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 2018

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 2018 ("the period").

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

- Revenue was a record high of US$440.0 million, an increase of 15.4% compared to US$381.3 million, primarily due to increased average selling price and strong demand for MCU, super junction, smart card IC, IGBT and other PMIC products.
- Gross margin was 32.9%, an increase of 1.4 percentage points compared to 31.5%.
- Profit before tax was US$99.2 million, an increase of 32.5% compared to US$74.9 million.
- Profit for the period attributable to owners of the Group was US$85.9 million, an increase of 25.5% compared to US$68.4 million.
- Earnings per share was US$0.08, an increase of US$0.01 compared to US$0.07.
- Net cash flow from operating activities were US$109.5 million, an increase of 15.7% compared to US$94.6 million.
- Capacity was 172,000 wafers per month, compared to 159,000 wafers per month.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	1H 2018	1H 2017	Change
	US$'000	*US$'000*	
	(Unaudited)	(Unaudited)	
Revenue	**439,961**	381,304	15.4 %
Cost of sales	**(295,330)**	(261,202)	13.1 %
Gross profit	**144,631**	120,102	20.4 %
Other income and gains	**17,064**	10,321	65.3 %
Selling and distribution expenses	**(3,712)**	(3,253)	14.1 %
Administrative expenses	**(55,765)**	(46,543)	19.8 %
Other expenses	**(6,884)**	(4,554)	51.2 %
Finance costs	**(1,284)**	(1,049)	22.4 %
Share of profits/(loss) of an associate	**5,161**	(141)	(3,760.3)%
Profit before tax	**99,211**	74,883	32.5 %
Income tax expense	**(13,083)**	(6,464)	102.4 %
Profit for the period	**86,128**	68,419	25.9 %
Attributable to:			
Owners of the parent	**85,888**	68,419	25.5 %
Non-controlling interests	**240**	–	–

Explanation on Items with Fluctuation over 5%

Revenue

Revenue reached another all-time high of US$440.0 million, an increase of 15.4% compared to 1H 2017, primarily due to increased average selling price and strong demand for MCU, super junction, smart card IC, IGBT and other PMIC products.

Cost of sales

Cost of sales was US$295.3 million, an increase of 13.1% compared to 1H 2017, primarily due to increased wafer shipments and increased depreciation.

Gross profit

Gross profit was US$144.6 million, an increase of 20.4% compared to 1H 2017, primarily due to increased average selling price, wafer shipments and higher utilization.

Other income and gains

Other income and gains were US$17.1 million, an increase of 65.3% compared to 1H 2017, primarily due to increased general subsidies, interest income and fair value gains on financial assets at fair value through profit or loss.

Selling and distribution expenses

Selling and distribution expenses were US$3.7 million, an increase of 14.1% compared to 1H 2017, primarily due to increased labor expenses.

Administrative expenses

Administrative expenses were US$55.8 million, an increase of 19.8% compared to 1H 2017, primarily due to an impairment provision, increased labor expenses and professional services expenses.

Other expenses

Other expenses were US$6.9 million, an increase of 51.2% compared to 1H 2017, mainly due to increased foreign exchange loss.

Finance costs

Finance costs were US$1.3 million, an increase of 22.4% compared to 1H 2017, primarily due to increased interest rate.

Share of profits/(loss) of an associate

Share of profit of an associate was US$5.2 million, compared to loss of US$0.1 million in 1H 2017, due to profit realized by the associate.

Income tax expense

Income tax expense was US$13.1 million, an increase of 102.4% compared to 1H 2017, primarily due to increased taxable profit.

Profit for the period

As a result of the cumulative effect of the above factors, profit for the period was $86.1 million, an increase of 25.9% compared to 1H 2017. Net profit margin was 19.6%, an increase of 1.7 percentage points compared to 17.9% in 1H 2017.

