HUA HONG SEMICONDUCTOR LIMITED
華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1347)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

The Board of Directors ("the Board") of Hua Hong Semiconductor Limited ("the Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2016 ("the period").

Highlights including comparison with the figures of the same period last year are:

- Revenue reached a record high of US$342.1 million, an increase of 1.1% compared to US$338.4 million, primarily due to increased demand for super junction, LED lighting and MOSFET products, partially offset by decreased demand for smart card ICs.
- Gross margin was 30.0%, a decrease of 1.8 percentage points compared to 31.8%.
- Profit before tax was US$72.0 million, an increase of 10.1% compared to US$65.4 million.
- Profit for the period was US$60.8 million, a decrease of 0.8% compared to US$61.3 million.
- Earnings per share was US$0.06.
- Net cash flow from operating activities were US$81.9 million, an increase of US$55.0 million compared to US$26.9 million.
- Capacity was 151,000 wafers per month, compared to 132,000 wafers per month.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	1H 2016	1H 2015	Change
	US$'000	*US$'000*	
	(Unaudited)	(Unaudited)	
Revenue	**342,118**	338,372	1.1%
Cost of sales	**(239,385)**	(230,734)	3.7%
Gross profit	**102,733**	107,638	(4.6)%
Other income and gains	**17,130**	13,857	23.6%
Selling and distribution expenses	**(3,178)**	(3,389)	(6.2)%
Administrative expenses	**(45,640)**	(50,758)	(10.1)%
Other expenses	**(36)**	(9)	300.0%
Finance costs	**(1,983)**	(4,191)	(52.7)%
Share of profit of an associate	**3,003**	2,291	31.1%
Profit before tax	**72,029**	65,439	10.1%
Income tax expense	**(11,214)**	(4,150)	170.2%
Profit for the period	**60,815**	61,289	(0.8)%

Explanation on Items with Fluctuation over 5% in 1H 2016

Other income and gains

Other income and gains were US$17.1 million, an increase of 23.6% compared to 1H 2015, primarily due to increased general subsidies.

Selling and distribution expenses

Selling and distribution expenses were US$3.2 million, a decrease of 6.2% compared to 1H 2015, primarily due to decreased labor cost related to headcount decrease and RMB depreciation against US dollar.

Administrative expenses

Administrative expenses were US$45.6 million, a decrease of 10.1% compared to 1H 2015, primarily due to an impairment provision on tools in 1H 2015 and RMB depreciation against US dollar.

Other expenses

Other expenses were US$36,000, an increase of 300.0% compared to 1H 2015, due to losses arising from the disposal of office equipment.

Finance costs

Finance costs were US$2.0 million, a decrease of 52.7% compared to 1H 2015, primarily due to decreased in bank borrowings and decreased average interest rates for bank borrowings.

Share of profit of an associate

Share of profit of an associate was US$3.0 million, increased by 31.1% compared to 1H 2015, due to increased profit realized by the associate.

Income tax expense

Income tax expense was US$11.2 million, an increase of 170.2% compared to 1H 2015, primarily due to (i) a reversal of dividend withholding tax in 1H 2015, and (ii) increased taxable profit in 1H 2016, partially offset by a preferential dividend withholding tax rate approved in 2H 2015.

Profit for the period

As a result of the cumulative effect of the above factors, profit for the period was $60.8 million, a decrease of 0.8% compared to 1H 2015. Net profit margin was 17.8%, a decrease of 0.3 percentage points compared to 18.1% in 1H 2015.

FINANCIAL STATUS

	30 June 2016 *US$'000* (Unaudited)	31 December 2015 *US$'000* (Audited)	Change
Non-current assets			
Property, plant and equipment	**678,183**	629,180	7.8%
Investment property	**176,795**	180,542	(2.1)%
Investment in an associate	**42,984**	40,833	5.3%
Available-for-sale investments	**212,707**	217,214	(2.1)%
Other non-current assets	**40,603**	46,134	(12.0)%
Total non-current assets	**1,151,272**	1,113,903	3.4%
Current assets			
Inventories	**101,270**	107,081	(5.4)%
Trade and notes receivables	**103,521**	103,822	(0.3)%
Other current assets	**52,239**	34,690	50.6%
Restricted and time deposits	**61,195**	41,796	46.4%
Cash and cash equivalents	**457,909**	510,441	(10.3)%
Total current assets	**776,134**	797,830	(2.7)%
Current liabilities			
Trade payables	**58,442**	66,280	(11.8)%
Other current liabilities	**196,935**	168,896	16.6%
Interest-bearing bank borrowings	**42,750**	42,750	–
Total current liabilities	**298,127**	277,926	7.3%
Net current assets	**478,007**	519,904	(8.1)%
Non-current liabilities			
Interest-bearing bank borrowings	**137,063**	137,871	(0.6)%
Deferred tax liabilities	**6,069**	5,246	15.7%
Total non-current liabilities	**143,132**	143,117	–
Net assets	**1,486,147**	1,490,690	(0.3)%

