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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 2020

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 2020 ("the period").

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

- Revenue was US$428.2 million, a decrease of 5.0% compared to 1H 2019, primarily due to decreased average selling price and decreased demand for smart card ICs and super junction products, partially offset by increased demand for MCU and power management products.
- Gross margin was 23.6%, a decrease of 8.0 percentage points compared to 31.6%, primarily due to decreased average selling prices, increased depreciation and labor expenses.
- Profit for the period attributable to owners of the parent was US$38.1 million, a decrease of 58.0% compared to US$90.8 million.
- Basic earnings per share was US$0.030, a decrease of US$0.041 compared to US$0.071.
- Net cash flow from operating activities were US$95.2 million, a decrease of 4.3% compared to US$99.5 million.
- Capital expenditures were US$378.6 million, compared to US$333.3 million.
- Capacity reached 201,000 8-inch equivalent wafers per month, compared to 175,000.
- Wafer shipments (in 8-inch equivalent wafers) was 986,000, compared to 935,000.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	1H 2020	1H 2019	Change
	US$'000	*US$'000*	
	Unaudited	Unaudited	
Revenue	**428,204**	450,790	(5.0)%
Cost of sales	**(326,972)**	(308,370)	6.0 %
Gross profit	**101,232**	142,420	(28.9)%
Other income and gains	**25,406**	31,807	(20.1)%
Selling and distribution expenses	**(4,226)**	(4,004)	5.5 %
Administrative expenses	**(129,748)**	(63,075)	105.7 %
Other expenses	**(3)**	(2,119)	(99.9)%
Finance costs	**(618)**	(625)	(1.1)%
Share of profits of an associate	**7,258**	1,010	618.6 %
(Loss)/profit before tax	**(699)**	105,414	(100.7)%
Income tax credit/(expense)	**4,705**	(8,879)	(153.0)%
Profit for the period	**4,006**	96,535	(95.9)%
Attributable to:			
Owners of the parent	**38,140**	90,826	(58.0)%
Non-controlling interests	**(34,134)**	5,709	(697.9)%

Revenue

Revenue was US$428.2 million, a decrease of 5.0% compared to 1H 2019, primarily due to decreased average selling price and decreased demand for smart card ICs and super junction products, partially offset by increased demand for MCU and power management products.

Cost of sales

Cost of sales was US$327.0 million, an increase of 6.0% compared to 1H 2019, primarily due to increased wafer shipments, depreciation and labor expenses.

Gross profit

Gross profit was US$101.2 million, a decrease of 28.9% compared to 1H 2019, primarily due to decreased average selling price, increased depreciation and labor expenses.

Other income and gains

Other income and gains were US$25.4 million, a decrease of 20.1% compared to 1H 2019, primarily due to decreased fair value gains on financial assets at fair value through profit or loss and interest income, partially offset by increased government subsidies.

Selling and distribution expenses

Selling and distribution expenses were US$4.2 million, an increase of 5.5% compared to 1H 2019, primarily due to increased labor expenses.

Administrative expenses

Administrative expenses were US$129.7 million, an increase of 105.7% compared to 1H 2019, primarily due to increased development, depreciation and labor expenses for Wuxi fab.

Other expenses

Other expenses were US$3 thousand, compared to US$2.1 million in 1H 2019, mainly due to a foreign exchange loss in the previous period.

Share of profits of an associate

Share of profit of an associate was US$7.3 million, an increase of 618.6% compared to 1H 2019, due to increased profit realized by the associate.

Income tax credit/(expense)

Income tax credit was US$4.7 million, compared to income tax expense of US$8.9 million in 1H 2019, primarily due to increased reversal of dividend withholding tax accrued for the prior year 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$4.0 million, a decrease of 95.9% compared to 1H 2019. Net profit margin was 0.9% compared to 21.4% in 1H 2019.