FINANCIAL STATUS

	30 June 2018 *US$'000* **(Unaudited)**	31 December 2017 *US$'000* (Audited)	Change
Non-current assets			
Property, plant and equipment	**727,636**	733,462	(0.8)%
Investment property	**177,349**	179,586	(1.2)%
Investment in an associate	**61,928**	57,577	7.6 %
Available-for-sale investment	**–**	215,864	(100.0)%
Equity instruments at fair value through other comprehensive income	**216,177**	–	100.0 %
Other non-current assets	**84,062**	38,385	119.0 %
Total non-current assets	**1,267,152**	1,224,874	3.5 %
Current assets			
Inventories	**127,997**	115,578	10.7 %
Trade and notes receivables	**121,528**	112,372	8.1 %
Other current assets	**62,842**	57,062	10.1 %
Financial assets at fair value through profit or loss	**190,134**	–	–
Restricted and time deposits	**64,069**	193,530	(66.9)%
Cash and cash equivalents	**836,722**	374,890	123.2 %
Total current assets	**1,403,292**	853,432	64.4 %
Current liabilities			
Trade payables	**66,561**	68,124	(2.3)%
Other current liabilities	**223,593**	207,964	7.5 %
Interest-bearing bank borrowings	**60,694**	60,751	(0.1)%
Total current liabilities	**350,848**	336,839	4.2 %
Net current assets	**1,052,444**	516,593	103.7 %
Non-current liabilities			
Interest-bearing bank borrowings	**29,471**	32,139	(8.3)%
Deferred tax liabilities	**8,855**	14,123	(37.3)%
Total non-current liabilities	**38,326**	46,262	(17.2)%
Net assets	**2,281,270**	1,695,205	34.6 %

Explanation on Items with Fluctuation over 5%

Investment in an associate

Investment in an associate increased from US$57.6 million to US$61.9 million, primarily due to profit shared from the associate in the period.

Available-for-sale investments

Available-for-sale investments under HKAS 39 were transferred to equity instruments at fair value through other comprehensive income under HKFRS 9 after 1 January 2018.

Other non-current assets

Other non-current assets increased from US$38.4 million to US$84.1 million, primarily due to increased prepaid land lease payments.

Inventories

Inventories increased from US$115.6 million to US$128.0 million, primarily due to increased material and finished goods for increased wafer demand from customers.

Trade and notes receivables

Trade and notes receivables increased from US$112.4 million to US$121.5 million, primarily due to higher revenue.

Other current assets

Other current assets increased from US$57.1 million to US$62.8 million, primarily due to increased trade receivables from related parties resulting from higher revenue and increased advanced payments to suppliers.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss was US$190.1 million, representing financial products purchased from banks.

Restricted and time deposits

Restricted and time deposits decreased from US$193.5 million to US$64.1 million, due to payout from investment in time deposits.

Cash and cash equivalents

Cash and cash equivalents increased from US$374.9 million to US$836.7 million, mainly due to (i) US$565.0 million of equity injection to Hua Hong Semiconductor (Wuxi) Limited, our JV subsidiary, (ii) payout of US$139.6 million from investment in time deposits, (iii) US$109.5 million generated from operating activities, (iv) US$6.4 million of interest income, and (v) US$2.8 million proceeds from share option exercise. This was offset by (i) investment in financial assets at fair value through profit or loss of US$197.8 million, (ii) capital investments of US$115.6 million, (iii) dividend payments of US$41.1 million, (iv) a repayment of bank borrowings of US$2.3 million, and (v) interest payments of US$1.2 million. Additionally, there was a negative adjustment of US$3.5 million due to RMB depreciation.

Other current liabilities

Other current liabilities increased from US$208.0 million to US$223.6 million, primarily due to increased dividend payables and advances from customers, partially offset by payments of taxations and year-end bonus for 2017.

Interest-bearing bank borrowings (non-current)

Interest-bearing bank borrowings (non-current) decreased from US$32.1 million to US$29.5 million, due to a repayment of bank borrowings.

