HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1347)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

The board of directors ("the Board") of Hua Hong Semiconductor Limited ("the Company") is pleased to announce the consolidated results of the Company for the year ended December 31, 2018.

Highlights in comparison with 2017 figures are:

- Revenue rose to an all-time high of US$930.3 million, an increase of 15.1%.
- Gross margin was 33.4%, 0.3 percentage point higher, mainly due to consistently high utilization and increased average selling prices, partially offset by increased depreciation and labor expenses.
- Another record high net profit of US$185.6 million was achieved, an increase of 27.8% from US$145.3 million.
- Basic earnings per share was US$0.171, an increase of US$0.031.
- ROE was 10.2%, an improvement of 1.1 percentage points.
- Net cash flow generated from operating activities was US$274.4 million, an increase of 6.2% from US$258.3 million.
- Capacity reached 174,000 wafers per month, compared to 168,000.
- CAPEX was US$238.6 million, compared to US$138.1 million.
- The Board recommends a final dividend of HK$0.31 per share. (2017: HK$0.31 per share)

LETTER TO SHAREHOLDERS

Dear Shareholders,

Performance of the Company in 2018 was phenomenal, our best year ever thanks to the efforts of all employees and shareholders as well as the support from our suppliers and customers. Leveraging our differentiated technologies, we took full advantage of opportunities made possible by the explosive demand for semiconductors, especially in China. We used our innovative manufacturing technologies to benefit from and support the global semiconductor supply chain. All members of the Group worked in tandem to make the year a success.

Revenue, gross margin and net profit for the year all hit new highs: Revenue grew to US$930 million, an increase of 15.1%; gross margin came in at 33.4%, an increase of 0.3 percentage point; net profit amounted to US$186 million, or 20% of revenue, an increase of 27.8%; return on equity was 10.2%, an increase of 1.1 percentage points. Hua Hong was once again one of the best performers in the pure-play semiconductor foundry market.

As of the end of 2018, the Company had been profitable for 32 consecutive quarters, and our annual wafer shipments surged to over two million for the first time – a CAGR of 9.5% from 1.4 million wafers when we listed the Company in Hong Kong in 2014. We attained a monthly production capacity of 174,000 wafers in 2018, with an annual utilization of 99.2%.

We stayed true to our originality and remained subtlety in all fronts. Based on our corporate strategy of specialty technology, rapid growth and high margin, the Company continued to improve the competitiveness of its technology platforms, such as embedded non-volatile memory (eNVM), discrete, analog and power management (PM), logic and radio frequency SOI (RF SOI).

Our highly reliable and cost-effective 90nm embedded memory technology is key to the Company's success for new-generation smart cards. In 2018, shipments of bank-card ICs achieved a yearly increase of more than 100% – a record new high.

Power discrete technology was implemented more intensively by various end-market segments in 2018, which drove our discrete revenue to increase by 41% year-on-year. As the world's first 200mm pure-play foundry with FS(Field-stop)-IGBT mass production technology, we took the lead in promoting the development of green energy, new energy vehicles, industrial automation and other industries.

Power management, as applied to motor drivers, fast chargers and DC-DC converters in the consumer, computer and industrial markets, can be extended into the automotive market. We launched the second-generation process platform for 0.18μm BCD with considerable pride as in terms of performance and technology it is at least on par with the leading provider in the industry.

Going forward the Company will focus on the Internet of Things (IoT), automotive electronics, 5G and other emerging markets where our unique processes have been well regarded and in significant demand. We will relentlessly build on these opportunities in order to continue to excel in the years to come.

In 2019, the Company will increase Capex in research and development to further optimize existing eNVM platforms, introduce more cost-efficient IGBT, improve 0.13μm RF-SOI, and continue to develop 90nm BCD technologies.

In parallel with successfully growing our 200mm wafer business in 2018, we have moved Hua Hong Semiconductor (Wuxi) Limited ("HH-Wuxi") forward smoothly according to plan. The construction of the building and clean room is expected to be completed by the end of the second quarter of 2019, with commencement of equipment move-in during the second half of the year, and risk production of 300mm-wafers in the fourth quarter of 2019. As the Wuxi fab comes on-line, it will provide relief for our constrained capacity and offer enhanced means to meet the ever-increasing demand of our customers for sophisticated, high-tech technological solutions based on our platforms, paving the way for the Company's next strategic level.

The Company attaches great importance to technological innovation. in recognition of our compassion in technological innovation, we were ranked fourth in "China's Top 100 Enterprises in Innovation Capabilities". We apply this innovation and excellence with determination and readiness in a bold journey to prosperity together with you, our shareholders, who place full trust and unquestioning faith in us. With continuous efforts to optimize our offerings, technology portfolios and production capacities, we justifiably believe that the Company will brave through all challenges and achieve more remarkable results in the future.

In the years to come, all of our extraordinary employees, of whom we are so proud, will stick to mission, fulfill responsibilities, celebrate our achievements and set a course mastering the challenges ahead, ever watching the compass through the storms and resolutely embarking with you on a continuing journey of discovery to even higher ground.

Mr. Suxin Zhang
Chairman and Executive Director

Mr. Yu Wang
President and Executive Director

BUSINESS REVIEW

Revenue Analysis

Revenue of the Company in 2018 was US$930.3 million (a new record high), an increase of 15.1% over 2017. 2018 was also the seventh consecutive year of increasing gross profit and the fourth consecutive year of keeping gross margin above 30%. According to the forecast of IHS, a renowned American market research organization, among the top ten pure-play foundries, the Company is the only one that has maintained a high revenue growth rate of more than 10% for three consecutive years, from 2016 to 2018.

The Company's achievements in 2018 were driven by an increasing demand for consumer, industrial and automotive electronics, enabled by our technological innovations, continuous optimization of product mix and expansion of our production capacity.

Revenue by service

	2018	**2018**	2017	2017	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
Semiconductor wafers	**911,435**	**98.0%**	790,680	97.8%	120,755	15.3%
Others	**18,833**	**2.0%**	17,468	2.2%	1,365	7.8%
Total	**930,268**	**100.0%**	808,148	100.0%	122,120	15.1%

- In 2018, 98.0% of our revenue was from the sale of semiconductor wafers.

Revenue by customer

	2018	**2018**	2017	2017	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
Systems and Fabless companies	**721,334**	**77.5%**	622,027	77.0%	99,307	16.0%
IDMs	**208,934**	**22.5%**	186,121	23.0%	22,813	12.3%
Total	**930,268**	**100.0%**	808,148	100.0%	122,120	15.1%

- Revenue from systems and fabless companies accounted for 77.5%, an increase of 16.0% over 2017. Our revenue growth is mainly from the fabless customer base in China.

- Revenue from IDMs accounted for 22.5%, an increase of 12.3% over 2017.