FINANCIAL STATUS

	30 June 2020 ***US$'000*** **Unaudited**	31 December 2019 *US$'000* Audited	Change
Non-current assets			
Property, plant and equipment	**1,790,860**	1,558,283	14.9%
Investment property	**166,154**	168,615	(1.5)%
Right-of-use assets	**75,810**	74,526	1.7 %
Investment in an associate	**79,335**	73,142	8.5 %
Equity instruments designated at fair value through other comprehensive income	**204,658**	207,689	(1.5)%
Other non-current assets	**84,455**	34,437	145.2 %
Total non-current assets	**2,401,272**	2,116,692	13.4 %
Current assets			
Inventories	**176,856**	142,087	24.5 %
Trade and notes receivables	**135,518**	164,968	(17.9)%
Due from related parties	**11,588**	9,262	25.1 %
Prepayments, other receivables and other assets	**66,174**	113,453	(41.7)%
Financial assets at fair value through profit or loss	**84,759**	519,779	(83.7)%
Restricted and time deposits	**766**	70,776	(98.9)%
Cash and cash equivalents	**698,957**	476,286	46.8 %
Total current assets	**1,174,618**	1,496,611	(21.5)%
Current liabilities			
Trade payables	**92,607**	86,119	7.5 %
Due to related parties	**13,467**	10,655	26.4 %
Other current liabilities	**372,886**	372,343	0.1 %
Lease liabilities	**3,757**	1,922	95.5 %
Interest-bearing bank borrowings	**4,238**	4,300	(1.4)%
Total current liabilities	**486,955**	475,339	2.4 %
Net current assets	**687,663**	1,021,272	(32.7)%
Non-current liabilities			
Interest-bearing bank borrowings	**19,069**	21,502	(11.3)%
Lease liabilities	**16,889**	16,694	1.2 %
Deferred tax liabilities	**3,194**	17,176	(81.4)%
Total non-current liabilities	**39,152**	55,372	(29.3)%
Net assets	**3,049,783**	3,082,592	(1.1)%

Explanation of items with fluctuation over 5% from 31 December 2019 to 30 June 2020

Property, plant and equipment

Property, plant and equipment increased from US$1,558.3 million to US$1,790.9 million, mainly as a result of the construction of the Hua Hong Wuxi.

Investment in an associate

Investment in an associate increased from US$73.1 million to US$79.3 million, primarily due to profit shared from the associate in the period.

Other non-current assets

Other non-current assets increased from US$34.4 million to US$84.5 million, primarily due to increased prepayments for capital expenditures and increased intangible assets.

Inventories

Inventories increased from US$142.1 million to US$176.9 million, primarily due to increased raw materials and finished goods.

Trade and notes receivables

Trade and notes receivables decreased from US$165.0 million to US$135.5 million, primarily due to lower revenue compared to 2H 2019.

Due from related parties

Due from related parties increased from US$9.3 million to US$11.6 million, primarily due to increased receivables from certain of our related party.

Prepayments, other receivables and other assets

Prepayments, other receivables and other assets decreased from US$113.5 million to US$66.2 million, primarily due to receipts of tax return of VAT.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss decreased from US$519.8 million to US$84.8 million, primarily due to payout from investment in financial products.

Restricted and time deposits

Restricted and time deposits decreased from US$70.8 million to US$0.8 million, due to payout from investment in time deposits.

Cash and cash equivalents

Cash and cash equivalents increased from US$476.3 million to US$699.0 million, mainly due to the reasons stated in the cash flow analysis below.

Trade payables

Trade payables increased from US$86.1 million to US$92.6 million, primarily due to increased purchases of materials for Hua Hong Wuxi.

Due to related parties

Due to related parties increased from US$10.7 million to US$13.5 million, primarily due to a receipt of rental prepayment from one of our related parties.

Lease liabilities

Total lease liabilities increased from US$18.6 million to US$20.6 million, primarily due to renewed lease contracts.

Interest-bearing bank borrowings

Total interest-bearing bank borrowings decreased from US$25.8 million to US$23.3 million, due to a repayment of bank borrowing.

Deferred tax liabilities

Deferred tax liabilities decreased from US$17.2 million to US$3.2 million, primarily due to a reversal of dividend withholding tax accrued for 2019.

CASH FLOW

	1H 2020 ***US$'000*** **Unaudited**	1H 2019 *US$'000* Unaudited	Change
Net cash flows generated from operating activities	**95,208**	99,518	(4.3)%
Net cash flows generated from/(used in) investing activities	**132,861**	(304,919)	(143.6)%
Net cash flows (used in)/generated from financing activities	**(1,568)**	264,710	(100.6)%
Net increase in cash and cash equivalents	**226,501**	59,309	281.9 %
Cash and cash equivalents at beginning of the period	**476,286**	777,000	(38.7)%
Effect of foreign exchange rate changes, net	**(3,830)**	(1,631)	134.8 %
Cash and cash equivalents at end of the period	**698,957**	834,678	(16.3)%

Net cash flows generated from operating activities

Net cash flows generated from operating activities decreased from US$99.5 million to US$95.2 million, primarily due to increased payments for materials and labor expenses, decreased receipts of government grants, partially offset by receipts of tax return of VAT.

