HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1347)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

The board of directors ("the Board") of Hua Hong Semiconductor Limited ("the Company") is pleased to announce the consolidated results of the Company for the year ended December 31, 2015.

Highlights including comparison with the 2014 figures are:

- Revenue of US$650.1 million was down by 2.2% from US$664.6 million.
- Revenue contribution from China-based customers increased to 55.2% from 53.6%.
- A record high gross margin of 31.0% was achieved, compared to 29.8%.
- A record high net profit of US$112.5 million was earned, an increase of 20.9% over US$93.1 million.
- Earnings per share was US$0.11.
- CAPEX was US$183.1 million, up from US$80.2 million.
- Capacity was 146,000 wafers per month, compared to 129,000.
- The Board recommends a final dividend of HK$0.27 per share. (2014: HK$ nil)

LETTER TO SHAREHOLDERS

Dear Shareholders,

Last year was a year of challenges but also opportunities for us to meet them with courage and integrity. Thanks to your continued support, we executed planned capacity expansion, drove increased innovation, strengthened financial management and concentrated on control and prevention of risk.

Due to our strong balance sheet, solid operating plan, the unending efforts of our entire workforce and the support of our customers, the Company's operating result was hard won against weakened demand for products in some of our business segments in the fourth quarter.

The gross profit margin grew to 31%, an increase of 1.2 percentage points from 2014, on sales revenue of US$650.1 million. Net profit amounted to US$112.5 million, representing an increase of 20.9% from the previous year. In addition, the debt to assets ratio of the Company continued declining to 22%, down by 4.4 percentage points.

As of 31 December 2015, the Company has had 20 consecutive profitable quarters. This was achieved by skillful allocation of resources to maintain stability, and a strategy of sustainable growth leveraging our unique R&D and manufacturing expertise to successfully explore new sources of profitable growth.

The Company successfully completed its annual expansion target on schedule, finishing the year with a total capacity of 146,000 wafers per month, representing an increase of 13.2% over 2014. With production expansion in full swing, manufacturing stability was maintained throughout the year with special attention to product mix and equipment performance. The annual output capacity amounted to 1.469 million wafers, representing an increase of 3.5% from 2014. As a highlight of the year, Fab 2, dedicated to MOSFET, reported an output of 50,000 wafers in a single month, a new record.

We strengthened our leading position in embedded non-volatile memory, especially for smart cards, power discrete, power management and sensors. The Company successfully rolled out its 0.11μm ULL embedded flash memory platform, which supports integrated RF-CMOS and represents one of the best solutions to MCU applications in the Internet of Things.

The 90nm eFlash/eEEPROM processing platform began manufacturing ICs for next generation smart cards, including secure financial cards. The prospects for this advanced technology are very promising. As for discretes, we focused on emerging applications and implemented next generation super junction MOSFET and IGBT with better performance. Our more advanced UHV 700V BCD technology provides LED lighting applications with solutions that require less energy consumption at lower costs.

Amid an increasing demand for ICs for emerging green energy, the Internet of Things and automotive electronics, we will offer a green IC manufacturing platform that has low energy consumption and high performance efficiency in smaller dimensions, we will take full advantage of these growing market opportunities, expand strategically, maintain and improve our key differeciators, all supporting profitable growth and maintaining our competitiveness in the 200mm wafer foundry industry.

One of the economic targets of the present Chinese government's 13th Five-Year Plan (2016-2020) is to have the Chinese semiconductor industry be among the leaders in the global economy. The Company shall strive to be a significant contributor to the achievement of this goal and, at the same time, work to realize benefits from the ongoing support of the government for our industry.

We will also continue shouldering corporate social responsibility, including energy conservation and environmental protection, and implement practical measures to reduce waste and conserve energy.

The Company was honored with many awards last year, including "Top 50 Innovative Enterprise in Chinese Electronics Information Industry" (中國電子信息行業創新能力五十強企業), "China Top Ten Semiconductor Manufacturers" (中國十大半導體製造企業), and the "Golden Ant Award of National Golden Card Project" (國家金卡工程金螞蟻獎). In consideration of their significant achievements in terms of quality and performance management, the management of the Company were named "Shanghai Magnolia Quality Contributors" (上海市白玉蘭質量貢獻獎).

Our slogan for 2016 year is "Smart IoT and Green Innovation".

We look forward to a successful year for our stakeholders.

22 March 2016

BUSINESS REVIEW

BUSINESS OVERVIEW

Revenue Analysis

Revenue of the Company in 2015 was US$650.1 million, representing a decrease of 2.2% from 2014. Thanks to our strong balance sheet, solid operating plan, the unending efforts of our entire workforce and the support of our customers, the Company's operating result was hard won against decreased demand in the fourth quarter for products in some of our business segments.

Revenue by Service

	2015 *US$000*	**2015** *%*	2014 *US$000*	2014 *%*	YoY *US$000* Change	YoY *Percentage Points* Change
Wafers	**631,736**	**97.2%**	641,428	96.5%	-9,692	0.7
Others	**18,395**	**2.8%**	23,158	3.5%	-4,763	-0.7
Total revenue	**650,131**	**100.0%**	664,586	100.0%	-14,455	–

- We derived 97.2% of our revenue from the sale of semiconductor wafers.

Revenue by Customer

	2015 *US$000*	**2015** *%*	2014 *US$000*	2014 *%*	YoY *US$000* Change	YoY *Percentage Points* Change
Systems and Fabless	**489,179**	**75.2%**	502,228	75.6%	-13,049	-0.4
Integrated Device Manufacturers	**160,952**	**24.8%**	162,358	24.4%	-1,406	0.4
Total revenue	**650,131**	**100.0%**	664,586	100.0%	-14,455	–

- Revenue contribution from systems and fabless companies accounted for 75.2% of our total revenue in 2015, remaining flat over 2014.

Revenue by Geography

	2015 *US$000*	**2015** *%*	2014 *US$000*	2014 *%*	YoY *US$000* Change	YoY *Percentage Points* Change
China	**358,896**	**55.2%**	356,412	53.6%	2,484	1.6
United States	**123,716**	**19.0%**	138,148	20.8%	-14,432	-1.8
Europe	**61,648**	**9.5%**	60,488	9.1%	1,160	0.4
Japan	**53,027**	**8.2%**	42,982	6.5%	10,045	1.7
Other Asia	**52,844**	**8.1%**	66,556	10.0%	-13,712	-1.9
Total revenue	**650,131**	**100.0%**	664,586	100.0%	-14,455	–

- China remained our largest market in 2015, contributing 55.2% of our total revenue, an increase over 53.6% in 2014, primarily due to increased demand for power management ICs for LED lighting and discrete.