Explanation on Items with Fluctuation over 5% from 31 December 2015 to 30 June 2016

Property, plant and equipment

Property, plant and equipment increased from US$629.2 million to US$678.2 million, as a result of capacity expansion.

Investment in an associate

Investment in an associate increased from US$40.8 million to US$43.0 million, due to the profit shared from the associate in 1H 2016.

Other non-current assets

Other non-current assets decreased from US$46.1 million to US$40.6 million, primarily due to decreased prepayments for fixed assets and amortization of intangible assets.

Inventories

Inventories decreased from US$107.1 million to US$101.3 million, primarily due to improved inventory turnover.

Other current assets

Other current assets included prepayments, deposits and other receivables, and due from related parties. The total amount of other current assets increased from US$34.7 million to US$52.2 million, primarily due to increased advanced prepayments and increased account receivables from certain of our related parties.

Restricted and time deposits

Restricted and time deposits increased from US$41.8 million to US$61.2 million, due to the increase of US$20.5 million deposits restricted for dividend payment.

Cash and cash equivalents

Cash and cash equivalents decreased from US$510.4 million to US$457.9 million, mainly due to cash used for investment in fixed assets and dividend payment, offset by cash generated from operating activities.

Trade payables

Trade payables decreased from US$66.3 million to US$58.4 million, primarily due to increased payment in 1H 2016.

Other current liabilities

Other current liabilities increased from US$168.9 million to US$196.9 million, primarily due to (i) balance of dividend payables, and (ii) increased payables for capital expenditures, partially offset by payments of income tax for 2015.

Deferred tax liabilities

Deferred tax liabilities increased from US$5.2 million to US$6.1 million, primarily due to accrual of dividend withholding tax in 1H 2016, and offset by tax paid for dividend payment of 2015.

CASH FLOW

	1H 2016	1H 2015	Change
	US$'000	*US$'000*	
	(Unaudited)	(Unaudited)	
Net cash flows generated from operating activities	**81,896**	26,922	204.2%
Net cash flows used in investing activities	**(85,924)**	(314,229)	(72.7)%
Net cash flows used in financing activities	**(37,908)**	(23,832)	59.1%
Net decrease in cash and cash equivalents	**(41,936)**	(311,139)	(86.5)%
Cash and cash equivalents at beginning of the period	**510,441**	646,773	(21.1)%
Effect of foreign exchange rate changes, net	**(10,596)**	(697)	1,420.2%
Cash and cash equivalents at end of the period	**457,909**	334,937	36.7%

Explanation on Items with Fluctuation over 5% in 1H 2016

Net cash flows generated from operating activities

Net cash flows from operating activities increased from US$26.9 million in 1H 2015 to US$81.9 million, primarily due to (i) enhanced account receivables collection, and (ii) amount released from deposit pledged for letters of credit.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$85.9 million, which was primarily attributed to US$94.6 million for investment in fixed assets, offset by the receipts of (i) US$6.8 million of government grants for fixed assets, and (ii) US$1.8 million of interest income.

Net cash flows used in financing activities

Net cash flows used in financing activities were US$37.9 million, including US$35.9 million for dividend payment and US$2.0 million of interest expenses.

Net decrease in cash and cash equivalents

As a result of the cumulative effect of the above factors, cash and cash equivalents decreased from US$510.4 million as of 31 December 2015 to US$457.9 million as of 30 June 2016.

BUSINESS REVIEW

The tremendous momentum from Q1 is continued, the company's revenue has reached a record high in the first half of 2016. Our on-going capacity expansion has got to work. We believe we will benefit from the continually strong demand in bank IC card, MCU and SJNFET, IGBT market.

Our 90nm embedded Flash process platform achieved successful mass production for fabrication of highly competitive chips featuring small die size, low power and high performance. It can deliver a technical solution with excellent performance-price ratio for kinds of smart card, security IC products and MCU.