Deferred tax liabilities

Deferred tax liabilities decreased from US$14.1 million to US$8.9 million, primarily due to a reversal of dividend withholding tax accrued for 2017.

CASH FLOW

	1H 2018	1H 2017	Change
	US$'000	*US$'000*	
	(Unaudited)	(Unaudited)	
Net cash flows generated from operating activities	**109,495**	94,624	15.7 %
Net cash flows used in investing activities	**(167,369)**	(158,981)	5.3 %
Net cash flows generated from/(used in) financing activities	**523,168**	(40,748)	(1,383.9)%
Net increase/(decrease) in cash and cash equivalents	**465,294**	(105,105)	(542.7)%
Cash and cash equivalents at beginning of the period	**374,890**	341,255	9.9 %
Effect of foreign exchange rate changes, net	**(3,462)**	5,287	(165.5)%
Cash and cash equivalents at end of the period	**836,722**	241,437	246.6 %

Net cash generated flows from operating activities

Net cash flows generated from operating activities increased from US$94.6 million to US$109.5 million, primarily due to higher revenue.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$167.4 million, primarily attributed to (i) US$197.8 million for investment in financial assets at fair value through profit or loss, and (ii) US$115.6 million for capital investments, offset by (i) payout of US$139.6 million from investment in time deposits, and (ii) receipts of US$6.4 million of interest income.

Net cash flows generated from/(used in) financing activities

Net cash flows generated from financing activities were US$523.2 million, including (i) US$565.0 million of equity injection to Hua Hong Semiconductor (Wuxi) Limited, our JV subsidiary and (ii) US$2.8 million proceeds from share option exercise, partially offset by (i) dividend payments of US$41.1 million, (ii) a repayment of bank borrowings of US$2.3 million, and (iii) interest payments of US$1.2 million.

Net increase in cash and cash equivalents

As a result of the cumulative effect of the above factors, cash and cash equivalents increased from US$374.9 million as of 31 December 2017 to US$836.7 million as of 30 June 2018.

BUSINESS REVIEW

The overall semiconductor market continued to be very strong in the first half year of 2018, driven by automotive, IoT and emerging applications that require more electronic devices.

Keeping pace with the overall market, the Company reached historically high semi-annual revenue in the first six months of 2018, propelled by successful execution of the Company's strategy of differentiated, value-added technologies.

The utilization rate remains close to 100% due to strong market demand. We continue to expand capacity and optimize the product mix. For example, more power discrete capacity was allocated to high voltage technologies, such as split-gate trench MOSFET, DT (Deep Trench)-SJNFET and IGBT, resulting in higher ASPs and gross margin.

Wafer shipments for financial IC cards have been growing rapidly due to the strong penetration of Chinese design houses into China's domestic financial IC card market.

Meanwhile, increased demand from emerging market applications such as wireless charging coupled with a supply shortage in the MCU market have driven the strong demand for eNVM technologies.

The share of Company revenue by China-region customers has been growing continuously, fueled by strong demand from the mainland market as well as stimulation by a series of industrial polices. Construction of Huahong Wuxi commenced in Mar, 2018, and technology development for this 300mm wafer fabrication facility has been started by a focused R&D team. Looking forward, we will continue to prudently implement the successful corporate strategy of differentiated technologies. We will also be able to serve our customers even better thanks to expanded capacity on both 200mm and 300mm wafers.

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 2018.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2018.

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 2018.

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 2018.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2018.

