended December 31, 2013, has been going in just one direction – down.

Yet, in spite of this, the Company managed to garner \$US311.70 million (about \$HK2,415.68 million) from public investors at its Initial Public Offering (IPO), launched on the premier equity market of the Hongkong Special Administrative Region (HKSAR) of the People’s Republic of China (PRC).

The Initial Public Offering

The Global Offering Prospectus, dated October 3, 2014, stated that the Hua Hong Semiconductor was Offering a total of 228,696,000, No Nominal Value Shares, at the Indicative Offer Price Per Share, ranging from a low of \$HK11.15 to a high of \$HK12.20.

On Tuesday, October 14, it was announced that the Offer Price Per Share had been struck at \$HK11.25 and that, after all expenses, Management estimated that it would net about \$US311.70 million from this cash-raising exercise.

That very material chunk of change is destined to be utilised as follows, one is told:

- About 75 percent of the net proceeds, that is approximately \$US233.80 million, ‘*for the expansion of our manufacturing capacity, specifically in investments in equipment, tools and facilities*’;
- About 20 percent of the net proceeds, that is approximately \$US62.30 million, ‘*will be used for research and development, technology and intellectual property investments*’; and,
- About five percent of the net proceeds, that is approximately \$US15.60 million, will be tipped into the Working Capital Account.

The Offer Shares tranche with regard to HKSAR investors was 22.87 million Shares and the October 14 announcement stated that Management had received valid applications, equivalent to about 12.88 times that number of Shares on Offer.

As for the International Offering of 205,826,000 Shares, Management stated only that this tranche had been ‘*moderately oversubscribed*’.

In respect of the International Offering, two Cornerstone Investors, namely Tongfang Guoxin Electronics Company Ltd () and Cypress Semiconductor Technology Ltd, had subscribed to 10,333,000 Shares and 6,888,000 Shares, respectively.

Therefore, the Cornerstone Investors had subscribed, in aggregate, to 7.53 percent of the Global Share Offering.

The Business

Hua Hong Semiconductor is a ‘*pure-play 200 mm wafer foundry*’, its headquarters, being located in Shanghai, the PRC.

The term, ‘*pure-play foundry*’, refers to a foundry that offers no end products of its own and hence does not compete with its customers. The term, ‘*200 mm wafer*’, refers to a wafer – a thin slice of semiconductor material – that is 200 millimeters thick, according to Page 32 of the Global Offering Prospectus.

The Company was first founded in the PRC as Shanghai Hua Hong NEC Electronics Company Ltd (NEC). That was on July 17, 1997. This company is, today, a wholly owned subsidiary of Hua Hong Semiconductor Ltd.

Shanghai Hua Hong Microelectronics Company Ltd () ... [CLICK TO ORDER FULL ARTICLE](#)

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