One of our customers' products, dual-interface chip for bank IC cards fabricated on Hua Hong Semiconductor's 0.13μm SONOS eNVM process platform has obtained an EMVCo security certificate. This result built on the company's proven expertise in eNVM platform to actively expand our footprint in the area of bank IC chips to deliver fabrication process platforms to make greater contribution to the ongoing initiative of China-made-chips for bank IC cards. We expect that locally produced chips will face a bigger momentum of commercial rollout and application in the follow years.

The accumulated shipment of our Super Junction MOSFET (SJNFET) process platform crosses the 140,000th wafers mark, attributable to the strong market demand for SJNFETs which are well-suited for high-efficiency, high-speed power switching applications. Through the collaboration with our customers in design optimization, system solutions and market penetration, the platform has recorded an increasing shipment since its mass production.

Through years of development, Company has accumulated plentiful experience in production of IGBT that delivers technical performance comparable to leading global corporations within the industry. Particularly, Hua Hong Semiconductor is the only foundry in China possessing a complete set of IGBT backside processing technologies, which provides a full spectrum of solutions ranging from low to high voltage for green energy applications, and tailors various power devices according to customers' requirements. Besides, we are accelerating R&D of 6500V ultra-high voltage IGBT technologies for high-end industrial and energy applications. This has not only positioned us as a leader in IGBT manufacturing, but also drived local production progress of IGBT technologies.

Looking forward, we expect more growth opportunities in the foreseeable markets. 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, especially in China.

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 during the six months ended 30 June 2016.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2016.

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. 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 six months ended 30 June 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding dealing in the securities of the Company by the directors. Having made specific enquiries of all directors, the Company has received their written confirmations that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2016.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2016.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's Audit Committee and the Company's auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The auditor's review report will be included in the interim report to be despatched to the shareholders of the Company.

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June 2016 (Unaudited) (US$'000)	2015 (Unaudited) (US$'000)
Revenue	4	**342,118**	338,372
Cost of sales		**(239,385)**	(230,734)
Gross profit		**102,733**	107,638
Other income and gains	4	**17,130**	13,857
Selling and distribution expenses		**(3,178)**	(3,389)
Administrative expenses		**(45,640)**	(50,758)
Other expenses		**(36)**	(9)
Finance costs	6	**(1,983)**	(4,191)
Share of profit of an associate		**3,003**	2,291
PROFIT BEFORE TAX	5	**72,029**	65,439
Income tax expense	7	**(11,214)**	(4,150)
PROFIT FOR THE PERIOD		**60,815**	61,289
Attributable to owners of the parent		**60,815**	61,289
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	8		
Basic			
– For profit for the period		**US$0.06**	US$0.06
Diluted			
– For profit for the period		**US$0.06**	US$0.06

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
PROFIT FOR THE PERIOD	**60,815**	61,289
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(31,420)**	2,192
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(31,420)**	2,192
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(31,420)**	2,192
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**29,395**	63,481
Attributable to owners of the parent	**29,395**	63,481

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	Notes	30 June 2016 (Unaudited) (US$'000)	31 December 2015 (Audited) (US$'000)
NON-CURRENT ASSETS			
Property, plant and equipment		**678,183**	629,180
Investment property		**176,795**	180,542
Prepaid land lease payments		**21,329**	22,120
Intangible assets		**6,987**	8,516
Investment in an associate		**42,984**	40,833
Available-for-sale investments		**212,707**	217,214
Long term prepayment		**6,519**	10,806
Deferred tax assets		**5,768**	4,692
Total non-current assets		**1,151,272**	1,113,903
CURRENT ASSETS			
Inventories		**101,270**	107,081
Trade and notes receivables	*10*	**103,521**	103,822
Prepayments, deposits and other receivables		**11,810**	9,408
Due from related parties	*16(c)*	**40,429**	25,282
Restricted and time deposits	*11*	**61,195**	41,796
Cash and cash equivalents	*11*	**457,909**	510,441
Total current assets		**776,134**	797,830
CURRENT LIABILITIES			
Trade payables	*12*	**58,442**	66,280
Other payables, advances from customers and accruals		**120,446**	84,474
Interest-bearing bank borrowings	*13*	**42,750**	42,750
Government grants		**51,753**	53,881
Due to related parties	*16(c)*	**10,091**	8,965
Income tax payable		**14,645**	21,576
Total current liabilities		**298,127**	277,926
NET CURRENT ASSETS		**478,007**	519,904
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,629,279**	1,633,807