Revenue by geography

	2018	**2018**	2017	2017	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
China	**525,795**	**56.4%**	446,699	55.2%	79,096	17.7%
United States	**161,428**	**17.4%**	141,356	17.5%	20,072	14.2%
Other Asia	**117,963**	**12.7%**	95,853	11.9%	22,110	23.1%
Europe	**70,660**	**7.6%**	64,792	8.0%	5,868	9.1%
Japan	**54,422**	**5.9%**	59,448	7.4%	(5,026)	(8.5)%
Total	**930,268**	**100.0%**	808,148	100.0%	122,120	15.1%

- In 2018, China remained our largest market, with 17.7% increased revenue over 2017.

  The growth was primarily from discrete, smart card chips and MCU.

- Revenue from United States increased by 14.2% over 2017, mainly from super-junction MOSFET, general MOSFET and MCU.

- Revenue from Other Asia increased most rapidly, an increase of 23.1% from 2017, chiefly from MCU, general MOSFET and super-junction MOSFET.

- Revenue from Europe increased by 9.1% over 2017, principally from general MOSFET.

- Revenue from Japan decreased by 8.5%, mainly due to the decrease in MCU business.

Revenue by technology type

	2018	**2018**	2017	2017	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
eNVM	**361,341**	**38.7%**	312,040	38.6%	49,301	15.8%
Discrete	**310,488**	**33.4%**	220,923	27.3%	89,565	40.5%
Analog & PM	**142,131**	**15.3%**	150,791	18.7%	(8,660)	(5.7)%
Logic & RF	**94,549**	**10.2%**	95,905	11.9%	(1,356)	(1.4)%
Standalone NVM	**21,261**	**2.3%**	26,515	3.3%	(5,254)	(19.8)%
Others	**498**	**0.1%**	1,974	0.2%	(1,476)	(74.8)%
Total	**930,268**	**100.0%**	808,148	100.0%	122,120	15.1%

- In 2018, eNVM was our largest source of revenue, with an increase of 15.8% compared to 2017, mainly from financial card chips and MCU.

- Revenue from discrete increased dramatically by 40.5% driven by general MOSFET, Super-junction MOSFET and IGBT.

- Revenue from Analog & PM declined slightly, mostly due to capacity adjustments.

Revenue by technology node

	2018	**2018**	2017	2017	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
≤0.13μm	**331,521**	**35.6%**	270,650	33.5%	60,871	22.5%
0.15μm & 0.18μm	**131,300**	**14.1%**	139,226	17.2%	(7,926)	(5.7)%
0.25μm	**15,482**	**1.7%**	16,802	2.1%	(1,320)	(7.9)%
≥0.35μm	**451,965**	**48.6%**	381,470	47.2%	70,495	18.5%
Total	**930,268**	**100.0%**	808,148	100.0%	122,120	15.1%

- Revenue from 0.13μm and below technology nodes increased by 22.5%, accounting for 35.6% of our revenue in 2018, mainly from smart card chips and MCU.

- Revenue from the 0.35μm and above technology nodes ranked second in growth rate by 18.5%, pushing revenue contribution to 48.6%, mainly from discrete.

- Revenue from 0.15μm & 0.18μm declined, mainly due to the Company's capacity tunings and supply chain inventory adjustments.

Revenue by end market

	2018	**2018**	2017	2017	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
Consumer Electronics	**598,031**	**64.3%**	558,168	69.0%	39,863	7.1%
Industrial & Automotive Electronics	**187,930**	**20.2%**	105,164	13.0%	82,766	78.7%
Communications	**99,777**	**10.7%**	105,586	13.1%	(5,809)	(5.5)%
Computing	**44,530**	**4.8%**	39,230	4.9%	5,300	13.5%
Total	**930,268**	**100.0%**	808,148	100.0%	122,120	15.1%

- Consumer Electronics accounted for the largest share of the Company's revenue in 2018, an increase of 7.1% compared to 2017, driven mainly by increases in discrete and MCU.

- Revenue from Industrial & Automotive increased dramatically by 78.7%, mainly driven by increase of smart card chips, discrete and MCU.

- Revenue from Computing increased by 13.5%, accounting for 4.8% of our revenue.

- Communications accounted for 10.7% of revenue, mainly from smartphone-related chips.

Capacity and Capacity Utilization

Fab (In thousands of wafers per month)	**2018**	2017	YoY Change
Fab1	**65**	63	2
Fab2	**59**	57	2
Fab3	**50**	48	2
Total monthly wafer fabrication capacity	**174**	168	6
Capacity Utilization	**99.2%**	98.1%	1.1%

- Strong market demand significantly enabled the higher capacity utilization rate of 99.2%.

Wafer shipments

In thousands of wafers	**2018**	2017	YoY Change
Wafer shipments	**2,016**	1,869	7.9%

- In 2018, the Company's wafer shipments increased by 7.9%, an important source of revenue growth.

Revenue from Research and Development

To provide cost-effective technologies and services to our customers, we are committed to research, development, innovation and optimization of differentiated technologies, primarily focused on eNVM, discrete, analog & power management as well as logic & RF solutions. In 2018, we achieved remarkable results from our investment in research, development and constant innovation.

The eNVM-related technology platform was our largest revenue source in 2018, predominantly smart card chips and MCUs. Our 90nm eNVM new-generation technology for bank card ICs, with significant reduction in IP size, greatly enhances the competitiveness of our customers and is also a major growth point for our eNVM platform and a key source of revenue over the next few years. The Company's MCU Solution lucratively covers mainstream Non-Volatile Memory technologies such as eFlash, OTP, MTP and EEPROM.

In 2018, more than 100 new products of MCU were launched on our 0.11μm eNVM technology, leading to another major growth point. Our 95nm 5V MCU technology platform was also further improved, and we optimized EEPROM, eFlash, OTP and other IPs, which are expected to increase our revenue in coming years.

Mainstream discrete technologies such as general MOSFET, Deep-Trench super-junction MOSFET (DT-SJNFET) and IGBT, achieved the most rapid revenue growth in 2018, increasing our revenue by 41% and shipments by 16%. Among them, medium- and high-voltage discrete technologies accounted for more than 50% of our discrete revenue, with revenue growth of more than 100% compared to 2016, and so shall be a major focus of the Company's research and development for revenue optimization.

Additionally, our discrete technologies achieved remarkable success in the automotive electronics market. Our general MOSFETs are employed in automotive body stabilization systems (Electronic Stability Program, ESP), and IGBTs are utilized in inverters for electric vehicles and as a reliable platform for automotive electronic power devices. We developed new-generation discrete technologies such as Super-junction (SJ) MOSFET Generation III, RC-IGBT and SJ-IGBT, as well as high-voltage and high-current automotive IGBT and super-junction MOSFET, which will continue to contribute to our future revenue growth well beyond 2018.

As the third largest revenue source technology of the Company, Analog and Power Management technology platforms covers voltages range from 5V to 700V and technology nodes from 0.5μm to 90nm. Capturing the high integration and intelligence trend of power management, and based on our own 0.35μm BCD technology, the Company planned for and invested substantial research and development resources in 0.18μm, 0.11μm and 90nm BCD technologies.