Net cash flows generated from investing activities

Net cash flows generated from investing activities were US$132.9 million, primarily including (i) payout of US$1,173.8 million from investment in financial assets at fair value through profit or loss, (ii) payout of US$70.0 million in investment in time deposit, and (iii) US$5.8 million of interest income, partially offset by (i) US$738.1 million for investment in financial assets at fair value through profit or loss, and (ii) US$378.6 million for capital investments.

Net cash flows used in financing activities

Net cash flows used in financing activities were US$1.6 million, attributed to (i) lease liabilities payments of US$2.7 million, (ii) a repayment of bank borrowing of US$2.1 million, and (iii) interest payments of US$0.6 million, partially offset by US$3.8 million proceeds from share option exercise.

BUSINESS REVIEW

In the first half of 2020, the global semiconductor market was hit by the impact of COVID-19. Despite the on-going impact, some regions, which experienced the pandemic earlier, are gradually recovering. Thanks to the joint efforts of our shareholders, customers, suppliers, and employees, our revenue rebounded steadily in the second quarter, up 11% on a QoQ basis.

The sharp increase in shipment volumes of pandemic prevention supplies has driven significant growth in revenue for MCU products in the first half of the year, posting a relatively good performance. In the second quarter, as a result of containment of COVID-19 in China, demand for smart card IC gradually recovered in the Chinese market. In the meantime, the Company actively developed its 90nm embedded flash memory process in its HH-Wuxi 12-inch wafer fab, to keep abreast of the high-density memory industry's development trend. The fab commenced mass production of 90nm embedded flash memory technology in the first half of the year, playing a key role for the Company to seize future market opportunities. As an increasing number of products are certified and the 12-inch wafer capacity is continuously expanded, the Company will further increase revenue in the eNVM market segment.

Development of discrete devices remained stable. Despite consequences of the pandemic, the Company achieved an outstanding double digit QoQ growth in shipment volume of power discrete devices in the second quarter, thanks to our diverse types of power device processes, quality assurance of excellent technologies, and wide range of customer base. Shipment volumes for both SGT-MOSFET and IGBT reached new record levels.

The HH-Wuxi 12-inch wafer fab, which was put into operation in the fourth quarter of 2019, ran smoothly in the first half of 2020. For platform products, the 90nm eNVM, 65nm logic & RF platform, and discrete product line were moved to mass production. The technology roadmap, in accordance with the strategy of "IC+Power," has been successfully implemented, which ensures the Company's ability to continuously maintain high-level service and abundant product supply for its customers in the future.

Looking forward to the future, the Company's 8-inch wafer fab will work on continuous development of its power discrete device, embedded flash memory MCU, PMIC, and cellphone RF IC businesses, and the 12-inch wafer fab will continue to consistently implement the "IC+Power" strategy. We will continue to implement our "8-inch+12-inch" wafer technology development strategy to provide customers with better differentiated technology products.

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 2020.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2020.

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 2020.

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 2020.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Board of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2020.

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 dispatched to the shareholders of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	For the six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		(US$'000)	*(US$'000)*
Revenue	*4*	**428,204**	450,790
Cost of sales		**(326,972)**	(308,370)
Gross profit		**101,232**	142,420
Other income and gains	*4*	**25,406**	31,807
Selling and distribution expenses		**(4,226)**	(4,004)
Administrative expenses		**(129,748)**	(63,075)
Other expenses		**(3)**	(2,119)
Finance costs		**(618)**	(625)
Share of profit of an associate		**7,258**	1,010
(LOSS)/PROFIT BEFORE TAX	*5*	**(699)**	105,414
Income tax credit/(expense)	*6*	**4,705**	(8,879)
PROFIT FOR THE PERIOD		**4,006**	96,535
Attributable to:			
Owners of the parent		**38,140**	90,826
Non-controlling interests		**(34,134)**	5,709
		4,006	96,535
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	*7*		
Basic			
– For profit for the period		**US$0.030**	US$0.071
Diluted			
– For profit for the period		**US$0.029**	US$0.070