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	Notes	30 June 2016 (Unaudited) (US$'000)	31 December 2015 (Audited) (US$'000)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,629,279**	1,633,807
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*13*	**137,063**	137,871
Deferred tax liabilities		**6,069**	5,246
Total non-current liabilities		**143,132**	143,117
Net assets		**1,486,147**	1,490,690
EQUITY			
Equity attributable to owners of the parent			
Share capital: nominal value		**–**	–
Other statutory capital reserves		**1,550,164**	1,550,164
Share capital and other statutory capital reserves		**1,550,164**	1,550,164
Other reserves		**(64,017)**	(59,474)
Total equity		**1,486,147**	1,490,690

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2016 and the related interim condensed consolidated statement of profit or loss, the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended 30 June 2016, have been prepared in accordance with HKAS 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2015, except for the adoption of new standards, interpretations and amendments effective as of 1 January 2016 below:

The Group has adopted the following revised HKFRSs for the first time in these interim condensed consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no significant financial effect on the Group's interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 period.

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
China (including Hong Kong)	**172,608**	190,458
United States of America	**72,029**	63,408
Asia (excluding China and Japan)	**41,793**	27,988
Europe	**34,507**	29,223
Japan	**21,181**	27,295
	342,118	338,372

Information about major customers

For six months ended 30 June 2016, no single customer accounted for more than 10% of the Group's total revenue (six months ended 30 June 2015: revenue of approximately US$35,833,000 derived from sales to a single customer).

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, 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 an investment property during the period.

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Revenue		
Sale of goods	**342,118**	338,372
Other income		
Rental income	**6,271**	6,623
Interest income	**2,513**	3,896
Government subsidies	**6,318**	635
Rendering of service	**212**	226
Others	**373**	309
	15,687	11,689
Gains		
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	**–**	401
Exchange gain	**1,443**	1,767
	1,443	2,168
	17,130	13,857

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2016 (Unaudited) *(US$'000)*	2015 (Unaudited) *(US$'000)*
Cost of inventories sold	**239,385**	230,734
Depreciation	**37,423**	34,949
Recognition of prepaid land lease payments	**338**	360
Amortisation of intangible assets	**2,639**	2,454
Research and development costs	**22,036**	20,072
Operating lease expenses	**1,349**	1,058
Auditors' remuneration	**237**	378
Employee benefit expense:		
Wages, salaries and other benefits	**62,842**	66,698
Pension scheme contribution	**7,209**	7,794
Equity-settled share option expense	**1,992**	–
	72,043	74,492
Rental income on an investment property, net	**(6,271)**	(6,623)
Government subsidies	**(6,318)**	(635)
Foreign exchange differences, net	**(1,443)**	(1,767)
Impairment on items of property, plant and equipment	**13**	5,161
Provision of impairment of trade receivables and other receivables	**1**	–
(Reversal of write-down)/write-down of inventories to net realisable value	**(2,277)**	5,416

6. FINANCE COSTS

	For the six months ended 30 June 2016 (Unaudited) *(US$'000)*	2015 (Unaudited) *(US$'000)*
Interest on bank loans	**1,983**	4,191

7. INCOME TAX

Hong Kong profits were subject to profits tax at the rate of 16.5% during the period (six months ended 30 June 2015: 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 period (six months ended 30 June 2015: nil).

The Company's subsidiary incorporated in the Cayman Islands is not subject to corporate income tax 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 relevant laws and regulations in the PRC and with approval from the tax authorities in charge, one of the Group's subsidiaries, Shanghai Huahong Grace Semiconductor Manufacturing Corporation ("HHGrace"), is qualified as an enterprise producing integrated circuits less than 0.25 μm in width and thus was entitled to a preferential tax rate of 15% from 2013 to 2017.

7. INCOME TAX (CONTINUED)

The Company's subsidiary incorporated and operating in Japan is subject to a corporation tax rate of 25.5% (six months ended 30 June 2015: 25.5%).

The Company's subsidiary incorporated and operating in the United States is subject to a federal corporation income tax rate of 34% during the period (six months ended 30 June 2015: 34%), as well as state tax at 8.84% (six months ended 30 June 2015: 8.84%).

