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 2019

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 2019 ("the period").

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

- Revenue was US$450.8 million, an increase of 2.5% compared to US$440.0 million, primarily due to increased average selling prices.
- Gross margin was 31.6%, a decrease of 1.3 percentage points compared to 32.9%, primarily due to lower utilization, increased unit cost of raw materials and depreciation expenses, partially offset by the increased average selling prices.
- Profit before tax was US$105.4 million, an increase of 6.3% compared to US$99.2 million.
- Profit for the period attributable to owners of the parent was US$90.8 million, an increase of 5.7% compared to US$85.9 million.
- Basic earnings per share was US$0.071, a decrease of US$0.012 compared to US$0.083.
- Net cash flow from operating activities were US$99.5 million, a decrease of 9.1% compared to US$109.5 million.
- Capital expenditures were US$333.3 million, compared to US$115.6 million.
- Capacity was 175,000 wafers per month, compared to 172,000 wafers per month.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	1H 2019	1H 2018	Change
	US$'000	*US$'000*	
	Unaudited	Unaudited	
Revenue	**450,790**	439,961	2.5 %
Cost of sales	**(308,370)**	(295,330)	4.4 %
Gross profit	**142,420**	144,631	(1.5)%
Other income and gains	**31,807**	17,064	86.4 %
Selling and distribution expenses	**(4,004)**	(3,712)	7.9 %
Administrative expenses	**(63,075)**	(55,765)	13.1 %
Other expenses	**(2,119)**	(6,884)	(69.2)%
Finance costs	**(625)**	(1,284)	(51.3)%
Share of profits of an associate	**1,010**	5,161	(80.4)%
Profit before tax	**105,414**	99,211	6.3 %
Income tax expense	**(8,879)**	(13,083)	(32.1)%
Profit for the period	**96,535**	86,128	12.1 %
Attributable to:			
Owners of the parent	**90,826**	85,888	5.7 %
Non-controlling interests	**5,709**	240	2,278.8 %

Revenue

Revenue was US$450.8 million, an increase of 2.5% compared to 1H 2018, primarily due to increased average selling prices.

Cost of sales

Cost of sales was US$308.4 million, an increase of 4.4% compared to 1H 2018, primarily due to increased unit cost of raw materials and depreciation expenses.

Gross profit

Gross profit was US$142.4 million, a decrease of 1.5% compared to 1H 2018, primarily due to lower utilization, increased unit cost of raw materials and depreciation expenses, partially offset by the increased average selling prices.

Other income and gains

Other income and gains were US$31.8 million, an increase of 86.4% compared to 1H 2018, primarily due to increased fair value gains on financial assets at fair value through profit or loss and interest income.

Selling and distribution expenses

Selling and distribution expenses were US$4.0 million, an increase of 7.9% compared to 1H 2018, primarily due to increased labor expenses.

Administrative expenses

Administrative expenses were US$63.1 million, an increase of 13.1% compared to 1H 2018, primarily due to increased labor expenses and R&D expenses, partially offset by an impairment provision in 1H 2018.

Other expenses

Other expenses were US$2.1 million, a decrease of 69.2% compared to 1H 2018, mainly due to decreased foreign exchange loss.

Finance costs

Finance costs were US$0.6 million, a decrease of 51.3% compared to 1H 2018, primarily due to decreased bank borrowings.

Share of profits of an associate

Share of profit of an associate was US$1.0 million, a decrease of 80.4% compared to 1H 2018, due to decreased profit realized by the associate.

Income tax expense

Income tax expense was US$8.9 million, a decrease of 32.1% compared to 1H 2018, primarily due to increased reversal of dividend withholding tax and decreased taxable profit.

Profit for the period

As a result of the cumulative effect of the above factors, profit for the period was US$96.5 million, an increase of 12.1% compared to 1H 2018. Net profit margin was 21.4%, an increase of 1.8 percentage points compared to 19.6% in 1H 2018.