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 2018

	Notes	FOR THE SIX MONTHS ENDED 30 JUNE 2018 (Unaudited) (US$'000)	2017 (Unaudited) (US$'000)
Revenue	4	**439,961**	381,304
Cost of sales		**(295,330)**	(261,202)
Gross profit		**144,631**	120,102
Other income and gains	4	**17,064**	10,321
Selling and distribution expenses		**(3,712)**	(3,253)
Administrative expenses		**(55,765)**	(46,543)
Other expenses		**(6,884)**	(4,554)
Finance costs	6	**(1,284)**	(1,049)
Share of profit/(loss) of an associate		**5,161**	(141)
PROFIT BEFORE TAX	5	**99,211**	74,883
Income tax expense	7	**(13,083)**	(6,464)
PROFIT FOR THE PERIOD		**86,128**	68,419
Attributable to:			
Owners of the parent		**85,888**	68,419
Non-controlling interests		**240**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	8		
Basic			
– For profit for the period		**US$0.08**	US$0.07
Diluted			
– For profit for the period		**US$0.08**	US$0.07

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
PROFIT FOR THE PERIOD	**86,128**	68,419
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Net gain on equity instruments at fair value through other comprehensive income, net of tax	**1,545**	–
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(30,446)**	36,159
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(28,901)**	36,159
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**57,227**	104,578
Attributable to:		
Owners of the parent	**65,362**	104,578
Non-controlling interests	**(8,135)**	–
	57,227	104,578

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2018

	Notes	**30 June 2018 (Unaudited) *(US$'000)***	31 December 2017 (Audited) *(US$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		**727,636**	733,462
Investment property		**177,349**	179,586
Prepaid land lease payments		**61,521**	20,634
Intangible assets		**6,693**	7,411
Investment in an associate		**61,928**	57,577
Available-for-sale investments		**–**	215,864
Equity instruments at fair value through other comprehensive income		**216,177**	–
Long term prepayment		**8,016**	3,266
Deferred tax assets		**7,832**	7,074
Total non-current assets		**1,267,152**	1,224,874
CURRENT ASSETS			
Inventories		**127,997**	115,578
Trade and notes receivables	*10*	**121,528**	112,372
Prepayments, deposits and other receivables		**11,346**	10,074
Due from related parties	*16(c)*	**51,496**	46,988
Financial assets at fair value through profit or loss		**190,134**	–
Restricted and time deposits	*11*	**64,069**	193,530
Cash and cash equivalents	*11*	**836,722**	374,890
Total current assets		**1,403,292**	853,432
CURRENT LIABILITIES			
Trade payables	*12*	**66,561**	68,124
Other payables, advances from customers and accruals		**143,445**	129,908
Interest-bearing bank borrowings	*13*	**60,694**	60,751
Government grants		**42,205**	40,523
Due to related parties	*16(c)*	**19,055**	10,885
Income tax payable		**18,888**	26,648
Total current liabilities		**350,848**	336,839
NET CURRENT ASSETS		**1,052,444**	516,593
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,319,596**	1,741,467

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	Notes	**30 June 2018 (Unaudited)** ***(US$'000)***	31 December 2017 (Audited) *(US$'000)*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*13*	**29,471**	32,139
Deferred tax liabilities		**8,855**	14,123
Total non-current liabilities		**38,326**	46,262
Net assets		**2,281,270**	1,695,205
EQUITY			
Equity attributable to owners of the parent			
Share capital		**1,558,999**	1,554,870
Reserves		**165,406**	140,335
		1,724,405	1,695,205
Non-controlling interests		**556,865**	–
Total equity		**2,281,270**	1,695,205

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2018 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 2018, 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 information 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 2017.

The financial information relating to the year ended 31 December 2017 that is included in the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Company's auditor has reported on those financial statements. The auditors' report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The effect of adopting HKFRS 15 is as follows:

- The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 11, HKAS 18 and related Interpretations and;

- As required for the interim condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 4 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes to the financial statements would also follow the requirements of HKAS 11, HKAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 4 would not include comparative information under HKFRS 15.

HKFRS 9 *Financial Instruments*

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not restated comparative information for financial instruments in the scope of HKFRS 9. Therefore, the comparative information is reported under HKAS 39 and is not comparable to the information presented for the six months ended 30 June 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in reserves as of 1 January 2018.