Also in 2018, the Company successfully launched its second generation 0.18μm BCD technology, verified and put into mass-production various chips used in motor drivers, fast-chargers and DC-DC converters. Regarding the automotive electronics market, the Company completed verification of the 0.18μm BCD process and some selected automotive-level IPs. We will conduct full verification on a variety of IPs and libraries that have the potential to contribute high-quality revenue in the future.

The Company initiated research and development of a 55nm logic technology and related IP in 2018 In order to accelerate the operation, risk production and substantial sales revenue at HH-Wuxi, and is expected to introduce customers in the second half of 2019. In the meantime, the Company launched research and development of a flash cell for 55nm embedded flash memory technology and completed functional verification, laying a solid foundation for mass production. HH-Wuxi is not only an upgrade of the Company's capacity, but a new stage and new milestone in our development history that can enrich our technology portfolios to better serve domestic and foreign semiconductor IC design companies. HH-Wuxi will inherit the success of the Company in differentiated technologies.

New Technologies

In addition to the major platforms above, the Company continued to expand into new differentiated technologies. The intrinsic value of the entire RF market continues to increase as the industry expands with growing demand for smartphone protocols, including 2G to 5G mobile communications, WLAN, Bluetooth, GPS and the Beidou global navigation satellite system.

The Company developed a domestic-leading 0.13μm Radio Frequency (RF) SOI technology targeting the radio frequency front-end module (RF FEM), including the RF switch, the antenna tuner, the low noise amplifier and the integrated module. Currently undergoing customer verification, it is expected to be put into mass production in 2019.

OUTLOOK FOR 2019

Economy

The semiconductor industry fundamentally develops in line with the trend of the global economy. According to the forecast in "World Economic Outlook" issued by the IMF in January 2019, the global economy will remain stable this year despite various uncertainties, with a growth rate of around 3.5%, while China will retain a growth rate of above 6%. According to forecasts by a number of market research institutions, the global semiconductor industry will realize a CAGR of more than 6% during the period from 2017 to 2022, and its growth rate will exceed that of global economy in 2019.

The global wafer foundry industry is expected to hold a steady growth rate higher than that of overall semiconductor industry, driven by increasing demand for more end-use application derivatives, the boom of integrated circuit design companies and the trend that IDMs will continue to entrust manufacturing to wafer foundries.

Core Competitiveness

With respect to the core competitiveness of the Company, differentiated technologies will remain to be our long-term research and development direction. In 2019, regarding research and development of 200mm differentiated technologies, we will further optimize existing 90nm and 95nm embedded nonvolatile memory technologies, so as to provide smaller memory cells, IP macros and more streamlined technology for high-density smart card and high-end MCU markets. We will enhance high votage discrete technologies such as the next-generation IGBT and super-junction MOSFET. In addition to the higher power density and lower losses required for HV power devices, we will refine developing intelligent IGBT technology for integrated on-chip sensors and new thermal dissipation IGBT technology with higher reliability.

We will improve power management technology, optimize 0.18μm BCD technology to meet automotive electronics specifications, integrate 0.11μm embedded flash memory with BCD technology to provide solutions on intelligent power management chips, and develop 90nm BCD into a world-class technology. We will further optimize 0.13μm RF-SOI to meet the global market demand for mobile RF Front End Modules. In addition to improving existing 200mm technology as described above, considering the strong demand from global discrete markets, the Company plans to ramp up its monthly production capacity for 200mm wafers by approximately 20,000 wafers, mainly for power discrete, in the next one or two years, so as to further meet customer and market demand.

Looking forward to 2019

We will maintain our dreams as opportunities arise and keep compass orientation on the horizon in the face of challenges. The Group will build on its record success to achieve even more remarkable results. We will constantly strive for excellence and complete the HH-Wuxi project on schedule, possibly early, in a nearly perfect and satisfactory manner, so as to radiate into and drive the development of local industries and create economic synergies.

We will continue to concentrate on scientific and technological research and development and take an example in differentiated innovation. We will deepen strategic cooperation, fully support industrial ecological construction, and promote synergy and win-win cooperation along the global IC manufacturing supply chain.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	2018	2017	Change
	US$'000	*US$'000*	
Revenue	**930,268**	808,148	15.1 %
Cost of sales	**(619,114)**	(540,971)	14.4 %
Gross profit	**311,154**	267,177	16.5 %
Other income and gains	**43,613**	24,394	78.8 %
Fair value gain on an investment property	**247**	89	177.5 %
Selling and distribution expenses	**(7,771)**	(7,232)	7.5 %
Administrative expenses	**(122,323)**	(108,673)	12.6 %
Other expenses	**(11,106)**	(10,712)	3.7 %
Finance costs	**(2,203)**	(2,178)	1.1 %
Share of profit of an associate	**9,444**	9,622	(1.8)%
Profit before tax	**221,055**	172,487	28.2 %
Income tax expense	**(35,447)**	(27,225)	30.2 %
Profit for the year	**185,608**	145,262	27.8 %
Attributable to:			
Owners of the parent	**183,158**	145,262	26.1 %
Non-controlling interests	**2,450**	–	100.0 %

Explanation of items with fluctuation over 5% in 2018

Revenue

Revenue rose to an all-time high of US$930.3 million, an increase of 15.1% over 2017, primarily due to higher demand for general MOSFET, bank card ICs, MCU, super junction MOSFET and IGBT products.

Cost of sales

Cost of sales was US$619.1 million, 14.4% higher than 2017, primarily due to increased wafer shipments and increased depreciation and labor expenses.

Gross profit

Gross profit was US$311.2 million, an increase of 16.5% compared to 2017, primarily due to consistently high utilization and increased average selling prices, partially offset by increased depreciation and labor expenses.

Other income and gains

Other income and gains were US$43.6 million, an increase of 78.8% compared to 2017, primarily due to fair value gains on financial assets at fair value through profit or loss and increased interest income.

Fair value gain on an investment property

Fair value gain on an investment property reflect a gain in valuation on the investment property. As the appraised value in 2018 remained stable compared to 2017 the fair value gain was relatively small.

Selling and distribution expenses

Selling and distribution expenses were US$7.8 million, an increase of 7.5% over 2017, primarily due to increased labor expenses.

Administrative expenses

Administrative expenses were US$122.3 million, an increase of 12.6% over 2017, chiefly due to increased labor, professional expenses, and impairment provisions.

Income tax expense

Income tax expense was US$35.4 million, an increase of 30.2% over 2017, primarily due to increased taxable profit.

Profit for the year

As a result of the cumulative effect of the above factors, profit for the year increased to US$185.6 million from US$145.3 million, which amounts to an increase of 27.8% above 2017. Net profit margin increased from 18.0% to 20.0%.