FINANCIAL STATUS

	30 June 2019 *US$'000* **Unaudited**	31 December 2018 *US$'000* Audited	Change
Non-current assets			
Property, plant and equipment	**1,037,724**	773,180	34.2 %
Right-of-use assets	**16,914**	–	100.0 %
Investment property	**170,939**	171,225	(0.2)%
Investment in an associate	**64,900**	64,005	1.4 %
Equity instruments designated at fair value through other comprehensive income	**208,008**	208,357	(0.2)%
Other non-current assets	**175,375**	87,432	100.6 %
Total non-current assets	**1,673,860**	1,304,199	28.3 %
Current assets			
Inventories	**139,128**	129,629	7.3 %
Trade and notes receivables	**147,771**	176,797	(16.4)%
Due from related parties	**4,366**	10,800	(59.6)%
Other current assets	**72,067**	12,479	477.5 %
Financial assets at fair value through profit or loss	**658,306**	667,033	(1.3)%
Restricted and time deposits	**14,724**	337	4,269.1 %
Cash and cash equivalents	**834,678**	777,000	7.4 %
Total current assets	**1,871,040**	1,774,075	5.5 %
Current liabilities			
Trade payables	**76,966**	79,470	(3.2)%
Due to related parties	**12,688**	5,838	117.3 %
Other current liabilities	**341,290**	239,890	42.3 %
Lease liabilities	**1,381**	–	100.0 %
Interest-bearing bank borrowings	**4,364**	4,371	(0.2)%
Total current liabilities	**436,689**	329,569	32.5 %
Net current assets	**1,434,351**	1,444,506	(0.7)%
Non-current liabilities			
Interest-bearing bank borrowings	**24,001**	26,227	(8.5)%
Lease liabilities	**16,653**	–	100.0 %
Deferred tax liabilities	**8,203**	18,146	(54.8)%
Total non-current liabilities	**48,857**	44,373	10.1 %
Net assets	**3,059,354**	2,704,332	13.1 %

Explanation of items with fluctuation over 5% from 31 December 2018 to 30 June 2019

Property, plant and equipment

Property, plant and equipment increased from US$773.2 million to US$1,037.7 million, mainly as a result of the construction of the HH-Wuxi project.

Right-of-use assets/Lease liabilities

Right-of-use assets and lease liabilities were recognized under HKFRS 16 after 1 January 2019. According to HKFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Other non-current assets

Other non-current assets increased from US$87.4 million to US$175.4 million, primarily due to increased prepayments for capital expenditures.

Inventories

Inventories increased from US$129.6 million to US$139.1 million, primarily due to increased raw materials.

Trade and notes receivables

Trade and notes receivables decreased from US$176.8 million to US$147.8 million, primarily due to lower revenue compared to 2H 2018.

Due from related parties

Due from related parties decreased from US$10.8 million to US$4.4 million, primarily due to decreased account receivables from certain of our related parties.

Other current assets

Other current assets increased from US$12.5 million to US$72.1 million, primarily due to increased prepayments to suppliers and VAT deductible tax.

Restricted and time deposits

Restricted and time deposits increased from US$0.3 million to US$14.7 million, due to US$13.9 million of restricted deposits for the portion of dividend not paid yet on 30 June 2019.

Cash and cash equivalents

Cash and cash equivalents increased from US$777.0 million to US$834.7 million, mainly due to (i) payout of US$1,535.4 million from investment in financial assets at fair value through profit or loss, (ii) US$317.0 million of equity injection to HH-Wuxi, (iii) US$99.5 million generated from operating activities, (iv) US$11.9 million of interest income, and (v) US$1.3 million proceeds from share option exercise. This was offset by (i) investment in financial assets at fair value through profit or loss of US$1,518.9 million, (ii) capital investments of US$333.3 million, (iii) dividend payments of US$51.0 million, (iv) a repayment of bank borrowing of US$2.2 million, (v) lease liabilities payments of US$0.2 million, and (vi) interest payments of US$0.2 million. Additionally, there was a negative adjustment of US$1.6 million due to RMB depreciation.

Due to related parties

Due to related parties increased from US$5.8 million to US$12.7 million, primarily due to a receipt of rental prepayment from one of our related parties.

Other current liabilities

Other current liabilities increased from US$239.9 million to US$341.3 million, primarily due to (i) increased payables for capital expenditures, (ii) increased dividend payables, and (iii) a receipt of government funding, partially offset by payments of taxations and year-end bonus for 2018.

Interest-bearing bank borrowings

Total interest-bearing bank borrowings decreased from US$30.6 million to US$28.4 million, due to a repayment of bank borrowing.

