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 2017

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 2017 ("the period").

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

- Revenue was an all-time high of US$381.3 million, an increase of 11.5% compared to US$342.1 million, primarily due to increased demand for smart card IC, MCU, super junction, analog and IGBT products.
- Gross margin was 31.5%, an increase of 1.5 percentage points compared to 30.0%.
- Profit before tax was US$74.9 million, an increase of 4.0% compared to US$72.0 million.
- Profit for the period was US$68.4 million, an increase of 12.5% compared to US$60.8 million.
- Earnings per share was US$0.07.
- Net cash flow from operating activities were US$94.6 million, an increase of 15.5% compared to US$81.9 million.
- Capacity was 159,000 wafers per month, compared to 151,000 wafers per month.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	1H 2017	1H 2016	Change
	US$'000	*US$'000*	
	(Unaudited)	(Unaudited)	
Revenue	**381,304**	342,118	11.5 %
Cost of sales	**(261,202)**	(239,385)	9.1 %
Gross profit	**120,102**	102,733	16.9 %
Other income and gains	**10,321**	17,130	(39.7)%
Selling and distribution expenses	**(3,253)**	(3,178)	2.4 %
Administrative expenses	**(46,543)**	(45,640)	2.0 %
Other expenses	**(4,554)**	(36)	12,550.0 %
Finance costs	**(1,049)**	(1,983)	(47.1)%
Share of (loss)/profits of an associate	**(141)**	3,003	(104.7)%
Profit before tax	**74,883**	72,029	4.0 %
Income tax expense	**(6,464)**	(11,214)	(42.4)%
Profit for the period	**68,419**	60,815	12.5 %

Explanation on items with fluctuation over 5%

Revenue

Revenue reached an all-time high of US$381.3 million, an increase of 11.5% compared to 1H 2016, primarily due to strong demand for smart card IC, MCU, super junction, analog and IGBT products.

Cost of sales

Cost of sales was US$261.2 million, an increase of 9.1% compared to 1H 2016, primarily due to increased wafer shipments.

Gross profit

Gross profit was US$120.1 million, an increase of 16.9% compared to 1H 2016, primarily due to increased revenue and improved product mix.

Other income and gains

Other income and gains were US$10.3 million, a decrease of 39.7% compared to 1H 2016, primarily due to (i) lower general subsidies and (ii) nil foreign exchange gains.

Other expenses

Other expenses were US$4.6 million, mainly due to foreign exchange loss.

Finance costs

Finance costs were US$1.0 million, a decrease of 47.1% compared to 1H 2016, primarily due to decreased bank borrowings.

Share of (loss)/profits of an associate

Share of loss of an associate was US$0.1 million, compared to profit of US$3.0 million in 1H 2016, due to loss realized by the associate.

Income tax expense

Income tax expense was US$6.5 million, a decrease of 42.4% compared to 1H 2016, primarily due to a reversal of dividend withholding tax accrued for prior years, partially offset by increased income tax expense.

Profit for the period

As a result of the cumulative effect of the above factors, profit for the period was $68.4 million, an increase of 12.5% compared to 1H 2016. Net profit margin was 17.9%, an increase of 0.1 percentage point compared to 17.8% in 1H 2016.