FINANCIAL STATUS

	31 December 2018 *US$'000*	31 December 2017 *US$'000*	Change
Non-current assets			
Property, plant and equipment	**773,180**	733,462	5.4 %
Investment property	**171,225**	179,586	(4.7)%
Investment in an associate	**64,005**	57,577	11.2 %
Available-for-sale investments	**–**	215,864	(100.0)%
Equity investments designated at fair value through other comprehensive income	**208,357**	–	100.0 %
Other non-current assets	**87,432**	38,385	127.8 %
Total non-current assets	**1,304,199**	1,224,874	6.5 %
Current assets			
Inventories	**129,629**	115,578	12.2 %
Trade and notes receivables	**176,797**	112,372	57.3 %
Due from related parties	**10,800**	46,988	(77.0)%
Prepayments, other receivables and other assets	**12,479**	10,074	23.9 %
Financial assets at fair value through profit or loss	**667,033**	–	100.0 %
Restricted and time deposits	**337**	193,530	(99.8)%
Cash and cash equivalents	**777,000**	374,890	107.3 %
Total current assets	**1,774,075**	853,432	107.9 %
Current liabilities			
Trade payables	**79,470**	68,124	16.7 %
Due to related parties	**5,838**	10,885	(46.4)%
Other current liabilities	**239,890**	197,079	21.7 %
Interest-bearing bank borrowings	**4,371**	60,751	(92.8)%
Total current liabilities	**329,569**	336,839	(2.2)%
Net current assets	**1,444,506**	516,593	179.6 %
Non-current liabilities			
Interest-bearing bank borrowings	**26,227**	32,139	(18.4)%
Deferred tax liabilities	**18,146**	14,123	28.5 %
Total non-current liabilities	**44,373**	46,262	(4.1)%
Net assets	**2,704,332**	1,695,205	59.5 %

Explanation of items with fluctuation over 5% from 31 December 2017 to 31 December 2018

Property, plant and equipment

Property, plant and equipment increased from US$733.5 million to US$773.2 million, mainly as a result of the construction of the 300mm project.

Investment in an associate

Investment in an associate increased from US$57.6 million to US$64.0 million, primarily due to profit shared from the associate in 2018.

Available-for-sale investments

Available-for-sale investments under HKAS 39 were transferred to *Equity investments designated 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$87.4 million, primarily due to increased prepaid land lease payments and advanced payments for technology development agreements.

Inventories

Inventories increased from US$115.6 million to US$129.6 million, primarily due to increased wafer demand from customers.

Trade and notes receivables

Trade and notes receivables increased from US$112.4 million to US$176.8 million, primarily due to higher revenue and re-classes from *Due from related parties*.

Due from related parties

Due from related parties decreased from US$47.0 million to US$10.8 million, primarily due to re-classes to *Trade and notes receivables*.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represented financial products including principal guaranteed structured deposits and wealth management products purchased from banks, amounting to approximately US$667.0 million. No such classification was made in 2017.

Prepayments, other receivables and other assets

Prepayments, other receivables and other assets increased from US$10.1 million to US$12.5 million, primarily due to increased VAT deductible tax.

Restricted and time deposits

Restricted and time deposits decreased from US$193.5 million to US$0.3 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$777.0 million, mainly due to (i) proceeds of US$1,279.4 million from disposals of financial assets at fair value through profit or loss, (ii) US$565.0 million of equity injection to HH-Wuxi, (iii) US$404.0 million proceeds from issue of shares, (iv) US$274.4 million generated from operating activities, (v) US$191.3 million from investment in time deposits, and (vi) US$10.3 million of interest income. This was offset by (i) investment in financial assets at fair value through profit or loss of US$1,959.6 million, (ii) capital investments of US$238.6 million, (iii) repayments of bank borrowings of US$60.6 million, (iv) dividend payments of US$41.1 million, and (v) interest payments of US$2.3 million. Additionally, there was a negative adjustment of US$20.1 million due to RMB depreciation.

Trade payables

Trade payables increased from US$68.1 million to US$79.5 million, primarily due to re-classification from *Due to related parties*.

Due to related parties

Due to related parties decreased from US$10.9 million to US$5.8 million, primarily due to re-classification to *Trade payables*.

Other current liabilities

Other current liabilities increased from US$197.1 million to US$239.9 million, primarily due to increased payables for capital expenditures.

Interest-bearing bank borrowings

Total interest-bearing bank borrowings decreased from US$92.9 million to US$30.6 million, due to repayments of bank borrowings.

Deferred tax liabilities

Deferred tax liabilities, largely comprising withholding tax accrued for dividend distribution, increased from US$14.1 million to US$18.1 million, primarily due to the accrual of dividend withholding tax in 2018, partially offset by (i) a reversal of dividend withholding tax accrued for prior years and (ii) the tax paid for 2017 dividends.

CASH FLOW

	2018 ***US$'000***	2017 *US$'000*	Change
Net cash flows generated from operating activities	**274,400**	258,300	6.2 %
Net cash flows used in investing activities	**(717,239)**	(197,003)	264.1 %
Net cash flows generated from/(used in) financing activities	**865,010**	(41,096)	(2,204.9)%
Net increase in cash and cash equivalents	**422,171**	20,201	1,989.9 %
Cash and cash equivalents at beginning of the year	**374,890**	341,255	9.9 %
Effect of foreign exchange rate changes, net	**(20,061)**	13,434	(249.3)%
Cash and cash equivalents at end of the year	**777,000**	374,890	107.3 %

Net cash flows generated from operating activities

Net cash flows generated from operating activities reached new high of US$274.4 million, amounting to an increase of 6.2% from 2017, mainly due to higher revenue.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$717.2 million, primarily attributed to (i) US$1,959.6 million for investment in financial assets at fair value through profit or loss, and (ii) US$238.6 million for capital investments, offset by (i) proceeds of US$1,279.4 million from disposals of financial assets at fair value though profit or loss, (ii) US$191.3 million from investment in time deposits, and (iii) US$10.3 million of interest income.

Net cash flows generated from financing activities

Net cash flows generated from financing activities were US$865.0 million, including (i) US$565.0 million of equity injection to HH-Wuxi, (ii) US$404.0 million proceeds from issue of shares, offset by (i) repayments of bank borrowings of US$60.6 million, (ii) dividend payments of US$41.1 million, and (iii) interest payments of US$2.3 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$777.0 million as of 31 December 2018.

FINANCIAL RISKS

Foreign currency risk

We are exposed to foreign exchange risks. Such exposures arise primarily from sales or purchases by HHGrace in US$ rather than in the subsidiary's functional currency, which is RMB. As of 31 December 2018, if the US dollar had strengthened/weakened against the RMB by five percent, with all other variables held constant, our profit before tax for the year would have been approximately US$26.8 million higher/lower.

Credit risk

We trade only with recognized and creditworthy third parties and related parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, and our exposure to bad debts is not significant.

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

Liquidity risk

To meet liquidity requirements in the short and long term, our policy is to monitor regularly the current and expected liquidity requirements to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions.

Capital management

Our primary objectives of capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios to support our business and maximize shareholders' value.

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

DIVIDENDS

The Board recommends a final dividend of HK$31 cents per Share, amounting to a total of HK$398,302,640 (based on the number of shares of the Company as of 28 March 2019).