- Revenue from the United States was 19.0%, decreased by 1.8 percentage points compared to 2014, due to a lower demand for MCU from certain of our customers.

- Revenue contribution from Europe was 9.5%, flat compared to 2014. In terms of absolute dollar amounts, revenue from Europe increased by US$1.2 million compared to 2014, mainly due to increased demand for discrete.

- Revenue from Japan was 8.2% in 2015, up by 1.7 percentage points compared to 2014, mainly due to increased demand for MCU.

- Revenue from Other Asia accounted for 8.1%, down by 1.9 percentage points compared to 2014, mainly due to lower demand for MCUs for computer-related market segments.

Revenue by Technology Platform

	2015	**2015**	2014	2014	YoY	YoY *Percentage*
	US$000	***%***	*US$000*	*%*	*US$000* Change	*Points* Change
eNVM	**284,948**	**43.8%**	300,077	45.2%	-15,130	-1.4
Discrete	**146,802**	**22.6%**	122,927	18.5%	23,875	4.1
Analog & PM	**106,097**	**16.3%**	103,221	15.5%	2,876	0.8
Logic & RF	**77,541**	**11.9%**	93,787	14.1%	-16,246	-2.2
Standalone NVM	**31,102**	**4.8%**	37,987	5.7%	-6,885	-0.9
Others	**3,641**	**0.6%**	6,587	1.0%	-2,946	-0.4
Total revenue	**650,131**	**100.0%**	664,586	100.0%	-14,455	–

- Revenue from eNVM products in 2015 accounted for 43.8% of total revenue, down by 1.4 percentage points compared to 2014, mainly due to decreased demand for SIM Card ICs.

- Revenue from Discrete was 22.6%, up by 4.1 percentage points compared to 2014, mainly due to strong demand for MOSFET and Super-Junction MOSFET.

- Revenue from Analog & PM was 16.3%, up by 0.8 percentage point compared to 2014, mainly due to increased demand for LED lighting ICs.

- Revenue from logic & RF products accounted for 11.9% of our total revenue, decreased by 2.2 percentage points compared to 2014, mainly due to lower demand.

Revenue by Technology Node

	2015	**2015**	2014	2014	YoY	YoY
	US$000	***%***	*US$000*	*%*	*US$000*	*Percentage Points*
					Change	Change
≤0.13μm	**241,620**	**37.2%**	259,636	39.1%	-18,016	-1.9
0.15μm & 0.18μm	**111,299**	**17.1%**	135,297	20.4%	-23,998	-3.3
0.25μm	**15,933**	**2.5%**	5,102	0.8%	10,831	1.7
≥0.35μm	**281,279**	**43.2%**	264,551	39.7%	16,728	3.5
Total revenue	**650,131**	**100.0%**	664,586	100.0%	-14,455	–

- Revenue contribution from 0.13μm and below technology nodes was 37.2% in 2015, a decrease of 1.9 percentage points compared to 2014, mainly due to lower demand for SIM Card ICs.
- Revenue from 0.15μm & 0.18μm accounted for 17.1%, a decrease of 3.3 percentage points compared to 2014, due to lower demand for Logic products.
- Revenue from 0.25μm was 2.5% in 2015, up by 1.7 percentage points compared to the previous year, due to increased demand for MCU and RF SOI.
- Revenue from 0.35μm and above technology nodes was 43.2%, up by 3.5 percentage points from 2014, mainly due to increased demand for discrete and power management ICs.

Revenue by End Market

	2015	**2015**	2014	2014	YoY	YoY
	US$000	***%***	*US$000*	*%*	*US$000*	*Percentage Points*
					Change	Change
Consumer Electronics	**364,773**	**56.1%**	335,700	50.5%	29,073	5.6
Communications	**149,926**	**23.1%**	182,089	27.4%	-32,163	-4.3
Industrial & Automotive	**86,677**	**13.3%**	80,305	12.1%	6,372	1.2
Computing	**48,755**	**7.5%**	66,492	10.0%	-17,737	-2.5
Total revenue	**650,131**	**100.0%**	664,586	100.0%	-14,455	–

- Revenue contribution from Consumer Electronics was 56.1% in 2015, an increase of 5.6 percentage points compared to 50.5% in 2014, driven mainly by an increased demand for MCU, discrete and power management ICs.
- Revenue from Communications accounted for 23.1%, a decrease of 4.3 percentage points compared to 2014, mainly due to lower demand for SIM Card ICs.
- Revenue from Industrial & Automotive was 13.3%, an increase of 1.2 percentage points compared to 2014; the main growth came from MCU and SJNFET.

- Revenue from Computing was 7.5%, down by 2.5 percentage points from 2014, primarily due to lower demand for computer related MCUs.

Capacity and Capacity Utilization

Fab	**2015 thousands of wafers per month**	2014 thousands of wafers per month	YoY Change
Fab1	**56**	50	6
Fab2	**50**	39	11
Fab3	**40**	40	0
Total monthly wafer fabrication capacity	**146**	129	17
Capacity utilization	**90.0%**	93.5%	-3.5%

- The utilization rate decreased from 93.5% in 2014 to 90.0% in 2015 as a result of increased capacity and decreased demand in the fourth quarter.

Wafer Shipments

	2015 thousands of wafers	2014 thousands of wafers	YoY *Percentage Points* Change
Wafer shipments	**1,442**	1,402	2.9%

- Wafer shipments were 1.442 million wafers in 2015, an increase of 2.9% compared to 2014.

Research and Development: Enabling Superior Products for our Customers

Our 90nm embedded flash platform, our most advanced technology, was fully qualified in 2015, supporting a first order from a key customer.

Smart Card has always been a key source of revenue for the Company as we continue to offer the best smart card IC solutions in China. This leadership has been expanded recently as, based on the Company’s 0.11μm embedded non-volatile memory, the security chips of one of our key customers obtained the Common Criteria (CC) EAL4+ Security Certificate under PP0084 – which defines the safety criteria and protection scheme for such chips – from an international authoritative certification organization. This is China’s first smart card chip to obtain this strictest CC certificate and represents an essential milestone in domestic security chip solutions for bank cards and other financial applications.