FINANCIAL STATUS

	30 June 2017 *US$'000* **(Unaudited)**	31 December 2016 *US$'000* (Audited)	Change
Non-current assets			
Property, plant and equipment	**714,933**	656,517	8.9 %
Investment property	**173,132**	169,074	2.4 %
Investment in an associate	**46,059**	45,121	2.1 %
Available-for-sale investments	**208,210**	203,330	2.4 %
Other non-current assets	**41,041**	37,828	8.5 %
Total non-current assets	**1,183,375**	1,111,870	6.4 %
Current assets			
Inventories	**100,875**	95,199	6.0 %
Trade and notes receivables	**107,565**	106,078	1.4 %
Other current assets	**64,849**	46,715	38.8 %
Restricted and time deposits	**202,834**	125,547	61.6 %
Cash and cash equivalents	**241,437**	341,255	(29.3)%
Total current assets	**717,560**	714,794	0.4 %
Current liabilities			
Trade payables	**60,999**	64,790	(5.9)%
Other current liabilities	**187,836**	171,281	9.7 %
Interest-bearing bank borrowings	**4,133**	1,874	120.5 %
Total current liabilities	**252,968**	237,945	6.3 %
Net current assets	**464,592**	476,849	(2.6)%
Non-current liabilities			
Interest-bearing bank borrowings	**89,373**	90,757	(1.5)%
Deferred tax liabilities	**3,331**	9,276	(64.1)%
Total non-current liabilities	**92,704**	100,033	(7.3)%
Net assets	**1,555,263**	1,488,686	4.5 %

Explanation on items with fluctuation over 5%

Property, plant and equipment

Property, plant and equipment increased from US$656.5 million to US$714.9 million, as a result of capacity expansion.

Other non-current assets

Other non-current assets increased from US$37.8 million to US$41.0 million, primarily due to increased prepayments for fixed assets and increased deferred tax assets.

Inventories

Inventories increased from US$95.2 million to US$100.9 million, primarily due to increased wafer demand from customers.

Other current assets

Other current assets increased from US$46.7 million to US$64.8 million, primarily due to increased trade receivables from our related parties resulting from higher revenue.

Restricted and time deposits

Restricted and time deposits increased from US$125.5 million to US$202.8 million, primarily due to increased investment in time deposits.

Cash and cash equivalents

Cash and cash equivalents decreased from US$341.3 million to US$241.4 million, mainly due to (i) capital investments of US$84.3 million, (ii) investments of US$77.5 million for time deposits, (iii) dividend payment of US$39.7 million, and (iv) interest payments of US$1.0 million, offset by (i) US$94.6 million generated from operating activities, and (ii) US$2.8 million of interest income. Additionally, there was a foreign exchange gain of US$5.3 million due to RMB appreciation.

Trade payables

Trade payables decreased from US$64.8 million to US$61.0 million, primarily due to increased payments.

Other current liabilities

Other current liabilities increased from US$171.3 million to US$187.8 million, primarily due to increased payables for capital expenditures.

Interest-bearing bank borrowings (current)

Interest-bearing bank borrowings (current) increased from US$1.9 million to US$4.1 million, due to increased borrowings due within one year.

Deferred tax liabilities

Deferred tax liabilities decreased from US$9.3 million to US$3.3 million, primarily due to a reversal of dividend withholding tax accrued for prior year.

CASH FLOW

	1H 2017 *US$'000* **(Unaudited)**	1H2016 *US$'000* (Unaudited)	Change
Net cash flows generated from operating activities	**94,624**	81,896	15.5 %
Net cash flows used in investing activities	**(158,981)**	(85,924)	85.0 %
Net cash flows used in financing activities	**(40,748)**	(37,908)	7.5 %
Net decrease in cash and cash equivalents	**(105,105)**	(41,936)	150.6 %
Cash and cash equivalents at beginning of the period	**341,255**	510,441	(33.1)%
Effect of foreign exchange rate changes, net	**5,287**	(10,596)	(149.9)%
Cash and cash equivalents at end of the period	**241,437**	457,909	(47.3)%

Explanation on items with fluctuation over 5%

Net cash flows generated from operating activities

Net cash flows generated from operating activities increased from US$81.9 million to US$94.6 million, primarily due to (i) enhanced account receivables collection, and (ii) a receipt of advanced rental payment from one of our related parties.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$159.0 million, primarily attributed to (i) US$84.3 million for capital investments, and (ii) US$77.5 million for time deposits, offset by receipts of US$2.8 million of interest income.

Net cash flows used in financing activities

Net cash flows used in financing activities were US$40.7 million, including (i) US$39.7 million for dividend payment, and (ii) interest payments of US$1.0 million.

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$341.3 million as of 31 December 2016 to US$241.4 million as of 30 June 2017.