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining eligibility of Shareholders to attend and vote at the 2018 AGM

Latest time to lodge transfer documents for registration	4:30 p.m. on 3 May 2019
Closure of Register of members	6 to 9 May 2019 (both dates inclusive)
Record date	9 May 2019

For determining entitlement of Shareholders to the proposed final dividend

Latest time to lodge transfer documents for registration	4:30 p.m. on 15 May 2019
Closure of Register of members	16 to 17 May 2019 (both dates inclusive)
Record date	17 May 2019
Payable date	26 June 2019

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. Detailed corporate governance practices will be stated in the Company's annual report for the year ended 31 December 2018. 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 Limited (the "Listing Rules") during the year ended 31 December 2018.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of the Company is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 with comparative figures for the year 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018**	2017
		(US$'000)	*(US$'000)*
Revenue	*4*	**930,268**	808,148
Cost of sales		**(619,114)**	(540,971)
Gross profit		**311,154**	267,177
Other income and gains	*4*	**43,613**	24,394
Fair value gain on an investment property		**247**	89
Selling and distribution expenses		**(7,771)**	(7,232)
Administrative expenses		**(122,323)**	(108,673)
Other expenses	*4*	**(11,106)**	(10,712)
Finance costs	*6*	**(2,203)**	(2,178)
Share of profit of an associate		**9,444**	9,622
PROFIT BEFORE TAX	*5*	**221,055**	172,487
Income tax expense	*7*	**(35,447)**	(27,225)
PROFIT FOR THE YEAR		**185,608**	145,262
Attributable to:			
Owners of the parent		**183,158**	145,262
Non-controlling interests		**2,450**	–
		185,608	145,262
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	*9*		
Basic			
– For profit for the year		**US$0.171**	US$0.140
Diluted			
– For profit for the year		**US$0.169**	US$0.139

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018 *(US$'000)*	2017 *(US$'000)*
PROFIT FOR THE YEAR	**185,608**	145,262
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(107,744)**	94,477
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(107,744)**	94,477
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**1,764**	–
Income tax effect	**(265)**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**1,499**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(106,245)**	94,477
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**79,363**	239,739
Attributable to:		
Owners of the parent	**105,794**	239,739
Non-controlling interests	**(26,431)**	–
	79,363	239,739

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018 *(US$'000)***	31 December 2017 *(US$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		**773,180**	733,462
Investment property		**171,225**	179,586
Prepaid land lease payments		**58,989**	20,634
Intangible assets		**9,571**	7,411
Investment in an associate	*10*	**64,005**	57,577
Available-for-sale investments		**–**	215,864
Equity investments designated at fair value through other comprehensive income		**208,357**	–
Long term prepayments		**3,762**	3,266
Long term prepayments to related parties	*17(c)*	**8,747**	–
Deferred tax assets		**6,363**	7,074
Total non-current assets		**1,304,199**	1,224,874
CURRENT ASSETS			
Inventories		**129,629**	115,578
Trade and notes receivables	*11*	**176,797**	112,372
Prepayments, other receivables and other assets		**12,479**	10,074
Due from related parties	*17(c)*	**10,800**	46,988
Financial assets at fair value through profit or loss		**667,033**	–
Restricted and time deposits		**337**	193,530
Cash and cash equivalents	*12*	**777,000**	374,890
Total current assets		**1,774,075**	853,432
CURRENT LIABILITIES			
Trade payables	*13*	**79,470**	68,124
Other payables and accruals		**165,370**	129,908
Interest-bearing bank borrowings	*14*	**4,371**	60,751
Government grants		**44,406**	40,523
Due to related parties	*17(c)*	**5,838**	10,885
Income tax payable		**30,114**	26,648
Total current liabilities		**329,569**	336,839
NET CURRENT ASSETS		**1,444,506**	516,593
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,748,705**	1,741,467

continued/...

	Notes	**31 December 2018** *(US$'000)*	31 December 2017 *(US$'000)*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**26,227**	32,139
Deferred tax liabilities		**18,146**	14,123
Total non-current liabilities		**44,373**	46,262
Net assets		**2,704,332**	1,695,205
EQUITY			
Share capital		**1,960,159**	1,554,870
Reserves		**195,097**	140,335
Total equity attributable to owners of the parent		**2,155,256**	1,695,205
Non-controlling interests		**549,076**	–
Total equity		**2,704,332**	1,695,205

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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*

Except for HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*, the rest of the new and revised HKFRSs had no significant impact on the Group's financial statements. The nature and the impact of HKFRS 15 and HKFRS 9 are described 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.

The Group adopted HKFRS 15 using the modified retrospective method. There was no substantive effect of adopting HKFRS 15 except for the followings:

- 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;

- The Group has disclosed additional information regarding performance obligations ("Revenue recognition (applicable from 1 January 2018)"), disaggregation of revenue (note 4) and contract liabilities for the year ended 31 December 2018 without any comparative information, which would follow the requirements of HKAS 11, HKAS 18 and related interpretations; and

- Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as advances from customers included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals. Therefore, upon adoption of HKFRS 15, the Group reclassified US$21,344,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, under HKFRS 15, US$27,261,000 was reclassified from advances from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of semiconductor products.

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 recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continued to be reported under HKAS 39.

Classification and measurement

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 amounts due from related parties, were transferred to financial assets at amortised cost under HKFRS 9. In addition, the Group has elected the option to irrevocably designate its previous available-for-sale unlisted equity investments carried at cost as equity investments at fair value through other comprehensive income. Upon the reclassification, a fair value remeasurement surplus of US$1,230,000 was recorded as equity investments designated at fair value through other comprehensive income and the related tax impact of US$184,000 was recorded as deferred tax liabilities, which is set out in the following reconciliation:

	HKAS 39 measurement Category	HKAS 39 measurement Amount	Re-classification	Fair value remeasure-ment	HKFRS 9 measurement Amount	HKFRS 9 measurement Category
		US$'000	*US$'000*	*US$'000*	*US$'000*	
Financial assets						
Equity investments designated at fair value through other comprehensive income	N/A	–	215,864	1,230	217,094	FVOCI[1] (equity)
From: Available-for-sale investments			215,864	–		
Available-for-sale investments	AFS[2]	215,864	(215,864)	–		N/A
To: Equity investments designated at fair value through other comprehensive income			215,864	–		
Other liabilities						
Deferred tax liabilities		14,123	–	184	14,307	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments

The classification and measurement for financial liabilities remains largely the same as it was under HKAS 39.

Impairment

The effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs") is insignificant.

Hedging accounting

The Group has not involved any hedge accounting and, therefore, is not affected in this regard under HKFRS 9.

Impact on reserves

The impact of transition to HKFRS 9 on reserves is as follows:

	Fair value reserve
	US$'000
Balance as at 31 December 2017 under HKAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	1,230
Deferred tax in relation to the above	(184)
Balance as at 1 January 2018 under HKFRS 9	1,046

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that the quantitative impact on the balance of assets, liabilities and equity as at 1 January 2019 is insignificant.