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
PROFIT FOR THE PERIOD	**4,006**	96,535
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	**(44,791)**	(11,486)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(44,791)**	(11,486)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(40,785)**	85,049
Attributable to:		
Owners of the parent	**5,380**	87,301
Non-controlling interests	**(46,165)**	(2,252)
	(40,785)	85,049

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2020

	Notes	**30 June 2020 (Unaudited) *(US$'000)***	31 December 2019 (Audited) *(US$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,790,860**	1,558,283
Right-of-use assets		**75,810**	74,526
Investment property		**166,154**	168,615
Intangible assets		**32,201**	13,322
Investment in an associate		**79,335**	73,142
Equity investments designated at fair value through other comprehensive income		**204,658**	207,689
Long term prepayments to third parties		**42,100**	6,740
Long term prepayments to related parties		**1,994**	6,808
Deferred tax assets		**8,160**	7,567
Total non-current assets		**2,401,272**	2,116,692
CURRENT ASSETS			
Inventories		**176,856**	142,087
Trade and notes receivables	*9*	**135,518**	164,968
Prepayments, other receivables and other assets		**66,174**	113,453
Due from related parties		**11,588**	9,262
Financial assets at fair value through profit or loss		**84,759**	519,779
Restricted and time deposits		**766**	70,776
Cash and cash equivalents		**698,957**	476,286
Total current assets		**1,174,618**	1,496,611
CURRENT LIABILITIES			
Trade payables	*10*	**92,607**	86,119
Other payables and accruals		**318,489**	303,614
Interest-bearing bank borrowings		**4,238**	4,300
Lease liabilities		**3,757**	1,922
Government grants		**40,105**	40,641
Due to related parties		**13,467**	10,655
Income tax payable		**14,292**	28,088
Total current liabilities		**486,955**	475,339
NET CURRENT ASSETS		**687,663**	1,021,272
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,088,935**	3,137,964

continued/···

	30 June 2020 (Unaudited) *(US$'000)*	31 December 2019 (Audited) *(US$'000)*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**19,069**	21,502
Lease liabilities	**16,889**	16,694
Deferred tax liabilities	**3,194**	17,176
Total non-current liabilities	**39,152**	55,372
Net assets	**3,049,783**	3,082,592
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,971,748**	1,966,095
Reserves	**286,489**	279,146
	2,258,237	2,245,241
Non-controlling interests	**791,546**	837,351
Total equity	**3,049,783**	3,082,592

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 2020 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 2019.

The financial information relating to the year ended 31 December 2019 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 2019 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 2019. 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 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*
Amendments to HKFRS 16	*Covid-19-Related Rent Concessions (early adopted)*

Several amendments apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

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.

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
China (including Hong Kong)	**262,093**	243,904
United States of America	**59,121**	83,136
Asia (excluding China and Japan)	**57,866**	53,059
Europe	**35,298**	36,706
Japan	**13,826**	33,985
	428,204	450,790

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Revenue from contracts with customers		
Sale of goods	**428,204**	450,790
Other income		
Rental income	**6,169**	6,409
Interest income	**5,670**	11,299
Government subsidies	**7,060**	311
Others	**404**	288
	19,303	18,307
Other gains, net		
Fair value gains on financial assets at fair value through profit or loss	**5,112**	13,500
Exchange gains, net	**991**	–
	6,103	13,500
	25,406	31,807

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Type of goods or service		
Sales of semiconductor products and total revenue from contracts with customers	**428,204**	450,790
Timing of revenue recognition		
Goods transferred at a point in time and total revenue from contracts with customer	**428,204**	450,790

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2020 is included in note 3.

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Cost of inventories sold	**326,972**	308,370
Write-down of inventories to net realisable value	**239**	1,020
Impairment of trade receivables	**–**	47
Exchange differences, net	**(991)**	2,102

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 2019: 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 2019: 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.

6. INCOME TAX (CONTINUED)

The major components of income tax credit/(expense) of the Group are as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Current income tax expense – PRC	**(9,841)**	(14,936)
Current income tax expense – elsewhere	**(17)**	(18)
Withholding tax expense on dividend declared	**–**	(4,656)
Deferred tax credit	**14,563**	10,731
Total income tax credit/(expense)	**4,705**	(8,879)

During the period, the directors of a subsidiary established in Mainland China approved that any undistributed profits of the subsidiary generated in 2019 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$15,832,000 (six months ended 30 June 2019: US$12,443,000).