Supporting the fast growing MCU markets, we launched our latest 0.11μm Ultra-Low-Leakage (ULL) eFlash and eEEPROM platform, achieving a quintessential integration of ultra-low-power digital-analog mixed signal, embedded flash and low-cost RF CMOS technologies. This process platform offers a comprehensive, flexible and cost-effective solution, tailored to the needs of our customers and reducing product time-to-market, making it a perfect fit for a variety of energy-saving smart products such as IoT, wearable devices, smart grids, embedded smart connected devices, medical electronics, as well as lighting, industrial and automotive electronics applications.

The Company also implemented enhancements to its cost-effective 0.18μm process platform, supporting both mixed-signal applications and embedded One Time Programmable (OTP) and Multiple Time Programmable (MTP) solutions. This technology enables chips with the industry's lowest number of mask layers, smaller IP macro size, faster read speed and lower power consumption, providing customers with even more cost-effective MCU solutions for a variety of applications. In addition, it also provides a migration path for legacy products currently using 0.35μm process platforms.

In order to provide leading wireless RF front-end switch applications for the ever growing number of mobile intelligent devices, the Company launched its 0.2μm RF Silicon On Insulator (SOI) process design kit (PDK). This PDK enables customers to achieve very efficient design and tape-out of high-quality RF components, thereby minimizing revision of designs and shortening the time for customers to launch their products.

In the power management IC field, based on our successful first-generation that dominated the domestic market, the Company's next generation ultra-high voltage 0.5μm 700V BCD process platform achieved mass production with over 98% yield. This provides customers with a platform for highly competitive, industry leading, single-chip solutions, and mainly focuses on the applications of green energy, such as AC-DC converters and LED lighting.

Our unique super-junction MOSFET technology is well positioned to take advantage of the growing demand for high-voltage semiconductor solutions. Design optimization, system solutions and market penetration made possible through efforts together with our customers, triggered stronger demand for this unique and competitive platform, exceeding all related capacity. As a result, we are expanding capacity for super-junction products.

As a result of our continuous R&D innovation, we successfully integrated Micro-Electro-Mechanical Systems (MEMS) and standard CMOS as a one-chip solution that is now in mass production. We launched the next-generation 3-axis gyroscope System on Chip (SoC) together with a key customer, the first time this most technologically demanding product among the motion sensors has been developed and manufactured in China. We also jointly launched one of the world's smallest barometers with another key customer on CMOS-MEMS chips using Wafer Level Packaging.

We view our patent portfolio as an essential factor in ensuring our competitiveness and a critical entry barrier for competitors, and therefore protect the valuable IP produced by our R&D teams. During 2015, our group achieved over 300 patent filings.

OUTLOOK FOR 2016

Looking forward, the challenge is still continuing, but dawn is beginning to show from lower inventory levels than seasonal average, and the pickup of new orders from customers is steady.

2016 will see more products migrate to our advanced 90nm platform, enhancing our competitiveness in the semiconductor market, particularly in smart card ICs. We will continue to reduce the size of the memory cells and the IP macros, which leads to smaller product sizes, assuring our excellent market position.

We expect to take full advantage of our expertise in smart card ICs, especially bank cards, working closely with our customer who obtained the Common Criteria Security Certificate, to grow our market share in the domestic bank card IC business.

Meanwhile, we are expanding our MCU foundry portfolio, to optimize process technologies for MCU customers. And our product mix will be further improved by introducing more SJNFET and IGBT products for consumer, industrial and automotive applications.

In power management IC field, we intend to improve our market penetration using our established 700V BCD process technology for LED lighting. In addition, we have an enhanced 700V BCD technology under development for other high-end applications.

In summary, we will continue to further enhance our advanced and differentiated process technology portfolio enabling value-added solutions to manufacture high-performance, cost-effective products for our diverse customers. We will continue to shift our product mix towards higher margin and higher growth opportunities. Indeed, constant and broad communications with many customers is a key element of our success and gives us confidence in our technology roadmap and corporate strategy. As a result, our capacity expansion is still being executed as planned. We firmly believe that this will allow us to better our position in semiconductor supply chain in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	2015	2014	Change
	US$'000	*US$'000*	
Revenue	**650,131**	664,586	(2.2)%
Cost of sales	**(448,705)**	(466,815)	(3.9)%
Gross profit	**201,426**	197,771	1.8%
Other income and gains	**42,717**	23,886	78.8%
Fair value gains on an investment property	**58**	1,127	(94.9)%
Selling and distribution expenses	**(7,292)**	(7,206)	1.2%
Administrative expenses	**(104,855)**	(85,053)	23.3%
Other expenses	**(9)**	(2,433)	(99.6)%
Finance costs	**(7,754)**	(12,136)	(36.1)%
Share of profits of an associate	**961**	4,856	(80.2)%
Profit before tax	**125,252**	120,812	3.7%
Income tax expense	**(12,703)**	(27,722)	(54.2)%
Profit for the year	**112,549**	93,090	20.9%

Explanation on Items with Fluctuation over 5% in 2015

Other income and gains

Other income and gains were US$42.7 million, an increase of 78.8% compared to 2014, mainly due to increased R&D subsidies, foreign exchange gain and interest income.

Fair value gain on an investment property

Fair value gain on an investment property reflects a gain in valuation on the investment property. As the appraised value in 2015 remained stable compared to 2014, the fair value gain was relatively small.

Administrative expenses

Administrative expenses were US$104.9 million, an increase of 23.3% over 2014, which was mainly due to (i) increased labor expenses, and (ii) increased R&D expenses due to more R&D activities.

Other expenses

Other expenses decreased to US$9,000 from US$2.4 million in 2014, mainly due to foreign exchange loss in 2014.

Finance costs

Finance costs were US$7.8 million, a decrease of 36.1% from 2014, mainly due to lower bank borrowings.

Share of profits of an associate

Share of profits of an associate was US$1.0 million, a decrease of 80.2% compared to 2014, due to decreased profit realized by the associate.

Income tax expense

Income tax expense was US$12.7 million, a decrease of 54.2% from the previous year, primarily due to (i) a reversal of dividend withholding tax accrued in 4Q 2013 and 2014 in accordance with Company's dividend policy, and (ii) a preferential dividend withholding tax rate (5%).