3. OPERATING SEGMENT INFORMATION

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

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

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

	2018	2017
	(US\$'000)	*(US\$'000)*
China (including Hong Kong)	**525,795**	446,699
United States of America	**161,428**	141,356
Asia (excluding China and Japan)	**117,963**	95,853
Europe	**70,660**	64,792
Japan	**54,422**	59,448
	930,268	808,148

Information about major customers

No revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer for the year ended 31 December 2018 (2017: Nil).

4. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

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

	2018 *(US$'000)*	2017 *(US$'000)*
Revenue from contracts with customers		
Sale of goods	**930,268**	808,148
Other income		
Rental income	**13,063**	12,392
Interest income	**9,489**	6,838
Other interest income from financial assets at fair value through profit or loss	**11,412**	–
Government subsidies	**4,277**	4,542
Sale of scrap materials	**299**	224
Rendering of services	**–**	109
Others	**873**	289
	39,413	24,394
Gains		
Fair value gain on financial assets at fair value through profit or loss	**4,200**	–
	43,613	24,394
Other expenses		
Foreign exchange loss, net	**11,010**	10,269
Net loss on disposal of items of property, plant and equipment	**96**	67
Others	**–**	376
	11,106	10,712

With the adoption of HKFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers, including the sale of goods above, for the year ended 31 December 2018 is as follows:

	2018 ***(US$'000)***
Type of goods	
Sales of semiconductor products and total revenue from contracts with customers	**930,268**
Timing of revenue recognition	
Goods transferred at a point in time and total revenue from contracts with customer	**930,268**

The disaggregation of the Group's revenue based on the geographical region for the year ended 31 December 2018 is given in note 3.

5. PROFIT BEFORE TAX

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

	Notes	**2018** **(US$'000)**	2017 *(US$'000)*
Cost of inventories sold		**619,114**	540,971
Depreciation		**116,187**	100,736
Recognition of prepaid land lease payments		**666**	652
Amortisation of intangible assets		**3,006**	3,240
Research and development costs		**44,732**	49,589
Minimum lease payments under operating leases		**3,933**	3,385
Auditor's remuneration		**497**	488
Employee benefit expense (including directors' and chief executive's remuneration:			
Wages, salaries and other benefits		**168,646**	150,993
Equity-settled share option expense		**1,298**	3,312
Pension scheme contributions		**18,692**	16,974
		188,636	171,279
Rental income on an investment property, net	*4*	**(13,063)**	(12,392)
Government subsidies	*4*	**(4,277)**	(4,542)
Foreign exchange loss, net	*4*	**11,010**	10,269
Impairment of items of property, plant and equipment		**6,151**	2,581
Impairment of trade receivables		**25**	–
Write-down/(reversal of write-down) of inventories to net realisable value		**646**	(204)
Other interest income from financial assets at fair value through profit or loss	*4*	**(11,412)**	–
Fair value gains on financial assets at fair value through profit or loss	*4*	**(4,200)**	–
Changes in fair value of an investment property		**(247)**	(89)

6. FINANCE COSTS

	2018 **(US$'000)**	2017 *(US$'000)*
Interest on bank borrowings	**2,203**	2,178

7. INCOME TAX

Hong Kong profits were subject to profits tax at the rate of 16.5% during the year (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 year (2017: Nil).

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

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

Pursuant to the relevant laws and regulations in the PRC and with approval from the tax authorities in charge, one of the Group's subsidiaries, HHGrace, is qualified as an enterprise producing integrated circuits of 0.25 μm below in width and thus is entitled to a preferential tax rate of 15% from 2017 to 2020.

Pursuant to the relevant laws and regulations in the PRC and with approval from the tax authorities in charge, one of the Group's subsidiaries, HH-Wuxi, is entitled to an exemption from CIT for five years, commencing from the first year that HH-Wuxi generates taxable profit, and a deduction of 50% on the CIT rate for the following five years.

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

The Company's subsidiary incorporated and operating in the United States is subject to federal corporation income tax at a rate of 34% during the year (2017: 34%), as well as state tax at 8.84% (2017: 8.84%).

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

	2018	2017
	(US$'000)	*(US$'000)*
Current income tax – PRC	**26,887**	20,608
Current income tax – elsewhere	**364**	474
Withholding tax on the distribution dividend from a PRC subsidiary	**4,245**	2,260
Deferred tax	**3,951**	3,883
	35,447	27,225

A reconciliation of the tax expense applicable to profit before tax at the statutory rates of 25% for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2018	2017
	(US$'000)	*(US$'000)*
Profit before tax	**221,055**	172,487
Tax at the statutory tax rate of 25%	**55,264**	43,122
Lower tax rates for specific provinces or enacted by local authority	**(22,450)**	(17,049)
Adjustments in respect of current tax of previous periods	**(219)**	(1,315)
Profits attributable to an associate	**(1,417)**	(1,443)
Income not subject to tax	**–**	(32)
Expenses not deductible for tax	**244**	177
Tax losses not recognised	**306**	129
Temporary differences not recognised	**923**	369
Additional deduction of research and development costs	**(5,032)**	(3,799)
Effect of withholding tax at 10% (2017: 10%) on the distributable profits of the Group's PRC subsidiary	**7,828**	7,066
Tax charge at the Group's effective rate	**35,447**	27,225

8. DIVIDEND

	2018	2017
	(US$'000)	*(US$'000)*
Proposed final – HK$31 cents (2017: HK$31 cents) per ordinary share	**50,741**	41,074

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

The Board recommended a final 2018 dividend of HK$31 cents per share (2017: HK$31 cents per share), amounting to HK$398,302,640 (2017: HK$322,271,659), which was equivalent to US$50,741,000 (2017:US$41,074,000).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,070,699,301 (2017: 1,034,430,282) in issue during the year.

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

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	(US$'000)	*(US$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent	**183,158**	145,262

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,070,699,301**	1,034,430,282
Effect of dilution-weighted average number of ordinary shares:		
Share options	**11,752,000**	8,936,000
	1,082,451,301	1,043,366,282

10. INVESTMENT IN AN ASSOCIATE

	2018	2017
	(US$'000)	*(US$'000)*
Share of net assets	**64,005**	57,577

Particulars of the material associate are as follows:

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

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

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

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

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

	2018	2017
	(US$'000)	*(US$'000)*
Current assets	**113,440**	115,903
Non-current assets	**185,056**	152,745
Current liabilities	**(66,496)**	(49,758)
Non-current liabilities	**(103,990)**	(103,736)
Net assets	**128,010**	115,154
Net assets, excluding goodwill	**128,010**	115,154
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's interest in the associate	**50%**	50%
Group's share of net assets of the associate, excluding goodwill	**64,005**	57,577

	2018	2017
	(US$'000)	*(US$'000)*
Revenue	**17,188**	10,332
Profit for the year	**18,888**	19,244
Total comprehensive income	**18,888**	19,244

11. TRADE AND NOTES RECEIVABLES

	2018	2017
	(US$'000)	*(US$'000)*
Trade receivables	**123,414**	72,754
Notes receivable	**54,887**	41,165
	178,301	113,919
Impairment of trade receivables	**(1,504)**	(1,547)
	176,797	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 150 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 ageing analysis of the trade receivables, based on the invoice date and net of loss allowances, is as follows:

	2018	2017
	(US$'000)	*(US$'000)*
Within 3 months	**121,910**	71,113
3 to 6 months	**–**	94
	121,910	71,207

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

	2018	2017
	(US$'000)	*(US$'000)*
At 1 January	**1,547**	1,467
Impairment losses, net	**25**	–
Exchange realignment	**(68)**	80
As at 31 December	**1,504**	1,547

Impairment under HKFRS 9 for the year ended 31 December 2018

The Group applies a simplified approach in calculating ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses have also incorporated forward looking information. The expected credit loss rates for trade receivables that were not yet past due or aged within 6 months are minimal.