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 1,291,026,256 in issue during the period (six months ended 30 June 2019: 1,284,846,838).

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	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**38,140**	90,826

	Number of shares For the six months ended 30 June	
	2020	2019
	('000)	*('000)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,291,026**	1,284,847
Effect of dilution-weighted average number of ordinary shares:		
Share options	**10,425**	14,014
	1,301,451	1,298,861

8. DIVIDEND

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Final declared – Nil (2019: HK$31 cents) per ordinary share	**–**	50,772

The directors did not declare any final dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: US$50,772,000).

9. TRADE AND NOTES RECEIVABLES

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Trade receivables	**112,953**	121,884
Notes receivable	**24,074**	44,613
	137,027	166,497
Impairment of trade receivables	**(1,509)**	(1,529)
	135,518	164,968

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

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Within 3 months	**100,348**	120,355
Over 3 and within 6 months	**8,698**	–
Over 6 months	**2,398**	–
	111,444	120,355

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	31 December
	2020	2019
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Within 1 month	**59,249**	54,737
Over 1 and within 3 months	**17,710**	18,276
Over 3 and within 6 months	**4,063**	2,901
Over 6 and within 12 months	**2,428**	1,402
Over 12 months	**9,157**	8,803
	92,607	86,119

11. COMMITMENTS

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

	30 June 2020 (Unaudited) *(US$'000)*	31 December 2019 (Audited) *(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**661,824**	383,653

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 two batches, each of which were effective on 4 September 2015 (the "2015 Options") and on 24 December 2018 (the "2018 Options"), respectively.

On 29 March 2019, 500,000 options were granted to the chief executive ("2018 Tranche A"). On 23 December 2019, 300,000 options were granted to directors and key management personnel ("2018 Tranche B") and 2,182,000 options were granted to other employees ("2018 Tranche C").

2015 Options

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

	Number of options *'000*
At 1 January 2020	**13,947**
Exercised during the period	**(4,415)**
At 30 June 2020	**9,532**

2018 Options

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

	Number of options *'000*
At 1 January 2020	**35,811**
Forfeited during the period	**(320)**
At 30 June 2020	**35,491**

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	
– Shanghai INESA Intelligent Electronics Co., Ltd. ("Shanghai INESA")	Subsidiary of INESA
– Shanghai Nanyang Software System Integration Co., Ltd. ("Nanyang Software")	Subsidiary of INESA
– Shanghai Nanyang Wanbang Software Technology Co., Ltd. ("Wanbang")	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

13. RELATED PARTY TRANSACTIONS (CONTINUED)

(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	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
ICRD	**5,219**	1,572
QST	**2,141**	747
Huahong Zealcore	**1,486**	1,750
Purchases of goods from related parties *(note (ii))*		
Hongri	**5,443**	2,482
Shanghai Huali	**1,442**	1
NEC Management	**396**	442
Huahong Zealcore	**244**	275
Jitong	**181**	5
ICRD	**–**	268
Purchases of intangible assets from related parties *(note (ii))*		
Shanghai Huali	**17,100**	–
ICRD	**–**	3,150
Rental income from a related party *(note (iii))*		
Shanghai Huali	**6,368**	6,697
Service fee charged by related parties *(note (iv))*		
Shanghai INESA	**1,702**	744
Huajin	**107**	111
Huahong Real Estate	**50**	48
Nanyang Software	**19**	21
Wanbang	**1**	–
Interest expense charged by a related party under lease arrangement as a lessee *(note (iii))*		
Huahong Real Estate	**387**	416
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**12,578**	14,697

13. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) 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 and intangible assets from related parties were made according to the prices and terms offered by the related parties.

(iii) The rental income received from a related party was based on the prices and terms agreed between the related parties.

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

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

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Short term employee benefits	**1,023**	1,234
Pension scheme contributions	**26**	39
Equity-settled share option expense	**539**	557
Total compensation paid to key management personnel	**1,588**	1,830

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2020.

AUDIT COMMITTEE

The Audit Committee, comprising one Non-executive Director and two Independent Non-executive Directors of the Company, has reviewed and approved the unaudited results of the Group for the six months ended 30 June 2020 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 2020 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, 11 August 2020

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