Deferred tax liabilities

Deferred tax liabilities decreased from US$18.1 million to US$8.2 million, primarily due to a reversal of dividend withholding tax accrued for 2018.

CASH FLOW

	1H 2019 ***US$'000*** **Unaudited**	1H 2018 *US$'000* Unaudited	Change
Net cash flows generated from operating activities	**99,518**	109,495	(9.1)%
Net cash flows used in investing activities	**(304,919)**	(167,369)	82.2 %
Net cash flows generated from financing activities	**264,710**	523,168	(49.4)%
Net increase in cash and cash equivalents	**59,309**	465,294	(87.3)%
Cash and cash equivalents at beginning of the period	**777,000**	374,890	107.3 %
Effect of foreign exchange rate changes, net	**(1,631)**	(3,462)	(52.9)%
Cash and cash equivalents at end of the period	**834,678**	836,722	(0.2)%

Net cash flows generated from operating activities

Net cash flows generated from operating activities decreased from US$109.5 million to US$99.5 million, primarily due to increased payments of VAT deductible tax, partially offset by enhanced account receivable collection.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$304.9 million, primarily attributed to (i) US$1,518.9 million for investment in financial assets at fair value through profit or loss, and (ii) US$333.3 million for capital investments, offset by (i) payout of US$1,535.4 million from investment in financial assets at fair value through profit or loss, and (ii) US$11.9 million of interest income.

Net cash flows generated from financing activities

Net cash flows generated from financing activities were US$264.7 million, including (i) US$317.0 million of equity injection to HH-Wuxi and (ii) US$1.3 million proceeds from share option exercise, partially offset by (i) dividend payments of US$51.0 million, (ii) a repayment of bank borrowing of US$2.2 million, (iii) interest payments of US$0.2 million, and (iv) lease liabilities payments of US$0.2 million.

BUSINESS REVIEW

The conditions of the global semiconductor market were affected by high inventories in the first half of the year, with poor performance in the wafer foundry industry for the first half of 2019. Using flexible sales strategies and the advantages of certain differentiated technologies, the Company has achieved year-on-year growth in sales for the second quarter and the first half of 2019.

Overall demand for discrete devices has remained stable, with a record high production of DT (Deep Trench)-SJNFET. In the first half of 2019, there were month-to-month and year-on-year increases in average selling prices, mainly due to product mix optimization, in particular by increasing capacity ratios for high voltage power discrete devices, such as DT (Deep Trench)-SJNFET and IGBT.

In response to the increasing demand for MCU required for future intelligent control applications, the Company has continuously worked on the optimization and business expansion of eNVM technologies. In the first half of 2019, the wafer shipment volume and average selling price of embedded flash technology for MCU increased YoY. In addition, there was a strong increase in the number of MCU NTO (new products) using 0.11 um embedded flash technology.

Construction of the 300mm wafer factory of HH-Wuxi, which commenced in March 2018, has progressed smoothly. In the second quarter of 2019, the clean room passed certification, and most of the equipment and tools were installed. Early stage technology development has progressed smoothly, including: 55nm logic and radio-frequency CMOS technology; 90nm embedded flash memory technology; and 90nm BCD technology. Based on market research and technology evaluation, a 12-inch power device process program was adopted, which included a 12-inch IC + Power project at HH-Wuxi. Improvements in the 12-inch power device process, production capacity and technology will allow the Company to better serve domestic and overseas customers, and expand our industry-leading advantages in power devices, especially for medium and high voltages.

Implementation of the corporate development strategy for embedded flash MCU, radio-frequency IC and power discrete using 200mm wafer technology and the start of 300mm wafer volume production in the fourth quarter for 55nm logic and radio-frequency CMOS technology will enable the Company to meet the needs and provide higher quality service for our customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2019.

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 Limited (the "Listing Rules") during the six months ended 30 June 2019.

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 2019.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2019.