BUSINESS REVIEW

In the first half of 2017, the company reached historically high semi-annual revenue generated by the company's successful execution of its strategy of differentiated, value-added technologies. The growth was predominantly from increased demand for our embedded NVM and power discrete products. In particular, the company enhances and tailors its embedded NVM know-how towards high performance, reliability and competitive cost.

Due to the vigorous promotion of migration to Europay, Mastercard and Visa (EMV)globally, and the relevant PBOC 3.0 promoted by People's Bank of China in Mainland China, the demand for bank card integrated circuits continues to be very strong. More gain in market share is expected from the domestic local supply chain. With the successful migration to our 90nm embedded NVM technology, we continue to maintain muscle in smart card field. Further, the burgeoning IoT market with its billions of connected devices requires guaranteed security, leading to the new applications driving the growth of eNVM revenue for the company.

The demand of power discrete technologies continues to be very strong, especially for high voltage technologies like as DT (Deep Trench)-SJNFET and IGBT. As the first foundry in the industry delivering the SJNFET process platform, the company unremittingly pursues high performance while providing cost-effective solutions.

Regarding the key feature, on-resistance per unit of area (Rsp), our third generation SJNFET process platform reached world-class performance of 1.2ohm.mm2. Meanwhile, the company is the only foundry in Mainland China with a full range of wafer backside processing technologies, delivering FS IGBT with technical features comparable to those from international leaders.

In summary, differentiated technologies with optimization of product mix has been and will continue to be the key strategy of the company. With expanded capacity, the company will remain the most trusted foundry partner for both domestic and overseas customers.

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 2017.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2017.

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 2017.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Code"). 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 Code throughout the six months ended 30 June 2017.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2017.

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 2017

	Notes	**FOR THE SIX MONTHS ENDED 30 JUNE** **2017** **(Unaudited)** ***(US$'000)***	2016 (Unaudited) *(US$'000)*
Revenue	*4*	**381,304**	342,118
Cost of sales		**(261,202)**	(239,385)
Gross profit		**120,102**	102,733
Other income and gains	*4*	**10,321**	17,130
Selling and distribution expenses		**(3,253)**	(3,178)
Administrative expenses		**(46,543)**	(45,640)
Other expenses		**(4,554)**	(36)
Finance costs	*6*	**(1,049)**	(1,983)
Share of (loss)/profit of an associate		**(141)**	3,003
PROFIT BEFORE TAX	*5*	**74,883**	72,029
Income tax expense	*7*	**(6,464)**	(11,214)
PROFIT FOR THE PERIOD		**68,419**	60,815
Attributable to owners of the parent		**68,419**	60,815
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	*8*		
Basic			
– For profit for the period		**US$0.07**	US$0.06
Diluted			
– For profit for the period		**US$0.07**	US$0.06

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
PROFIT FOR THE PERIOD	**68,419**	60,815
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**36,159**	(31,420)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**36,159**	(31,420)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**36,159**	(31,420)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**104,578**	29,395
Attributable to owners of the parent	**104,578**	29,395

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2017

	Notes	**30 June 2017 (Unaudited) *(US$'000)***	31 December 2016 (Audited) *(US$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		**714,933**	656,517
Investment property		**173,132**	169,074
Prepaid land lease payments		**20,228**	20,071
Intangible assets		**8,282**	8,176
Investment in an associate		**46,059**	45,121
Available-for-sale investments		**208,210**	203,330
Long term prepayment		**5,434**	3,861
Deferred tax assets		**7,097**	5,720
Total non-current assets		**1,183,375**	1,111,870
CURRENT ASSETS			
Inventories		**100,875**	95,199
Trade and notes receivables	*10*	**107,565**	106,078
Prepayments, deposits and other receivables		**11,836**	8,963
Due from related parties	*16(c)*	**53,013**	37,752
Restricted and time deposits	*11*	**202,834**	125,547
Cash and cash equivalents	*11*	**241,437**	341,255
Total current assets		**717,560**	714,794
CURRENT LIABILITIES			
Trade payables	*12*	**60,999**	64,790
Other payables, advances from customers and accruals		**116,474**	101,507
Interest-bearing bank borrowings	*13*	**4,133**	1,874
Government grants		**38,880**	35,863
Due to related parties	*16(c)*	**16,223**	9,689
Income tax payable		**16,259**	24,222
Total current liabilities		**252,968**	237,945
NET CURRENT ASSETS		**464,592**	476,849
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,647,967**	1,588,719