Changes to classification and measurement

To determine their classification and measurement category, HKFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The HKAS 39 measurement categories of financial assets, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments have been replaced by:

- Debt instruments at amortised cost;

- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;

- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition; and

- Financial assets at fair value through profit or loss.

The accounting for financial liabilities remains largely the same as it was under HKAS 39.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

As of 1 January 2018, the category of loans and receivables under HKAS 39, including cash and cash equivalents, restricted and time deposits, trade and notes receivables, financial assets included in prepayments, deposits and other receivables and due from related parties, were transferred to debt instruments at amortised cost under HKFRS 9. Available-for-sale investments under HKAS 39 were transferred to equity instruments at fair value through other comprehensive income under HKFRS 9 with revaluation surplus of US$1,046,000 to the opening balance of fair value reserve.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Changes to the impairment calculation

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and notes receivables. The Group applies the general approach of financial assets included in prepayments, deposits and other receivables and amounts due from related parties.

All the other amendments and interpretations applied for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information of the Group.

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 the PRC. Therefore, no segment information based on the geographical location of assets is presented for the period.

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	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
China (including Hong Kong)	**251,857**	207,759
United States of America	**80,052**	62,336
Asia (excluding China and Japan)	**52,969**	47,326
Europe	**32,975**	34,638
Japan	**22,108**	29,245
	439,961	381,304

Information about major customers

For six months ended 30 June 2018, no single customer accounted for more than 10% of the Group's total revenue (six months ended 30 June 2017: nil).

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Revenue		
Sale of goods	**439,961**	381,304
Other income		
Rental income	**6,852**	6,348
Interest income	**4,777**	2,978
Government subsidies	**3,146**	594
Others	**502**	401
	15,277	10,321
Gains		
Fair value gains on financial assets at fair value through profit or loss	**1,787**	–

With the adoption of HKFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers, including sales of goods above, for the six months ended 30 June 2018 is as follows:

	For the six months ended 30 June 2018 (Unaudited) ***(US$'000)***
Type of goods or service	
Sales of semiconductor products and total revenue from contracts with customers	**439,961**
Timing of revenue recognition	
Goods transferred at a point in time and total revenue from contracts with customer	**439,961**

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2018 is included in note 3.

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Cost of inventories sold	**295,330**	261,202
Depreciation	**57,803**	46,637
Recognition of prepaid land lease payments	**345**	320
Amortisation of intangible assets	**1,466**	1,737
Research and development costs	**22,409**	22,809
Operating lease expenses	**1,777**	1,607
Auditors' remuneration	**333**	226
Employee benefit expense:		
Wages, salaries and other benefits	**88,087**	65,226
Pension scheme contribution	**7,836**	7,855
Equity-settled share option expense	**1,007**	1,805
	96,930	74,886
Rental income on an investment property, net	**(6,852)**	(6,348)
Government subsidies	**(3,146)**	(594)
Foreign exchange differences, net	**7,092**	4,042
Impairment on items of property, plant and equipment	**3,792**	–
Provision of impairment of trade receivables	**25**	–
Write-down of inventories to net realisable value	**–**	418

6. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Interest on bank loans	**1,284**	1,049

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 2017: 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 2017: 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 2017 to 2020.

The Company's subsidiary incorporated and operating in Japan is subject to a corporation tax rate of 25.5% (six months ended 30 June 2017: 25.5%).

7. INCOME TAX (CONTINUED)

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 2017: 34%), as well as state tax at 8.84% (six months ended 30 June 2017: 8.84%).

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Current income tax – PRC	**15,386**	11,142
Current income tax – elsewhere	**31**	241
Withholding tax on dividend declared	**4,245**	2,260
Deferred tax	**(6,579)**	(7,179)
	13,083	6,464

During the period, the directors of a subsidiary established in Mainland China approved that any undistributed profits of the subsidiary generated in 2017 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$9,303,000 (six months ended 30 June 2017: US$6,580,000).