Profit for the year

As a result of the cumulative effect of the above factors, profit for the year increased to US$112.5 million from US$93.1 million in 2014. Our net profit margin increased from 14.0% in 2014 to 17.3% in 2015.

FINANCIAL STATUS

	31 December 2015 *US$'000*	31 December 2014 *US$'000*	Change
Non-current assets			
Property, plant and equipment	**629,180**	568,626	10.6%
Investment property	**180,542**	191,533	(5.7)%
Investment in an associate	**40,833**	42,030	(2.8)%
Available-for-sale investment	**217,214**	230,512	(5.8)%
Other non-current assets	**46,134**	56,330	(18.1)%
Total non-current assets	**1,113,903**	1,089,031	2.3%
Current assets			
Inventories	**107,081**	93,988	13.9%
Trade and note receivables	**103,822**	107,509	(3.4)%
Other current assets	**34,690**	50,185	(30.9)%
Pledged and time deposits	**41,796**	2,583	1,518.1%
Cash and cash equivalents	**510,441**	646,773	(21.1)%
Total current assets	**797,830**	901,038	(11.5)%
Current liabilities			
Trade payables	**66,280**	63,532	4.3%
Other current liabilities	**168,896**	184,349	(8.4)%
Interest bearing bank borrowings	**42,750**	81,690	(47.7)%
Total current liabilities	**277,926**	329,571	(15.7)%
Net current assets	**519,904**	571,467	(9.0)%
Non-current liabilities			
Interest bearing bank borrowings	**137,871**	183,031	(24.7)%
Deferred tax liabilities	**5,246**	11,988	(56.2)%
Total non-current liabilities	**143,117**	195,019	(26.6)%
Net assets	**1,490,690**	1,465,479	1.7%

Explanation on Items with Fluctuation over 5% from 31 December 2014 to 31 December 2015

Property, plant and equipment

Property, plant and equipment increased from US$568.6 million to US$629.2 million, largely due to increased investment for capacity expansion.

Investment property

Investment property decreased from US$191.5 million to US$180.5 million, largely due to currency translation difference as a result of RMB depreciation in 2015.

Available-for-sale investments

Available-for-sale investments decreased from US$230.5 million to US$217.2 million, largely due to currency translation difference as a result of RMB depreciation in 2015.

Other non-current assets

Other non-current assets decreased from US$56.3 million to US$46.1 million, mainly due to the amortization of intangible assets and prepaid land lease payments in 2015.

Inventories

Inventories increased from US$94.0 million to US$107.1 million, largely due to slow inventory turnover.

Other current assets

Other current assets decreased from US$50.2 million to US$34.7 million, mainly due to decreased amounts due from related parties as a result of lower revenue from certain related parties in 2015.

Pledged and time deposits

Pledged and time deposits increased from US$2.6 million to US$41.8 million, largely due to increased time deposits.

Cash and cash equivalents

Cash and cash equivalents decreased from US$646.8 million to US$510.4 million, mainly due to (i) investment of US$183.1 million for capacity expansion, (ii) a repayment of bank borrowings of US$119.9 million, (iii) investment of US$40.0 million for time deposits; these were offset by (i) US$187.8 million generated from operating activities, and (ii) a new bank borrowing of US$39.0 million. Additionally, there was a negative effect of US$27.8 million due to RMB depreciation.

Other current liabilities

Other current liabilities decreased from US$184.3 million to US$168.9 million, mainly due to decreased amounts due to related parties, offset by an increase in bonus accrual.

Interest-bearing bank borrowings

Total interest-bearing bank borrowings decreased from US$264.7 million to US$180.6 million, mainly due to a repayment of bank borrowings of US$119.9 million, offset by a new bank borrowing of US$39.0 million.

Deferred tax liabilities

Deferred tax liabilities, largely comprising withholding tax accrued for dividend distribution, decreased from US$12.0 million to US$5.2 million, primarily due to (i) a reversal of dividend withholding tax accrued in 4Q 2013 and 2014 in accordance with Company's dividend policy, and (ii) a preferential dividend withholding tax rate (5%).

CASH FLOW

	2015	2014	Change
	US$'000	*US$'000*	
Net cash flows generated from operating activities	**187,777**	221,740	(15.3)%
Net cash flows used in investing activities	**(207,658)**	(96,930)	114.2%
Net cash flows (used in) generated from financing activities	**(88,693)**	206,731	(142.9)%
Net (decrease) increase in cash and cash equivalents	**(108,574)**	331,541	(132.7)%
Cash and cash equivalents at beginning of the year	**646,773**	317,045	104.0%
Effect of foreign exchange rate changes, net	**(27,758)**	(1,813)	1,431.1%
Cash and cash equivalents at end of the year	**510,441**	646,773	(21.1)%

Net cash flows generated from operating activities

Net cash flows generated from operating activities decreased from US$221.7 million in 2014 to US$187.8 million, mainly due to (i) a receipt of advanced payment of rental from a related party in 2014, (ii) increased payment of income tax in 2015, and (iii) increased operating expenses in 2015.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$207.7 million, primarily attributed to US$183.1 million for capacity expansion and US$40.0 million for time deposits, offset by receipts of interest income of US$7.8 million.

Net cash flows (used in) generated from financing activities

Net cash flows used in financing activities was US$88.7 million, including a repayment of bank borrowings of US$119.9 million and an interest payment of US$7.8 million, offset by a new bank borrowing of US$39.0 million.

Net (decrease) increase in cash and cash equivalents

As a result of the cumulative effect of the above factors, cash and cash equivalents decreased from US$646.8 million as of 31 December 2014 to US$510.4 million as of 31 December 2015.

FINANCIAL RISKS

Foreign currency risk

We are exposed to foreign exchange risks. Such exposures arise when transactions of our PRC operating subsidiary are denominated in US dollars rather than in its functional RMB currency.

As of 31 December 2015, if the US dollar had strengthened/weakened against the RMB by 5%, with all other variables held constant, our profit before tax for the year would have been approximately US$5.2 million higher/lower.

Interest rate risk

Our exposure to risk of changes in market interest rates relates primarily to our interest-bearing bank borrowings with a floating interest rate. Our policy is to manage our interest cost using a mix of fixed and variable rate debts.

As of 31 December 2015, if interest rates on bank loans had been 1% higher/lower, with all other variables held constant, our profit before tax for the year would have been approximately US$1.4 million lower/higher.