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Current income tax – PRC	**9,650**	8,602
Current income tax – elsewhere	**(100)**	238
Withholding tax on dividend declared	**2,017**	–
Deferred tax	**(353)**	(4,690)
	11,214	4,150

The share of tax attributable to an associate amounting to US$1,357,000 for the period (six months ended 30 June 2015: US$734,000) is included in "Share of profit of an associate" in the interim condensed consolidated statement of profit or loss.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,033,871,656 in issue during the period (six months ended 30 June 2015: 1,033,871,656).

The calculation of the diluted earnings per share amount is based on the profit for the period 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 period, 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 earnings per share is based on:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**60,815**	61,289

8. EARNINGS PER SHARE (CONTINUED)

	Number of shares For the six months ended 30 June	
	2016	2015
	('000)	*('000)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,033,872**	1,033,872
Effect of dilution-weighted average number of ordinary shares:		
Share options	**1,063**	–
	1,034,935	1,033,872

9. DIVIDEND

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Final – HK$27 cents per ordinary share	**35,930**	–

10. TRADE AND NOTES RECEIVABLES

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Trade receivables	**78,414**	59,746
Notes receivable	**26,634**	45,630
	105,048	105,376
Impairment of trade receivables	**(1,527)**	(1,554)
	103,521	103,822

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:

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Within 3 months	**72,693**	55,978
Over 3 months and within 6 months	**3,804**	1,523
Over 6 months and within 12 months	**390**	691
	76,887	58,192

11. CASH AND CASH EQUIVALENTS AND RESTRICTED AND TIME DEPOSITS

	30 June 2016 (Unaudited) ***(US$'000)***	31 December 2015 (Audited) *(US$'000)*
Cash and bank balances	**215,203**	202,250
Restricted and time deposits	**303,901**	349,987
	519,104	552,237
Restricted and time deposits:		
Pledged deposits for letters of credit	**(666)**	(1,796)
Freezed deposits for payment of dividends	**(20,529)**	–
Time deposits with original maturity of more than three months	**(40,000)**	(40,000)
Cash and bank equivalents	**457,909**	510,441

Pledged deposits with a carrying value of US$666,000 as at 30 June 2016 (31 December 2015: US$1,796,000) were pledged to secure the issuance of letters of credit.

Freezed deposits with a carrying value of US$20,529,000 as at 30 June 2016 (31 December 2015: nil) were freezed to secure the payment of dividends to shareholders.

Time deposits with original maturity of more than three months with a carrying value of US$40,000,000 as at 30 June 2016 (31 December 2015: US$40,000,000) will mature within six months.

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:

	30 June 2016 (Unaudited) ***(US$'000)***	31 December 2015 (Audited) *(US$'000)*
Within 1 month	**37,554**	48,588
Over 1 months and within 3 months	**12,556**	10,833
Over 3 months and within 6 months	**1,385**	1,154
Over 6 months and with 12 months	**2,274**	810
Over 12 months	**4,673**	4,895
	58,442	66,280

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

13. INTEREST-BEARING BANK BORROWINGS

	30 June 2016			31 December 2015		
	Effective interest rate (%)	**Maturity**	***US$'000*** **(Unaudited)**	Effective interest rate (%)	Maturity	*US$'000* (Audited)
Current						
Current portion of long term bank loans – secured	**2.05**	**2016**	**42,750**	2.05	2016	42,750
Non-current						
Secured bank loans	**1.2-2.05**	**2017-2025**	**137,063**	1.2-2.05	2017-2025	137,871
			179,813			180,621

	30 June 2016 (Unaudited) *(US$'000)*	31 December 2015 (Audited) *(US$'000)*
Analysed into:		
Bank loans repayable:		
Within one year	**42,750**	42,750
In the second year	**46,972**	44,752
Beyond third year, inclusive	**90,091**	93,119
	179,813	180,621

As at 30 June 2016 and 31 December 2015, the Group's bank loans were secured by the pledges of the Group's assets with carrying values as follows:

	30 June 2016 (Unaudited) *(US$'000)*	31 December 2015 (Audited) *(US$'000)*
Property, plant and equipment	**488,613**	507,224
Investment property	**176,795**	180,542
Prepaid land lease payments	**21,993**	22,798
Intangible assets	**5,494**	6,806
	692,895	717,370

In addition to the assets pledged above, the Group's secured bank loans as at 30 June 2016 and 31 December 2015 were secured by the Company's 36.23% of equity interest in its subsidiary, HHGrace.

14. COMMITMENTS

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

	30 June 2016 (Unaudited) *(US$'000)*	31 December 2015 (Audited) *(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**45,218**	26,511

15. 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.