The Group applies a general approach in calculating ECLs for notes receivables. All of the notes receivables are not past due. The Group classified such instruments as Stage 1 and measure ECLs on a 12-month basis. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. For bank acceptance bills, as the relevant financial institutions have high credit rating, loss rate is expected to be minimal. For commercial acceptance bills, which were not yet past due, loss rate is expected to be minimal as well.

Impairment under HKAS 39 for the year ended 31 December 2017

Under HKAS 39 applicable before 1 January 2018, included in the above provision for impairment of trade receivables was a provision for individually impaired trade receivables of US$1,547,000 as at 31 December 2017, with a carrying amount before provision of US$1,547,000.

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

The credit quality of the trade receivables is as follows:

	2018	2017
	(US$'000)	*(US$'000)*
Neither past due nor impaired	**115,952**	65,458
Less than 1 month past due	**5,958**	5,654
1 to 3 months past due	**–**	1
3 to 6 months past due	**–**	94
Past due and impaired	**1,504**	1,547
	123,414	72,754

12. CASH AND CASH EQUIVALENTS AND RESTRICTED AND TIME DEPOSITS

	2018	2017
	(US$'000)	*(US$'000)*
Cash and bank balances	**171,781**	203,971
Time deposits	**605,556**	364,449
	777,337	568,420
Restricted and time deposits:		
Pledged deposits for letters of credit	**(315)**	(350)
Other pledged deposits for payment of dividends	**(22)**	(13)
Time deposits with original maturity of more than three months	**–**	(193,167)
Cash and cash equivalents	**777,000**	374,890

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to US$269,064,000 (2017: US$269,411,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Pledged deposits with a carrying value of US$315,000 as at 31 December 2018 (2017: US$350,000) were pledged to secure the issuance of letters of credit.

Other pledged deposits with a carrying value of US$22,000 as at 31 December 2018 (2017: US$13,000) were pledged to secure the payment of dividends to shareholders.

There were no time deposits with original maturity of more than three months at 31 December 2018 (2017: US$193,167,000 maturing within one year).

13. TRADE PAYABLES

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

	2018	2017
	(US$'000)	*(US$'000)*
Within 1 month	**26,704**	42,185
1 to 3 months	**37,713**	14,051
3 to 6 months	**4,310**	1,766
6 to 12 months	**2,215**	2,446
Over 12 months	**8,528**	7,676
	79,470	68,124

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

14. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	***US$'000***	Effective interest rate (%)	Maturity	*US$'000*
Current						
Current portion of long term bank loans – secured	**1.20**	**2019**	**4,371**	1.20-3.49	2018	60,751
Non-current						
Secured bank loans	**1.20**	**2020-2025**	**26,227**	1.20	2019-2025	32,139
			30,598			92,890

	2018	2017
	(US$'000)	*(US$'000)*
Analysed into:		
Bank loans repayable:		
Within one year	**4,371**	60,751
In the second year	**4,371**	4,591
Beyond the third year, inclusive	**21,856**	27,548
	30,598	92,890

Secured bank loans of US$30,598,000 as at 31 December 2018 (2017: US$36,730,000) were denominated in RMB.

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

	2018	2017
	(US$'000)	*(US$'000)*
Property, plant and equipment	**22,325**	636,767
Investment property	**–**	179,586
Prepaid land lease payments	**5,750**	21,308
Intangible assets	**–**	5,285
	28,075	842,946

In addition to the assets pledged above, the Group's secured bank loans as at 31 December 2017 were secured by the Company's 36.23% of equity interest in its subsidiary, HHGrace, which has been removed from the pledge status as at 31 December 2018 with maturity and the full repayment of those bank loans during the year.

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. The Scheme includes two batches, which were effective on 4 September 2015 (the "2015 Options") and on 24 December 2018 (the "2018 Options"), respectively. Eligible participants of the Scheme include the Company's directors, including non-executive directors and other employees of the Group. The share options, unless otherwise cancelled or amended, will remain in force for 7 years from respective effective 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 approval by the shareholders 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 approval by shareholders 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; or (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.

2015 Options

The following share options were outstanding under the 2015 Options during the year:

	2018		2017	
	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	**6.912**	**23,610**	6.912	28,662
Forfeited during the year	**6.912**	**(756)**	6.912	(1,353)
Exercised during the year	**6.912**	**(3,982)**	6.912	(3,699)
At 31 December	**6.912**	**18,872**	6.912	23,610

The exercise prices and exercise periods of the share options outstanding under the 2015 Scheme as at the end of the reporting period are as follows:

2018

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
1,842	**6.912**	**4 September 2017 to 3 September 2022**
8,431	**6.912**	**4 September 2018 to 3 September 2022**
8,599	**6.912**	**4 September 2019 to 3 September 2022**
18,872		

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.

The 3,982,000 (2017: 3,699,000) share options exercised under the 2015 Options during the year resulted in the issue of 3,982,000 (2017: 3,699,000) ordinary shares of the Company for a total cash consideration of US$3,515,000 (2017: US$3,274,000). An amount of US$1,774,000 (2017: US$1,432,000) was transferred from the share option reserve to share capital upon the exercise of the share options, as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 18,872,000 share options outstanding under the 2015 Options. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,872,000 additional ordinary shares of the Company and additional share capital of US$23,260,000 (including US$6,607,000 transferred from the share option reserve to share capital).

At the date of approval of these financial statements, the Company had 17,919,361 share options outstanding under the 2015 Options, which represented approximately 1.4% of the Company's shares in issue as at that date.

2018 Options

The following share options were outstanding under the 2018 Options during the year:

	2018	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***
At 1 January	–	–
Granted during the year	15.506	34,500
At 31 December	15.506	34,500

During the year, 5,810,000 options were granted to directors and key management personnel (the "2018 Tranche A") (2017: Nil) and 28,690,000 options were granted to other employees (the "2018 Tranche B") (2017: Nil).