Credit risk

We have policies in place to ensure credit terms are only granted to customers with an appropriate credit history, and we perform periodic credit evaluations on them, taking into account their financial position, past experience and other factors. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The carrying amounts of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties and pledged and time deposits included in the consolidated statement of financial position represent our maximum exposure to credit risk in relation to its financial assets. We have no other financial assets which carry significant exposure to credit risk.

Liquidity risk

Our liquidity position is monitored closely by our management. We maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Capital management

We manage our capital structure and make adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. We are not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year.

DIVIDENDS

The Board recommends a final dividend of HK$0.27 per Share, amounting to a total of HK$279,145,347.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2015.

CLOSURE OF REGISTER OF MEMBERS

For determining eligibility of Shareholders to attend and vote at the 2016 AGM

Latest time to lodge transfer documents for registration	4:30 p.m. on 6 May 2016
Closure of Register of members	9 to 11 May 2016 (both dates inclusive)
Record date	11 May 2016

For determining entitlement of Shareholders to the proposed final dividend

Latest time to lodge transfer documents for registration	4:30 p.m. on 16 May 2016
Closure of Register of members	17 to 19 May 2016 (both dates inclusive)
Record date	19 May 2016
Payable date	30 June 2016

In order to be eligible to attend and vote at the 2016 annual general meeting, and the entitlement of the aforementioned proposed final dividend, unregistered holders of shares of the Company should ensure all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. Detailed corporate governance practices will be stated in the Company's annual report for the year ended 31 December 2015. The Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd (the "**Listing Rules**") during the year ended 31 December 2015.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

The Board of the Company is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2015 with comparative figures for the year 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	**2015** **(US$'000)**	2014 (US$'000)
Revenue	*4*	**650,131**	664,586
Cost of sales		**(448,705)**	(466,815)
Gross profit		**201,426**	197,771
Other income and gains	*4*	**42,717**	23,886
Fair value gain on an investment property		**58**	1,127
Selling and distribution expenses		**(7,292)**	(7,206)
Administrative expenses		**(104,855)**	(85,053)
Other expenses		**(9)**	(2,433)
Finance costs	*6*	**(7,754)**	(12,136)
Share of profits of an associate		**961**	4,856
PROFIT BEFORE TAX	*5*	**125,252**	120,812
Income tax expense	*7*	**(12,703)**	(27,722)
PROFIT FOR THE YEAR		**112,549**	93,090
Attributable to owners of the parent		**112,549**	93,090
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	*9*		
Basic			
– For profit for the year		**US$0.11**	US$0.11
Diluted			
– For profit for the year		**US$0.11**	US$0.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015 **(US$'000)**	2014 (US$'000)
PROFIT FOR THE YEAR	**112,549**	93,090
OTHER COMPREHENSIVE LOSS		
Other comprehensive losses to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(88,669)**	(3,998)
Net other comprehensive losses to be reclassified to profit or loss in subsequent periods	**(88,669)**	(3,998)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(88,669)**	(3,998)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**23,880**	89,092
Attributable to owners of the parent	**23,880**	89,092

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2015 (US$'000)**	31 December 2014 *(US$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		**629,180**	568,626
Investment property		**180,542**	191,533
Prepaid land lease payments		**22,120**	24,194
Intangible assets		**8,516**	14,708
Investment in an associate	*10*	**40,833**	42,030
Available-for-sale investments		**217,214**	230,512
Long term prepayments		**10,806**	8,237
Deferred tax assets		**4,692**	9,191
Total non-current assets		**1,113,903**	1,089,031
CURRENT ASSETS			
Inventories		**107,081**	93,988
Trade and notes receivables	*11*	**103,822**	107,509
Prepayments, deposits and other receivables		**9,408**	7,007
Due from related parties	*16(e)*	**25,282**	43,178
Pledged and time deposits		**41,796**	2,583
Cash and cash equivalents		**510,441**	646,773
Total current assets		**797,830**	901,038
CURRENT LIABILITIES			
Trade payables	*12*	**66,280**	63,532
Other payables, advances from customers and accruals		**84,474**	72,310
Interest-bearing bank borrowings	*13*	**42,750**	81,690
Government grants		**53,881**	63,885
Due to related parties	*16(e)*	**8,965**	25,006
Income tax payable		**21,576**	23,148
Total current liabilities		**277,926**	329,571
NET CURRENT ASSETS		**519,904**	571,467
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,633,807**	1,660,498

	Notes	**31 December 2015** **(*US$'000*)**	31 December 2014 (*US$'000*)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,633,807**	1,660,498
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*13*	**137,871**	183,031
Deferred tax liabilities		**5,246**	11,988
Total non-current liabilities		**143,117**	195,019
Net assets		**1,490,690**	1,465,479
EQUITY			
Equity attributable to owners of the parent			
Share capital		**1,550,164**	1,550,164
Reserves		**(59,474)**	(84,685)
Total equity		**1,490,690**	1,465,479

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Hua Hong Semiconductor Limited (the "Company") is a limited liability company incorporated in Hong Kong on 21 January 2005. The registered office of the Company is located at Room 2212, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

The principal activity of the Company is investment holding. During the year, the Company's subsidiaries were principally engaged in the manufacture and sale of semiconductor products.

In the opinion of the directors, the parent and the ultimate parent of the Company are Shanghai Alliance Investment Ltd. ("SAIL") and INESA Holding Group ("INESA"), which are state-owned companies established in the People's Republic of China ("PRC"), supervised by the State-owned Assets Supervision and Administration Commission ("SASAC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property which has been measured at fair value. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousands except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Annual Improvements to *HKFRSs 2010-2012 Cycle*	
Annual Improvements to *HKFRSs 2011-2013 Cycle*	

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these amendments is expected to have a significant impact on the Group's results of operations and financial position, except the followings:

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into one single business unit that includes primarily the manufacture and sale of semiconductor products. Management reviews the consolidated results when making decisions about allocating resources and assessing the performance of the Group. Accordingly, no segment analysis is presented.

The principal assets employed by the Group are located in Shanghai, the PRC. Therefore, no segment information based on the geographical location of assets is presented for the year.