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	Notes	**30 June 2017 (Unaudited) *(US$'000)***	31 December 2016 (Audited) *(US$'000)*
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,647,967**	1,588,719
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*13*	**89,373**	90,757
Deferred tax liabilities		**3,331**	9,276
Total non-current liabilities		**92,704**	100,033
Net assets		**1,555,263**	1,488,686
EQUITY			
Equity attributable to owners of the parent			
Share capital		**1,550,164**	1,550,164
Other reserves		**5,099**	(61,478)
Total equity		**1,555,263**	1,488,686

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 2017 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 2017, 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 2016.

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 2016, except for the adoption of new standards, interpretations and amendments effective as of 1 January 2017 below:

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

Amendments to HKAS 7	*Statement of Cash Flows: Disclosure Initiative*
Amendments to HKAS 12	*Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses*
Annual Improvements *2012-2014 Cycle*	*Amendments to HKFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in HKFRS 12*

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	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
China (including Hong Kong)	**207,759**	172,608
United States of America	**62,336**	72,029
Asia (excluding China and Japan)	**47,326**	41,793
Europe	**34,638**	34,507
Japan	**29,245**	21,181
	381,304	342,118

Information about major customers

For six months ended 30 June 2017, no single customer accounted for more than 10% of the Group's total revenue (six months ended 30 June 2016: nil).

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period.

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Revenue		
Sale of goods	**381,304**	342,118
Other income		
Rental income	**6,348**	6,271
Interest income	**2,978**	2,513
Government subsidies	**594**	6,318
Rendering of service	**109**	212
Others	**292**	373
	10,321	15,687
Gains		
Exchange gain	**–**	1,443
	10,321	17,130

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Cost of inventories sold	**261,202**	239,385
Depreciation	**46,637**	37,423
Recognition of prepaid land lease payments	**320**	338
Amortisation of intangible assets	**1,737**	2,639
Research and development costs	**22,809**	22,036
Operating lease expenses	**1,607**	1,349
Auditors' remuneration	**226**	237
Employee benefit expense:		
Wages, salaries and other benefits	**65,226**	62,842
Pension scheme contribution	**7,855**	7,209
Equity-settled share option expense	**1,805**	1,992
	74,886	72,043
Rental income on an investment property, net	**(6,348)**	(6,271)
Government subsidies	**(594)**	(6,318)
Foreign exchange differences, net	**4,042**	(1,443)
Impairment on items of property, plant and equipment	**–**	13
Provision of impairment of trade receivables and other receivables	**–**	1
Write-down/(reversal) of inventories to net realisable value	**418**	(2,277)

6. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Interest on bank loans	**1,049**	1,983

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 2016: 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 2016: 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 2016: 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 2016: 34%), as well as state tax at 8.84% (six months ended 30 June 2016: 8.84%).

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Current income tax – PRC	**11,142**	9,650
Current income tax – elsewhere	**241**	(100)
Withholding tax on dividend declared	**2,260**	2,017
Deferred tax	**(7,179)**	(353)
	6,464	11,214

During the period, the directors of a subsidiary established in Mainland China approved that any undistributed profits of the subsidiary generated in 2015 and 2016 will not be paid as dividends to the Company. Accordingly, the Group reversed withholding taxes on dividends distributable by the subsidiary established in Mainland China of US$6,580,000.