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 CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	**For the six months ended 30 June** **2019** **(Unaudited)** ***(US$'000)***	2018 (Unaudited) *(US$'000)*
Revenue	*4*	**450,790**	439,961
Cost of sales		**(308,370)**	(295,330)
Gross profit		**142,420**	144,631
Other income and gains	*4*	**31,807**	17,064
Selling and distribution expenses		**(4,004)**	(3,712)
Administrative expenses		**(63,075)**	(55,765)
Other expenses		**(2,119)**	(6,884)
Finance costs		**(625)**	(1,284)
Share of profit of an associate		**1,010**	5,161
PROFIT BEFORE TAX	*5*	**105,414**	99,211
Income tax expense	*6*	**(8,879)**	(13,083)
PROFIT FOR THE PERIOD		**96,535**	86,128
Attributable to:			
Owners of the parent		**90,826**	85,888
Non-controlling interests		**5,709**	240
		96,535	86,128
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	*7*		
Basic			
– For profit for the period		**US$0.071**	US$0.083
Diluted			
– For profit for the period		**US$0.070**	US$0.082

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
PROFIT FOR THE PERIOD	**96,535**	86,128
OTHER COMPREHENSIVE LOSS		
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	**(11,486)**	(30,446)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(11,486)**	(28,901)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**85,049**	57,227
Attributable to:		
Owners of the parent	**87,301**	65,362
Non-controlling interests	**(2,252)**	(8,135)
	85,049	57,227

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2019

	Notes	**30 June 2019 (Unaudited) *(US$'000)***	31 December 2018 (Audited) *(US$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,037,724**	773,180
Right-of-use assets		**16,914**	–
Investment property		**170,939**	171,225
Prepaid land lease payments		**58,570**	58,989
Intangible assets		**12,198**	9,571
Investment in an associate		**64,900**	64,005
Equity investments designated at fair value through other comprehensive income		**208,008**	208,357
Long term prepayments to third parties		**90,270**	3,762
Long term prepayments to related parties		**6,908**	8,747
Deferred tax assets		**7,429**	6,363
Total non-current assets		**1,673,860**	1,304,199
CURRENT ASSETS			
Inventories		**139,128**	129,629
Trade and notes receivables	*9*	**147,771**	176,797
Prepayments, other receivables and other assets		**72,067**	12,479
Due from related parties		**4,366**	10,800
Financial assets at fair value through profit or loss		**658,306**	667,033
Restricted and time deposits		**14,724**	337
Cash and cash equivalents		**834,678**	777,000
Total current assets		**1,871,040**	1,774,075
CURRENT LIABILITIES			
Trade payables	*10*	**76,966**	79,470
Other payables and accruals		**267,047**	165,370
Interest-bearing bank borrowings		**4,364**	4,371
Lease liabilities		**1,381**	–
Government grants		**55,335**	44,406
Due to related parties		**12,688**	5,838
Income tax payable		**18,908**	30,114
Total current liabilities		**436,689**	329,569
NET CURRENT ASSETS		**1,434,351**	1,444,506
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,108,211**	2,748,705

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	30 June 2019 (Unaudited) (US$'000)	31 December 2018 (Audited) (US$'000)
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**24,001**	26,227
Lease liabilities	**16,653**	–
Deferred tax liabilities	**8,203**	18,146
Total non-current liabilities	**48,857**	44,373
Net assets	**3,059,354**	2,704,332
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,961,742**	1,960,159
Reserves	**234,763**	195,097
Total equity attributable to owners of the parent	**2,196,505**	2,155,256
Non-controlling interests	**862,849**	549,076
Total equity	**3,059,354**	2,704,332

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The financial information relating to the year ended 31 December 2018 that is included in the interim condensed consolidated statement of financial position 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 those 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 2018 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 auditors have reported on the financial statements for the year ended 31 December 2018. The auditor's report was unqualified; and did not contain a statement under sections 406(2), 407(2) or 407(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 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of HKFRS 16 are described below:

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 account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were 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 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application; and

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) US$' 000 (Unaudited)
Assets	
Increase in right-of-use assets	17,746
Decrease in prepayments, other receivables and other assets	(1,711)
Increase in deferred tax assets	277
Increase in total assets	16,312
Liabilities	
Increase in lease liabilities	(17,882)
Increase in accumulated losses	1,570

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. A right-of-use assets arising from land lease is presented as prepaid land lease payments.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
China (including Hong Kong)	**243,904**	251,857
United States of America	**83,136**	80,052
Asia (excluding China and Japan)	**53,059**	52,969
Europe	**36,706**	32,975
Japan	**33,985**	22,108
	450,790	439,961