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

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 1,039,526,524 in issue during the period (six months ended 30 June 2017: 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 basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**85,888**	68,419

	Number of shares For the six months ended 30 June	
	2018	2017
	('000)	*('000)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,039,527**	1,033,872
Effect of dilution-weighted average number of ordinary shares:		
Share options	**12,124**	8,789
	1,051,651	1,042,661

9. DIVIDEND

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Final – HK$31 cents per ordinary share (2017: HK$30 cents)	**41,095**	39,806

During the period, the Company's shareholders approved 2017 proposed final dividend with a total amount of HK$322,271,659 (HK$31 cents per ordinary share) (six months ended 30 June 2017: HK$310,161,497). The amount of the final 2017 dividend was calculated based on the number of shares of the Company as of 28 March 2018. The total 2017 final dividend amount presented in US$ is slightly different from the proposed one disclosed in the Group's annual financial information for the year ended 31 December 2017 due to the different rates of exchange used in the translation.

10. TRADE AND NOTES RECEIVABLES

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Trade receivables	**75,643**	72,754
Notes receivable	**47,439**	41,165
	123,082	113,919
Impairment of trade receivables	**(1,554)**	(1,547)
	121,528	112,372

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	31 December
	2018	2017
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Within 3 months	**74,057**	71,113
Over 3 months and within 6 months	**22**	94
Over 6 months and within 12 months	**10**	–
	74,089	71,207

11. CASH AND CASH EQUIVALENTS AND RESTRICTED AND TIME DEPOSITS

	30 June 2018 (Unaudited) ***(US$'000)***	31December 2017 (Audited) *(US$'000)*
Cash and bank balances	**835,252**	203,971
Restricted and time deposits	**65,539**	364,449
	900,791	568,420
Restricted and time deposits:		
Pledged deposits for letters of credit	**(327)**	(350)
Other pledged deposits for payment of dividends	**(13,881)**	(13)
Time deposits with original maturity more than three months	**(49,861)**	(193,167)
	(64,069)	(193,530)
Cash and bank equivalents	**836,722**	374,890

Pledged deposits with a carrying value of US$327,000 as at 30 June 2018 (31 December 2017: US$350,000) were pledged to secure the issuance of letters of credit.

Other pledged deposits with a carrying value of US$13,881,000 as at 30 June 2018 (31 December 2017: US$13,000) were pledged to secure the payment of dividends to shareholders.

Time deposits with original maturity more than three months with a carrying value of US$49,861,000 as at 30 June 2018 (31 December 2017: US$193,167,000) 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 2018 (Unaudited) ***(US$'000)***	31 December 2017 (Audited) *(US$'000)*
Within 1 month	**36,857**	42,185
Over 1 months and within 3 months	**17,535**	14,051
Over 3 months and within 6 months	**2,419**	1,766
Over 6 months and with 12 months	**923**	2,446
Over 12 months	**8,827**	7,676
	66,561	68,124

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

13. INTEREST-BEARING BANK BORROWINGS

	30 June 2018			31 December 2017		
	Effective interest rate (%)	**Maturity**	***US$'000* (Unaudited)**	Effective interest rate (%)	Maturity	*US$'000* (Audited)
Current						
Current portion of long term bank loans – secured	**1.20-4.13**	**2018-2019**	**60,694**	1.20-3.49	2018	60,751
Non-current						
Secured bank loans	**1.20**	**2019-2025**	**29,471**	1.20	2019-2025	32,139
			90,165			92,890

	30 June 2018 (Unaudited) *(US$'000)*	31 December 2017 (Audited) *(US$'000)*
Analysed into:		
Bank loans repayable:		
Within one year	**60,694**	60,751
In the second year	**4,534**	4,591
Beyond third year, inclusive	**24,937**	27,548
	90,165	92,890

As at 30 June 2018 and 31 December 2017, the Group's bank loans were secured by the pledges of the Group's assets with carrying values as follows:

	30 June 2018 (Unaudited) *(US$'000)*	31 December 2017 (Audited) *(US$'000)*
Property, plant and equipment	**594,589**	636,767
Investment property	**177,349**	179,586
Prepaid land lease payments	**20,710**	21,308
Intangible assets	**4,716**	5,285
	797,364	842,946

In addition to the assets pledged above, the Group's secured bank loans as at 30 June 2018 and 31 December 2017 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 2018 (Unaudited) ***(US$'000)***	31 December 2017 (Audited) *(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**484,783**	47,156

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 2018	6.912	5,583	6.912	18,027
Forfeited during the year	6.912	–	6.912	(408)
Exercised during the year		(991)		(2,273)
At 30 June 2018	6.912	4,592	6.912	15,346

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

30 June 2018

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
2,222	**6.912**	**4 September 2017 to 3 September 2022**
8,858	**6.912**	**4 September 2018 to 3 September 2022**
8,858	**6.912**	**4 September 2019 to 3 September 2022**
19,938		

31 December 2017

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
5,488	6.912	4 September 2017 to 3 September 2022
9,061	6.912	4 September 2018 to 3 September 2022
9,061	6.912	4 September 2019 to 3 September 2022
23,610		

* 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 date of approval of the interim condensed consolidated financial information, the Company had 19,938,000 share options outstanding under the Scheme, which represented approximately 1.9% 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 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	
– 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 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 information, the Group had the following material transactions with related parties during the period:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
Huada	**27,436**	23,075
Shanghai Huahong IC	**5,806**	7,477
ICRD	**5,324**	4,844
Shanghai Belling	**2,917**	2,226
Huahong Zealcore	**2,378**	2,967
QST	**519**	1,616
Hongri	**–**	35
Purchases of goods from related parties *(note (ii))*		
Hylintek	**7,880**	6,299
Hongri	**3,998**	2,856
Huahong Zealcore	**380**	354
NEC Management	**343**	243
Service fee charged by related parties *(note (iv))*		
Shanghai INESA	**1,049**	133
Nanyang Software	**198**	105
Huajin	**118**	109
Huahong Real Estate	**64**	49
Rental income from a related party *(note (iii))*		
Shanghai Huali	**6,916**	6,176
Rental expense charged by a related party *(note (iv))*		
Huahong Real Estate	**839**	809
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**15,745**	12,528

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 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 2018	31 December 2017
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Amounts due from related parties		
Huada	**36,280**	28,760
Shanghai Huali	**8,122**	7,565
Shanghai Huahong IC	**3,370**	6,869
Shanghai Belling	**994**	1,106
Huahong Real Estate	**941**	24
QST	**787**	1,430
Huahong Zealcore	**568**	1,137
ICRD	**434**	97
	51,496	46,988
Amounts due to related parties		
Shanghai Huali	**11,018**	4,677
Hylintek	**3,494**	2,711
Shanghai Huahong IC	**2,544**	–
ICRD	**632**	2,220
Huahong Zealcore	**470**	257
Shanghai INESA	**404**	225
Hongri	**164**	391
NEC management	**109**	122
Huajin	**70**	–
QST	**59**	120
Huahong Real Estate	**58**	124
Nanyang Software	**23**	19
Jitong	**10**	19
	19,055	10,885

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	
	2018	2017
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Short term employee benefits	**1,194**	1,186
Pension scheme contributions	**33**	27
Equity-settled share option expense	**185**	298
Total compensation paid to key management personnel	**1,412**	1,511

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2018.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed and approved the unaudited results of the Group for the six months ended 30 June 2018 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 2018 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, 7 August 2018

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

Executive Directors
Suxin Zhang *(Chairman)*
Yu Wang *(President)*

Non-executive Directors
Jianbo Chen
Yuchuan Ma
Takayuki Morita
Jun Ye

Independent Non-executive Directors
Stephen Tso Tung Chang
KwaiHuen Wong, JP
Long Fei Ye