15. SHARE OPTION SCHEME (CONTINUED)

The scheme includes options granted to directors and key management personnel ("Tranche A") and options granted to other employees ("Tranche B"). The following share options were outstanding under the Scheme during the period:

	Tranche A		Tranche B	
	Weighted average exercise price *HK$ per share*	**Number of options** *'000*	**Weighted average exercise price** *HK$ per share*	**Number of options** *'000*
At 1 January 2016	6.912	5,823	6.912	24,297
Forfeited during the period	6.912	–	6.912	(944)
At 30 June 2016	6.912	5,823	6.912	23,353

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**
9,009	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
29,176		

* *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.*

At the end of the reporting period, the Company had 29,176,000 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 29,176,000 additional ordinary shares of the Company and additional share capital of US$25,993,000 (before issue expenses).

At the date of approval of the interim condensed consolidated financial statements, the Company had 29,176,000 share options outstanding under the Scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

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 Huahong International
– 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")	Shareholder of the Company
– Shanghai Huali Microelectronics Co., Ltd. ("Shanghai Huali")	Subsidiary of SAIL
– QST Corporation ("QST")	Subsidiary of SAIL
INESA and its subsidiaries	
– INESA (Group) Co., Ltd. ("INESA")	Shareholder of Huahong Group
– 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 Co., Ltd. ("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., Ltd. ("Beijing Huahong IC")	Subsidiary of CEC
– Shanghai Belling Co., Ltd. ("Shanghai Belling")	Subsidiary of CEC
– Hylintek Limited ("Hylintek")	Subsidiary of CEC

16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(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 period:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
Huada	**10,343**	14,358
Shanghai Huahong IC	**5,428**	7,304
Huahong Zealcore	**4,292**	4,603
Shanghai Belling	**3,634**	4,511
ICRD	**2,820**	3,718
QST	**492**	85
Hongri	**212**	306
Purchases of goods from related parties *(note (ii))*		
Hylintek	**3,922**	3,246
Hongri	**2,788**	2,846
NEC Management	**327**	302
Huahong Zealcore	**205**	234
Jitong	**–**	3
Service fees income from related parties *(note (iii))*		
QST	**212**	226
Service fee charged by related parties *(note (iv))*		
Nanyang Software	**176**	2
Huajin	**96**	102
Shanghai INESA	**57**	101
Huahong Real Estate	**53**	1,927
Rental income from a related party *(note (iii))*		
Shanghai Huali	**6,082**	6,435
Rental expense charged by a related party *(note (iv))*		
Huahong Real Estate	**773**	818
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**12,254**	12,843

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.*

16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Outstanding balances with related parties

	30 June 2016 (Unaudited) *(US$'000)*	31 December 2015 (Audited) *(US$'000)*
Amounts due from related parties		
Shanghai Huali	**16,771**	8,726
Huada	**14,106**	7,470
Shanghai Huahong IC	**4,595**	3,171
Huahong Zealcore	**2,468**	2,724
Shanghai Belling	**1,198**	1,265
Huahong Real Estate	**740**	1,537
ICRD	**263**	9
QST	**239**	289
Hongri	**48**	90
Shanghai INESA	**1**	1
	40,429	25,282
Amounts due to related parties		
Shanghai Huali	**5,133**	5,456
Hylintek	**1,501**	960
ICRD	**1,647**	748
Hongri	**938**	630
QST	**324**	519
Nanyang Software	**175**	–
NEC Management	**145**	222
Huahong Zealcore	**92**	153
Huada	**46**	–
Huahong Real Estate	**37**	246
Shanghai INESA	**32**	19
Huajin	**15**	8
Jitong	**6**	4
	10,091	8,965

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

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2016 (Unaudited) *(US$'000)*	2015 (Unaudited) *(US$'000)*
Short term employee benefits	**1,048**	1,219
Pension scheme contributions	**22**	25
Equity-settled share option expense	**306**	–
Total compensation paid to key management personnel	**1,376**	1,244

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2016.

AUDIT COMMITTEE

The Audit Committee, comprising one non-executive director and two independent non-executive directors of the Company, has reviewed and approved the unaudited results of the Group for the six months ended 30 June 2016 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters.

PUBLICATION OF UNAUDITED INTERIM RESULTS AND INTERIM REPORT 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 interim report for the six months ended 30 June 2016 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.

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

Hong Kong, PRC, 2 August 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