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 2016: 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	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**68,419**	60,815

	Number of shares	
	For the six months ended 30 June	
	2017	2016
	('000)	*('000)*
<u>Shares</u>		
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	**8,789**	1,063
	1,042,661	1,034,935

9. DIVIDEND

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Final – HK$30 cents per ordinary share (2016: HK$27 cents)	**39,806**	35,930

During the period, the Company's shareholders approved 2016 proposed final dividend with a total amount of HK$310,161,497 (HK$30 cents per ordinary share). The total 2016 final dividend amount presented in US$ is slightly different from the proposed one disclosed in the Group's annual financial statements for the year ended 31 December 2016 due to the different rates of exchange were used in the translation.

10. TRADE AND NOTES RECEIVABLES

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Trade receivables	**79,935**	83,173
Notes receivable	**29,128**	24,372
	109,063	107,545
Impairment of trade receivables	**(1,498)**	(1,467)
	107,565	106,078

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 2017	31 December 2016
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Within 3 months	**78,399**	80,165
Over 3 months and within 6 months	**1**	213
Over 6 months and within 12 months	**37**	1,328
	78,437	81,706

11. CASH AND CASH EQUIVALENTS AND RESTRICTED AND TIME DEPOSITS

	30 June 2017 (Unaudited) ***(US$'000)***	31 December 2016 (Audited) *(US$'000)*
Cash and bank balances	**194,592**	178,080
Restricted and time deposits	**249,679**	288,722
	444,271	466,802
Restricted and time deposits:		
Pledged deposits for letters of credit	**(338)**	(539)
Other pledged deposits for payment of dividends	**(33)**	(8)
Time deposits with original maturity of more than three months	**(202,463)**	(125,000)
Cash and bank equivalents	**241,437**	341,255

Pledged deposits with a carrying value of US$338,000 as at 30 June 2017 (31 December 2016: US$539,000) were pledged to secure the issuance of letters of credit.

Other pledged deposits with a carrying value of US$33,000 as at 30 June 2017 (31 December 2016: US$8,000) were pledged to secure the payment of dividends to shareholders.

Time deposits with original maturity of more than three months with a carrying value of US$202,463,000 as at 30 June 2017 (31 December 2016: US$125,000,000) 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 2017 (Unaudited) ***(US$'000)***	31 December 2016 (Audited) *(US$'000)*
Within 1 month	**36,359**	38,999
Over 1 months and within 3 months	**11,416**	13,284
Over 3 months and within 6 months	**4,644**	4,093
Over 6 months and with 12 months	**814**	506
Over 12 months	**7,766**	7,908
	60,999	64,790

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

13. INTEREST-BEARING BANK BORROWINGS

	30 June 2017			31 December 2016		
	Effective interest rate (%)	**Maturity**	***US$'000*** **(Unaudited)**	Effective interest rate (%)	Maturity	*US$'000* (Audited)
Current						
Current portion of long term bank loans – secured	**1.20**	**2017-2018**	**4,133**	1.20	2017	1,874
Non-current						
Secured bank loans	**1.20-2.79**	**2018-2025**	**89,373**	1.20-2.79	2018-2025	90,757
			93,506			92,631

	30 June 2017 (Unaudited) ***(US$'000)***	31 December 2016 (Audited) *(US$'000)*
Analysed into:		
Bank loans repayable:		
Within one year	**4,133**	1,874
In the second year	**60,588**	60,485
Beyond third year, inclusive	**28,785**	30,272
	93,506	92,631

As at 30 June 2017 and 31 December 2016, the Group's bank loans were secured by the pledges of the Group's assets with carrying values as follows:

	30 June 2017 (Unaudited) ***(US$'000)***	31 December 2016 (Audited) *(US$'000)*
Property, plant and equipment	**598,340**	557,772
Investment property	**173,132**	169,074
Prepaid land lease payments	**20,878**	20,703
Intangible assets	**6,228**	6,757
	798,578	754,306

In addition to the assets pledged above, the Group's secured bank loans as at 30 June 2017 and 31 December 2016 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 2017 **(Unaudited)** ***(US$'000)***	31 December 2016 (Audited) *(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**44,256**	44,693