Revenues are attributed to geographic areas based on the location of customers. Revenues regarding geographical segments based on the location of customers for the year are presented as follows:

	2015	2014
	(US$'000)	*(US$'000)*
China (including Hong Kong)	**358,896**	356,412
United States of America	**123,716**	138,148
Asia (excluding China and Japan)	**52,844**	66,556
Europe	**61,648**	60,488
Japan	**53,027**	42,982
	650,131	664,586

The revenue information above is based on the locations of the customers.

Information about major customers

No revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer for the year ended 31 December 2015 (2014: Nil).

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the value of services rendered and gross rental income received and receivable from investment property during the year.

An analysis of revenue, other income and gains is as follows:

	2015	2014
	(US$'000)	*(US$'000)*
Revenue		
Sale of goods	**650,131**	664,586
Other income		
Rental income	**13,167**	13,270
Interest income	**7,856**	4,592
Government subsidies	**9,966**	663
Sale of scrap materials	**442**	466
Rendering of services	**444**	1,081
Others	**2,406**	3,412
	34,281	23,484
Gains		
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	**401**	402
Exchange gain	**8,035**	–
	8,436	402
	42,717	23,886

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2015** **(US$'000)**	2014 (US$'000)
Cost of inventories sold		**448,705**	466,815
Depreciation		**73,879**	71,613
Recognition of prepaid land lease payments		**708**	721
Amortisation of intangible assets		**4,461**	12,154
Research and development costs		**47,512**	30,791
Minimum lease payments under operating leases		**3,408**	3,425
Auditors' remuneration		**498**	770
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other benefits		**140,061**	116,572
Equity-settled share option expense		**1,331**	–
Pension scheme contributions		**11,125**	11,340
		152,517	127,912
Rental income on an investment property, net	*4*	**(13,167)**	(13,270)
Government subsidies		**(9,966)**	(663)
Foreign exchange (gain)/losses, net		**(8,035)**	1,385
Impairment on items of property, plant and equipment		**5,162**	–
(Reversal)/provision for impairment of trade receivables and other receivables		**(154)**	246
Write-down of inventories to net realisable value		**2,410**	3,823
Changes in fair value of an investment property		**(58)**	(1,127)

6. FINANCE COSTS

	2015 **(US$'000)**	2014 (US$'000)
Interest on bank loans	**7,754**	12,136

7. INCOME TAX

Hong Kong profits were subject to profits tax at the rate of 16.5% during the year (2014:16.5%). No provision for Hong Kong profits tax has been made as the Company and a subsidiary incorporated in Hong Kong had no assessable income during the year (2014: Nil).

The Company's subsidiary incorporated in the Cayman Islands is not subject to corporate income tax ("CIT") as it does not have a place of business (other than a registered office) or carry on any business in the Cayman Islands.

All of the Group's subsidiaries registered in the PRC and only having operations in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25%.

Pursuant to the relevant laws and regulations in the PRC and with approval from the tax authorities in charge, one of the Group's subsidiaries, HHGrace, is qualified as an enterprise producing integrated circuits of 0.25 μm in width and thus is entitled to a preferential tax rate of 15% from 2013 to 2017.

The Company's subsidiary incorporated and operating in Japan is subject to corporation tax at a rate of 25.5% (2014: 25.5%).

The Company's subsidiary incorporated and operating in the United States is subject to federal corporation income tax at a rate of 34% during the year (2014: 34%), as well as state tax at 8.84% (2014: 8.84%).

The major components of income tax expense of the Group are as follows:

	2015	2014
	(US$'000)	*(US$'000)*
Current income tax – PRC	**14,965**	20,220
Current income tax – elsewhere	**353**	29
Deferred tax	**(2,615)**	7,473
	12,703	27,722

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2015	2014
	(US$'000)	*(US$'000)*
Profit before tax	**125,252**	120,812
Tax at the statutory tax rate	**31,313**	30,203
Lower tax rates for specific provinces or enacted by local authority	**(12,500)**	(12,177)
Adjustments in respect of current tax of previous periods	**(5)**	(4)
Profits attributable to an associate	**(144)**	(728)
Income not subject to tax	**(160)**	(140)
Expenses not deductible for tax	**495**	697
Tax losses not recognised	**299**	476
Temporary differences not recognised	**127**	–
Adjustments in respect of deferred tax of previous years	**(11,560)**	68
Effect of withholding tax at 5% (2014:10%) on the distributable profits of the Group's PRC subsidiary	**4,838**	9,327
Tax charge at the Group's effective rate	**12,703**	27,722

The share of tax attributable to an associate amounting to US$259,000 for the year (2014: US$811,000) is included in "Share of profits of an associate" in the consolidated statement of profit or loss.

8. DIVIDEND

	2015 *(US$'000)*	2014 *(US$'000)*
Proposed final-HK$27 cents (2014: Nil) per ordinary share	**36,015**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (2014: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,033,871,656 (2014: 853,421,114) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted earnings per share is based on:

	2015 *(US$'000)*	2014 *(US$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent	**112,549**	93,090

	Number of shares	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,033,871,656**	853,421,114
Effect of dilution-weighted average number of ordinary shares:		
Share options	**945,000**	–
	1,034,816,656	853,421,114

10. INVESTMENT IN AN ASSOCIATE

	2015	2014
	(US$'000)	*(US$'000)*
Share of net assets	**40,833**	42,030

Particulars of the material associate are as follows:

Name of company	**Place and date of incorporation/ registration and place of business**	**Paid-in capital** *RMB'000*	**Percentage of equity interest attributable to the Group**	**Principal activities**
Shanghai Huahong Technology Development Co., Ltd. ("Huahong Technology Development")	PRC/Mainland China	548,000	50%	Technology development and investment

The financial statements of this associate were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The Group's voting power held and profit sharing arrangement in relation to Huahong Technology Development are 40% and 50%, respectively.