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Revenue from contracts with customers		
Sale of goods	**450,790**	439,961
Other income		
Rental income	**6,409**	6,852
Interest income	**11,299**	4,777
Government subsidies	**311**	3,146
Others	**288**	502
	18,307	15,277
Other gains, net		
Fair value gains on financial assets at fair value through profit or loss	**13,500**	1,787
	31,807	17,064

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Type of goods or service		
Sales of semiconductor products and total revenue from contracts with customers	**450,790**	439,961
Timing of revenue recognition		
Goods transferred at a point in time and total revenue from contracts with customer	**450,790**	439,961

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2019 is included in note 3.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Cost of inventories sold	**308,370**	295,330
Write-down of inventories to net realisable value	**1,020**	–
Impairment of trade receivables	**47**	25
Impairment on items of property, plant and equipment	**–**	3,792
Exchange losses	**2,102**	7,092

6. INCOME TAX

Hong Kong profits were subject to profits tax at the rate of 16.5% during the period (six months ended 30 June 2018: 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 2018: 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 have 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 a High and New Technology Enterprise and thus was entitled to a preferential tax rate of 15% from 2018 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, Huahong Semiconductor (Wuxi) Co., Ltd. ("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 a corporation tax rate of 25.5% (six months ended 30 June 2018: 25.5%).

6. INCOME TAX (CONTINUED)

The Company's subsidiary incorporated and operating in the United States is subject to a federal corporation income tax rate of 21% during the period (six months ended 30 June 2018: 21%), as well as state tax at 8.84% (six months ended 30 June 2018: 8.84%).

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Current income tax – PRC	**14,936**	15,386
Current income tax – elsewhere	**18**	31
Withholding tax on dividend declared	**4,656**	4,245
Deferred tax	**(10,731)**	(6,579)
	8,879	13,083

During the period, the directors of a subsidiary established in Mainland China approved that any undistributed profits of the subsidiary generated in 2018 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$12,443,000 (six months ended 30 June 2018: US$9,303,000).

7. 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 1,284,846,838 in issue during the period (six months ended 30 June 2018: 1,039,526,524).

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**90,826**	85,888

	Number of shares For the six months ended 30 June	
	2019	2018
	('000)	*('000)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,284,847**	1,039,527
Effect of dilution-weighted average number of ordinary shares:		
Share options	**14,014**	12,124
	1,298,861	1,051,651

8. DIVIDENDS

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Final declared – HK$31 cents per ordinary share (2018: HK$31 cents)	**50,772**	41,095

During the period, the Company's shareholders approved 2018 proposed final dividend with a total amount of HK$398,462,807 (six months ended 30 June 2018: HK$322,271,659). The amount of the final 2018 dividend was calculated based on the number of shares of the Company as of 17 May 2019. The total 2018 final dividend amount presented in US$ is slightly different from the proposed one disclosed in the Group's annual financial information for the year ended 31 December 2018 due to the different exchange rates used in the translation.

9. TRADE AND NOTES RECEIVABLES

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Trade receivables	**112,670**	123,414
Notes receivable	**36,650**	54,887
	149,320	178,301
Impairment of trade receivables	**(1,549)**	(1,504)
	147,771	176,797

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

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Within 3 months	**102,538**	121,910
Over 3 and within 6 months	**8,581**	–
Over 6 months	**2**	–
	111,121	121,910

10. TRADE PAYABLES

An ageing 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 2019	31 December 2018
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Within 1 month	**46,025**	26,704
Over 1 and within 3 months	**17,589**	37,713
Over 3 and within 6 months	**2,537**	4,310
Over 6 and within 12 months	**2,628**	2,215
Over 12 months	**8,187**	8,528
	76,966	79,470

11. COMMITMENTS

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

	30 June 2019 (Unaudited) ***(US$'000)***	31 December 2018 (Audited) *(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**309,915**	409,701

12. 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 three batches, which were effective on 4 September 2015 (the "2015 Options"), on 24 December 2018 (the "2018 Options") and on 29 March 2019 (the "2019 Options"), respectively.