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	**Number of options**	**Weighted average exercise price**	**Number of options**
	HK$ per share	*'000*	*HK$ per share*	*'000*
At 1 January 2017	6.912	5,823	6.912	22,839
Forfeited during the period	6.912	–	6.912	(532)
At 30 June 2017	6.912	5,823	6.912	22,307

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

30 June 2017

Number of options	**Exercise price***	**Exercise period**
'000	***HK$ per share***	
9,376	**6.912**	**4 September 2017 to 3 September 2022**
9,377	**6.912**	**4 September 2018 to 3 September 2022**
9,377	**6.912**	**4 September 2019 to 3 September 2022**
28,130		

31 December 2016

Number of options	Exercise price*	Exercise period
'000	*HK$ per share*	
9,554	6.912	4 September 2017 to 3 September 2022
9,554	6.912	4 September 2018 to 3 September 2022
9,554	6.912	4 September 2019 to 3 September 2022
28,662		

* 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 28,130,000 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 28,130,000 additional ordinary shares of the Company and additional share capital of US$24,910,000 (before issue expenses).

At the date of approval of the interim condensed consolidated financial statements, the Company had 28,130,000 share options outstanding under the Scheme, which represented approximately 2.7% 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")	Holding company of Hua Hong 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 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 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
– 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	
	2017	2016
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
Huada	**23,075**	10,343
Shanghai Huahong IC	**7,477**	5,428
ICRD	**4,844**	2,820
Huahong Zealcore	**2,967**	4,292
Shanghai Belling	**2,226**	3,634
QST	**1,616**	492
Hongri	**35**	212
Purchases of goods from related parties *(note (ii))*		
Hylintek	**6,299**	3,922
Hongri	**2,856**	2,788
Huahong Zealcore	**354**	205
NEC Management	**243**	327
Service fees income from related parties *(note (iii))*		
QST	**109**	212
Service fee charged by related parties *(note (iv))*		
Shanghai INESA	**133**	57
Huajin	**109**	96
Nanyang Software	**105**	176
Huahong Real Estate	**49**	53
Rental income from a related party *(note (iii))*		
Shanghai Huali	**6,176**	6,082
Rental expense charged by a related party *(note (iv))*		
Huahong Real Estate	**809**	773
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**12,528**	12,254

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 2017 (Unaudited) *(US$'000)*	31 December 2016 (Audited) *(US$'000)*
Amounts due from related parties		
Huada	**26,722**	16,107
Shanghai Huali	**14,337**	13,735
Shanghai Huahong IC	**7,543**	4,430
QST	**1,283**	482
Huahong Zealcore	**1,033**	1,820
Shanghai Belling	**996**	1,099
Huahong Real Estate	**900**	4
ICRD	**177**	33
Jitong	**22**	–
Hongri	**–**	41
Shanghai INESA	**–**	1
	53,013	37,752

	30 June 2017 (Unaudited) *(US$'000)*	31 December 2016 (Audited) *(US$'000)*
Amounts due to related parties		
Shanghai Huali	**11,036**	4,773
Hylintek	**2,118**	2,239
ICRD	**1,303**	1,315
Hongri	**1,054**	904
Huahong Zealcore	**234**	106
QST	**190**	106
NEC management	**118**	108
Shanghai INESA	**81**	18
Nanyang Software	**32**	–
Huahong Real Estate	**28**	90
Huajin	**19**	20
Jitong	**10**	10
	16,223	9,689

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	
	2017 (Unaudited) *(US$'000)*	2016 (Unaudited) *(US$'000)*
Short term employee benefits	**1,186**	1,048
Pension scheme contributions	**27**	22
Equity-settled share option expense	**298**	306
Total compensation paid to key management personnel	**1,511**	1,376

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2017.

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 2017 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 2017 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

Shanghai, PRC, 8 August, 2017

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
KwaiHuen Wong, JP
Long Fei Ye