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's associate:

	2015	2014
	(US$'000)	*(US$'000)*
Current assets	**155,597**	185,530
Non-current assets	**49,675**	19,892
Current liabilities	**(43,096)**	(41,277)
Non-current liabilities	**(80,510)**	(80,085)
Net assets	**81,666**	84,060
Net assets, excluding goodwill	**81,666**	84,060
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's interest in the associate	**50%**	50%
Group's share of net assets of the associate, excluding goodwill	**40,833**	42,030

	2015	2014
	(US$'000)	*(US$'000)*
Revenue	**22,051**	21,305
Profit for the year	**1,922**	9,712
Other comprehensive income	**–**	–
Total comprehensive income	**1,922**	9,712
Dividend received	**–**	(8,186)

11. TRADE AND NOTES RECEIVABLES

	2015	2014
	(US$'000)	*(US$'000)*
Trade receivables	**59,746**	76,638
Notes receivable	**45,630**	32,729
	105,376	109,367
Impairment of trade receivables	**(1,554)**	(1,858)
	103,822	107,509

The Group's trading terms with its customers are mainly on credit and the credit period is generally 30 to 45 days, extending up to 60 days for major customers. There is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables, based on the invoice date and net of provisions, is as follows:

	2015	2014
	(US$'000)	*(US$'000)*
Within 3 months	**55,978**	73,515
3 to 6 months	**1,523**	913
Over 6 months	**691**	352
	58,192	74,780

The movements in provision for impairment of trade receivables are as follows:

	2015	2014
	(US$'000)	*(US$'000)*
At 1 January	**1,858**	1,865
Reversal of impairment	**(210)**	–
Exchange realignment	**(94)**	(7)
As at 31 December	**1,554**	1,858

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of US$1,554,000 as at 31 December 2015 (2014: US$1,858,000), with a carrying amount before provision of US$1,554,000 (2014: US$1,858,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2015	2014
	(US$'000)	*(US$'000)*
Neither past due nor impaired	**53,303**	59,208
Less than 1 month past due	**2,658**	12,596
1 to 3 months past due	**1,590**	2,249
3 to 6 months past due	**113**	657
6 to 12 months past due	**464**	70
Over 1 year past due	**64**	–
	58,192	74,780

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12. TRADE PAYABLES

An aged analysis of the trade payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	2015	2014
	(US$'000)	*(US$'000)*
Within 1 month	**48,588**	34,796
1 to 3 months	**10,833**	21,520
3 to 6 months	**1,154**	1,180
6 to 12 months	**810**	1,013
Over 12 months	**4,895**	5,023
	66,280	63,532

The trade payables are unsecured, non-interest-bearing and are normally settled on 30 to 60 day terms.

13. INTEREST-BEARING BANK BORROWINGS

	31 December 2015			31 December 2014		
	Effective interest rate *(%)*	**Maturity**	***US$'000***	Effective interest rate *(%)*	Maturity	*US$'000*
Current						
Current portion of long term bank loans – secured	**2.05**	**2016**	**42,750**	2.0-6.6	2015	81,690
Non-current						
Secured bank loans	**1.2-2.05**	**2017-2025**	**137,871**	2.0-6.6	2016-2018	183,031
			180,621			264,721

	2015 ***(US$'000)***	2014 *(US$'000)*
Analysed into:		
Bank loans repayable:		
Within one year	**42,750**	81,690
In the second year	**44,752**	62,079
Beyond third year, inclusive	**93,119**	120,952
	180,621	264,721

Included in secured bank loans were long term loans of US$38,961,439 as at 31 December 2015 (2014: long term loans due within one year of US$38,940,000 and long term loans of US$41,371,000), which were denominated in RMB. All other loans were denominated in US$.

As at 31 December 2015 and 2014, the Group's bank loans were secured by the pledges of the Group's assets with carrying values as follows:

	2015 ***(US$'000)***	2014 *(US$'000)*
Property, plant and equipment	**507,224**	458,462
Investment property	**180,542**	191,533
Prepaid land lease payments	**22,798**	24,914
Intangible assets	**6,806**	10,599
	717,370	685,508

In addition to the assets pledged above, the Group's secured bank loans as at 31 December 2015 and 2014 were secured by the Company's 36.23% of equity interest in its subsidiary, HHGrace.

14. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including a non-executive director and other employees of the Group. The Scheme became effective on 4 September 2015 and, unless otherwise cancelled or amended, will remain in force for 7 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of two to four years and ends on a date which is not later than the expiry date of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	**Number of options '000**
At 1 January 2014, 31 December 2014 and 1 January 2015	–	–
Granted during the year	6.912	30,250
Forfeited during the year	6.912	(130)
At 31 December 2015	**6.912**	**30,120**

During the year, 5,823,000 options were granted to directors and key management personnel ("Tranche A") (2014: Nil) and 24,427,000 options were granted to other employees ("Tranche B") (2014: Nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Number of options '000	Exercise price* HK$ per share	Exercise period
9,953	6.912	4 September 2017 to 3 September 2022
10,083	6.912	4 September 2018 to 3 September 2022
10,084	6.912	4 September 2019 to 3 September 2022
30,120		

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair values of the share options granted during the year were US$2,316,000 (US$0.40 each) and US$9,868,000 (US$0.41 each) for Tranche A and Tranche B respectively (2014: Nil), of which the Group recognised a share option expense of US$1,331,000 (2014: Nil) during the year ended 31 December 2015.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Tranche A	**Tranche B**
Expected volatility (%)	49.7	49.7
Risk-free interest rate (%)	1.5	1.5
Annual post-vesting forfeit rate (%)	13	8
Exercise multiple	2.5	2.5
Weighted average share price (US$ per share)	0.89	0.89

The annual post-vesting forfeit rate of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 30,120,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 30,120,000 additional ordinary shares of the Company and additional share capital of US$26,863,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 30,120,000 share options outstanding under the Scheme, which represented approximately 2.9% of the Company's shares in issue as at that date.

15. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2015 ***(US$'000)***	2014 *(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**26,511**	24,176

16. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship with the Group
Huahong Group and its subsidiaries	
– Shanghai Huahong (Group) Co., Ltd. ("Huahong Group")	the holding company of Hua Hong International Inc.,
– Hua Hong International Inc., ("Huahong International")	Shareholder of the Company
– Shanghai Huahong Zealcore Electronics Co., Ltd. ("Huahong Zealcore")	Subsidiary of Huahong Group
– Shanghai Hongri International Electronics Co., Ltd. ("Hongri")	Subsidiary of Huahong Group
– Shanghai Integrated Circuit Research and Development Center ("ICRD")	Subsidiary of Huahong Group
– Shanghai Hua Hong Jitong Smart System Co., Ltd. ("Jitong")	Subsidiary of Huahong Group
NEC Corporation ("NEC")	Shareholder of the Company
– NEC Management Partner, Ltd. ("NEC Management")	Subsidiary of NEC
SAIL and its subsidiaries	
– Sino-Alliance International Ltd. ("SAIL International")	Shareholder of the Company
– Shanghai Huali Microelectronics Co., Ltd. ("Shanghai Huali")	Subsidiary of SAIL
– QST Corporation ("QST")	Subsidiary of SAIL
INESA and its subsidiaries	
– Shanghai INESA Intelligent Electronics Co., Ltd. ("Shanghai INESA")	Subsidiary of INESA
– Shanghai Nanyang Software System Integration Co., Ltd. ("Nanyang Software")	Subsidiary of INESA
– Shanghai Nanyang Wanbang Information Technology Service Co., Ltd. ("Wanbang IT")	Subsidiary of INESA
Shanghai Huahong Technology Development Co., Ltd. ("Huahong Technology Development")	Associate of the Group
Huahong Real Estate	Subsidiary of Huahong Technology Development
Shanghai Huajin Property Management Co., Ltd. ("Huajin")	Subsidiary of Huahong Technology Development
CEC and its subsidiaries	
– China Electronics Corporation ("CEC")	Shareholder of Huahong Group
– CEC Huada Electronic Design Co., Ltd. ("Huada")	Subsidiary of CEC
– Shanghai Huahong Integrated Circuit Co., Ltd. ("Shanghai Huahong IC")	Subsidiary of CEC
– Beijing Huahong IC Design Co., ("Beijing Huahong IC")	Subsidiary of CEC
– Shanghai Belling Co., Ltd. ("Shanghai Belling")	Subsidiary of CEC
– Hylintek Limited ("Hylintek")*	Subsidiary of CEC

* *Agreement with SAIL International whereby Hylintek Limited agreed to sell and SAIL International agreed to purchase 64,010,100 shares of the Company (the "Share Purchase"). Following completion of the Share Purchase, Hylintek ceased to hold any shares in the Company as of 12 May 2015.*

(b) Related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2015	2014
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
Huada	**25,495**	45,761
Shanghai Huahong IC	**10,953**	10,408
Shanghai Belling	**7,951**	5,323
Hongri	**526**	1,021
Huahong Zealcore#	**9,929**	11,303
ICRD	**8,140**	6,204
Beijing Huahong IC	**–**	705
QST#	**911**	408
Shanghai Huali	**–**	7
Purchases of goods from related parties *(note (ii))*		
Hylintek	**5,837**	4,928
Hongri	**4,859**	3,566
Huahong Zealcore#	**495**	448
Jitong	**4**	18
NEC Management#	**726**	559
ICRD	**–**	1
Service fee income from related parties *(note (iii))*		
QST#	**445**	1,059
Service fees charged by related parties *(note (iv))*		
Huahong Real Estate	**2,176**	–
Shanghai INESA#	**357**	25
Nanyang Software#	**25**	214
Wanbang IT#	**–**	39
Huajin#	**201**	205
Rental income from a related party *(note (iii))*		
Shanghai Huali#	**12,793**	13,270
Rental expense charged by a related party *(note (iv))*		
Huahong Real Estate#	**1,622**	1,653
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**26,327**	25,614
Entrusted loans		
Huahong Technology Development – interest	**–**	324

The related party transactions in respect of items denoted with "#" above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Note (i): *The sales of goods to the related parties were made according to the prices and terms agreed between the related parties.*

Note (ii): *The purchases of goods from the related parties were made according to the prices and terms offered by the related parties.*

Note (iii): *The rental income and service fee income from related parties were received according to the prices and terms agreed between the related parties.*

Note (iv): *The rental expense and service fees charged by related parties were paid according to the prices and terms agreed between the related parties.*

Note (v): *The expense paid on behalf of the related party is interest-free and repayable on demand.*

(c) Non-cash related party transaction

In 2014, HHGrace invested RMB10.5 million in QST in the form of intellectual property transfer in accordance with the binding term sheet signed by HHGrace on 18 August 2012. On 18 May 2014, QST and HHGrace signed an agreement regarding certain products and services provided by HHGrace to QST for the period from 1 January 2013 to 31 March 2017, including wafer products and masking, technology development and maintenance services, in exchange for the aforesaid intellectual property.

(d) Other related party transaction

In 2011, HHNEC and Huahong Group entered into a cash pooling arrangement. Under such arrangement, HHNEC and Huahong Group entered into RMB900,000,000 loans with each other. According to the PRC Contract Law, the agreement and the mutual understanding of both parties, the receivables and payables resulting from loans under such cash pooling arrangement can be set off. The net balance at 31 December 2013 was zero. On 9 June 2014, HHNEC and Huahong Group settled the receivables and payables on a net basis and terminated such loans.

(e) Outstanding balances with related parties

	2015 **(US$'000)**	2014 (US$'000)
Amounts due from related parties		
Huada	**7,470**	21,589
Shanghai Huahong IC	**3,171**	4,149
Shanghai Huali	**8,726**	7,056
Huahong Zealcore	**2,724**	5,303
Shanghai Belling	**1,265**	1,411
Hongri	**90**	242
ICRD	**9**	128
Shanghai INESA	**1**	–
Huahong Real Estate	**1,537**	3,295
QST	**289**	5
	25,282	43,178

	2015	2014
	(US$'000)	*(US$'000)*
Amounts due to related parties		
Shanghai Huali	**5,456**	18,688
Shanghai INESA	**19**	–
Hylintek	**960**	1,486
Hongri	**630**	783
Huahong Zealcore	**153**	114
NEC Management	**222**	110
Huahong Real Estate	**246**	1,774
Jitong	**4**	–
Huajin	**8**	–
Shanghai Belling	**–**	1
QST	**519**	891
ICRD	**748**	1,159
	8,965	25,006

Balances with the related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

(f) Compensation of key management personnel of the Group

	2015	2014
	(US$'000)	*(US$'000)*
Short term employee benefits	**2,704**	2,596
Pension scheme contributions	**36**	37
Equity-settled share option expense	**212**	–
Total compensation paid to key management personnel	**2,952**	2,633

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 22 March 2016, the directors proposed a final dividend of HK$27 cents per ordinary share totaling approximately US$36,015,000 for the year ended 31 December 2015, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (note 8).

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed the results of the Group for the year ended 31 December 2015 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement was published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.huahonggrace.com). The annual report for year ended 31 December 2015 containing information required by Appendix 16 of the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers and staff for their continued support to the Group.

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

Hong Kong, PRC, 22 March 2016

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