The exercise prices and exercise periods of the share options outstanding under the 2018 Options as at the end of the reporting period are as follows:

2018

Number of options ***'000***	**Exercise price*** ***HK$ per share***	**Exercise period**
11,015	**15.506**	**24 December 2020 to 23 December 2025**
11,015	**15.506**	**24 December 2021 to 23 December 2025**
11,015	**15.506**	**24 December 2022 to 23 December 2025**
1,455	**15.506**	**24 December 2023 to 23 December 2025**
34,500		

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

The fair value of the share options granted during the year were US$3,727,000 (US$0.64 cents each) for the 2018 Tranche A and US$17,954,000 (US$0.63 cents each) for the 2018 Tranche B. The Group did not recognise any share option expense under the 2018 Options during the year (2017: Nil), which was immaterial.

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

	2018 Tranche A	**2018 Tranche B**
Dividend yield (%)	**2.15**	**2.15**
Expected volatility (%)	**40.61**	**40.61**
Risk-free interest rate (%)	**1.97**	**1.97**
Annual post-vesting forfeit rate (%)	**2**	**5**
Exercise multiple	**2.8**	**2.2**
Share price (US$ per share)	**1.84**	**1.84**

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

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

At the end of the reporting period, the Company had 34,500,000 share options outstanding under the 2018 Options. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 34,500,000 additional ordinary shares of the Company and additional share capital of US$89,978,000 (including US$21,681,000 transferred from the share option reserve to share capital).

At the date of approval of these financial statements, the Company had 34,500,000 share options outstanding under the 2018 Options, which represented approximately 2.7% of the Company's shares in issue as at that date.

16. COMMITMENTS

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

	2018	2017
	(US$'000)	*(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**409,701**	47,156

17. 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 Inc.
– Hua Hong International Inc. ("Huahong International")	Shareholder of the Company
– Shanghai Huahong Zealcore Electronics Co., Ltd. ("Huahong Zealcore")	Subsidiary of Huahong Group
– Shanghai Hongri International Electronics Co., Ltd. ("Hongri")	Subsidiary of Huahong Group
– Shanghai Integrated Circuit Research and Development Center ("ICRD")	Subsidiary of Huahong Group
– Shanghai Hua Hong Jitong Smart System Co., Ltd. ("Jitong")	Subsidiary of Huahong Group
NEC Corporation ("NEC")	Shareholder of the Company
– NEC Management Partner, Ltd. ("NEC Management")	Subsidiary of NEC
SAIL and its subsidiaries	
– Sino-Alliance International Ltd. ("SAIL International")	Shareholder of the Company
– Shanghai Huali Microelectronics Co., Ltd. ("Shanghai Huali")	Subsidiary of SAIL
– QST Corporation ("QST")	Subsidiary of SAIL
INESA and its subsidiaries	
– Shanghai INESA Intelligent Electronics Co., Ltd. ("Shanghai INESA")	Subsidiary of INESA
– Shanghai Nanyang Software System Integration Co., Ltd. ("Nanyang Software")	Subsidiary of INESA
Huahong Technology Development	Associate of the Group
– Huahong Real Estate	Subsidiary of Huahong Technology Development
– Shanghai Huajin Property Management Co., Ltd. ("Huajin")	Subsidiary of Huahong Technology Development
CEC and its subsidiaries	
– China Electronics Corporation ("CEC")*	Shareholder of Huahong Group (before 26 October 2018)
– 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

* CEC disposed of all of its shareholdings in Huahong Group on 26 October 2018. From then on, CEC and its subsidiaries are no longer related parties of the Group.

(b) Related party transactions

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

	2018	2017
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
Huada*	**44,589**	47,682
Shanghai Huahong IC*	**14,536**	13,174
ICRD	**9,076**	10,674
Huahong Zealcore#	**4,996**	6,402
Shanghai Belling*	**4,919**	4,336
QST#	**1,607**	2,975
Hongri	**–**	35
Purchases of goods from related parties *(note (ii))*		
Hylintek*	**13,183**	12,694
Hongri	**7,567**	5,649
Huahong Zealcore#	**651**	659
NEC Management	**748**	519
Jitong	**98**	79
Service fee income from a related party *(note (iii))*		
QST#	**–**	109
Service fee charged by related parties *(note (iv))*		
Shanghai INESA#	**2,183**	559
Huajin#	**227**	222
Huahong Real Estate	**151**	157
Nanyang Software#	**208**	131
Rental income from a related party *(note (iii))*		
Shanghai Huali#	**13,448**	12,761
Rental expense charged by a related party *(note (iv))*		
Huahong Real Estate#	**1,670**	1,662
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**31,235**	28,210

The related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

* These related party transactions with CEC's subsidiaries disclosed above were conducted from 1 January 2018 to 26 October 2018.

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 received from related parties were based on the prices and terms agreed between the related parties.

Note (iv) The rental expense and service fees charged by related parties were based on the prices and terms agreed between the related parties.

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

(c) Outstanding balances with related parties

	2018	2017
	(US$'000)	*(US$'000)*
Long-term prepayments to related parties		
Shanghai Huali	**6,920**	–
ICRD	**1,827**	–
	8,747	–
Amounts due from related parties		
Shanghai Huali	**7,841**	6,869
Huahong Real Estate	**1,718**	24
Huahong Zealcore	**558**	1,137
ICRD	**519**	97
QST	**164**	1,430
Huada*	**–**	28,760
Shanghai Huahong IC*	**–**	7,565
Shanghai Belling*	**–**	1,106
	10,800	46,988

	2018	2017
	(US$'000)	*(US$'000)*
Amounts due to related parties		
Shanghai Huali	**4,185**	4,677
ICRD	**576**	2,220
Shanghai INESA	**352**	225
Huahong Zealcore	**256**	257
NEC Management	**191**	122
Huahong Real Estate	**148**	124
Hongri	**101**	391
QST	**18**	120
Jitong	**7**	19
Nanyang Software	**4**	19
Hylintek*	**–**	2,711
	5,838	10,885

Balances with the related parties were unsecured, non-interest-bearing. Except for the long-term prepayments to related parties which are classified as investing activities, all the other balances arose from operating activities.

* The outstanding balances with CEC's subsidiaries as at 31 December 2018 did not constitute outstanding balances with related parties and, therefore, have not been disclosed above.

(d) Compensation of key management personnel of the Group

	2018	2017
	(US$'000)	*(US$'000)*
Short term employee benefits	**3,686**	2,924
Pension scheme contributions	**60**	46
Equity-settled share option expense	**299**	698
Total compensation paid to key management personnel	**4,045**	3,668

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 28 March 2019, the directors of the company proposed a final dividend of HK$31 cents per ordinary share totaling approximately US$50,741,000 for the year ended 31 December 2018 (based on the number of shares of the Company as of 28 March 2019), which is subject to the approval of the Company's shareholders at the forth coming annual general meeting.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed the results of the Group for the year ended 31 December 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 ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement was published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.huahonggrace.com). The annual report for year ended 31 December 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.

APPRECIATION

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

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

Shanghai, PRC, 28 March 2019

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
Yang Du
Takayuki Morita
Jun Ye

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