2015 Options

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

	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***
At 1 January 2019	**6.912**	**18,872**
Forfeited during the period	**6.912**	**(57)**
Exercised during the period	**6.912**	**(1,447)**
At 30 June 2019	**6.912**	**17,368**

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

30 June 2019

Number of options ***'000***	**Exercise price*** ***HK$ per share***	**Exercise period**
1,118	**6.912**	**4 September 2017 to 3 September 2022**
7,708	**6.912**	**4 September 2018 to 3 September 2022**
8,542	**6.912**	**4 September 2019 to 3 September 2022**
17,368		

* 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.

12. SHARE OPTION SCHEME (CONTINUED)

2018 Options

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

	Weighted average exercise price *HK$ per share*	**Number of options** *'000*
At 1 January 2019	15.506	34,500
Forfeited during the period	15.506	(218)
Exercised during the period	15.506	–
At 30 June 2019	15.506	34,282

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:

30 June 2019

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
10,943	**15.506**	**24 December 2020 to 23 December 2025**
10,943	**15.506**	**24 December 2021 to 23 December 2025**
10,943	**15.506**	**24 December 2022 to 23 December 2025**
1,453	**15.506**	**24 December 2023 to 23 December 2025**
34,282		

* 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.

2019 Options

The following share options were outstanding under the 2019 Options during the period:

	Weighted average exercise price *HK$ per share*	**Number of options** *'000*
At 1 January 2019	–	**–**
Granted during the period	18.400	**500**
At 30 June 2019	18.400	**500**

The fair value of 2019 Options on the date of grant was immaterial and, therefore, the Group did not recognise any share option expense under 2019 Options during the six months ended 30 June 2019.

The exercise prices and exercise periods of the share options outstanding under the 2019 Options as at the end of the reporting period are as follows:

12. SHARE OPTION SCHEME (CONTINUED)

30 June 2019

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
125	**18.400**	**29 March 2021 to 28 March 2026**
125	**18.400**	**29 March 2022 to 28 March 2026**
125	**18.400**	**29 March 2023 to 28 March 2026**
125	**18.400**	**29 March 2024 to 28 March 2026**
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.

13. RELATED PARTY TRANSACTIONS

(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	
– 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 (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

13. RELATED PARTY TRANSACTIONS (CONTINUED)

* 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 disclosed elsewhere in this financial information, the Group had the following transactions with related parties during the period:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
Huahong Zealcore	**1,750**	2,378
ICRD	**1,572**	5,324
QST	**747**	519
Huada	**–**	27,436
Shanghai Huahong IC	**–**	5,806
Shanghai Belling	**–**	2,917
Purchases of goods from related parties *(note (ii))*		
Hongri	**2,482**	3,998
NEC Management	**442**	343
Huahong Zealcore	**275**	380
ICRD	**268**	–
Jitong	**5**	–
Shanghai Huali	**1**	–
Hylintek	**–**	7,880
Purchases of intangible assets from a related party *(note (iii))*		
ICRD	**3,150**	–
Service fee charged by related parties *(note (iv))*		
Shanghai INESA	**744**	1,049
Huajin	**111**	118
Huahong Real Estate	**48**	64
Nanyang Software	**21**	198
Rental income from a related party *(note (v))*		
Shanghai Huali	**6,697**	6,916
Rental expense charged by a related party *(note (iv))*		
Huahong Real Estate	**820**	839
Expense paid on behalf of a related party *(note (vi))*		
Shanghai Huali	**14,697**	15,745

13. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

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

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

(iii) The purchases of intangible assets from the related party was made according to the prices and terms offered by the related parties.

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

(v) The rental income from related parties were received according to the prices and terms agreed between the related parties.

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

(c) Outstanding balances with related parties

The amounts due from/to related parties as at the end of the reporting period are unsecured, interest-free and settled in accordance with the terms agreed with the related parties.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Short term employee benefits	**1,234**	1,194
Pension scheme contributions	**39**	33
Equity-settled share option expense	**557**	185
Total compensation paid to key management personnel	**1,830**	1,412

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2019.

AUDIT COMMITTEE

The Audit Committee, comprising two independent non-executive directors and a non-executive director of the Company, has reviewed and approved the unaudited results of the Group for the six months ended 30 June 2019 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 2019 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, 6 August 2019

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

Executive Directors
Suxin Zhang *(Chairman)*
Junjun Tang *(President)*

Non-executive Directors
Yang Du
Takayuki Morita
Jing Wang
Jun Ye

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