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 2021

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 2021 ("the period").

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

- Revenue reached a record high of US$651.0 million, an increase of 52.0% compared to 1H 2020, primarily due to increased wafer shipments and improved average selling price.
- Gross margin was 24.2%, an increase of 0.6 percentage point compared to 1H 2020, primarily driven by improved average selling price and capacity utilization, partially offset by increased depreciation expenses.
- Profit for the period was US$58.1 million, an increase of 1,350.4% compared to 1H 2020.
- Profit for the period attributable to owners of the parent was US$77.1 million, an increase of 102.3% compared to 1H 2020.
- Basic earnings per share was US$0.059, compared to US$0.030.
- ROE (annualized) was 6.0%, compared to 3.4%.
- Net cash flows from operating activities were US$160.0 million, compared to US$95.2 million.
- Capital expenditures were US$303.9 million, compared to US$378.6 million.
- Capacity reached 268,000 8-inch equivalent wafers per month, compared to 201,000.
- Wafer shipments were 1,399,000 8-inch equivalent wafers, compared to 986,000.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	1H 2021	1H 2020	Change
	US$'000	*US$'000*	
	Unaudited	Unaudited	
Revenue	**650,953**	428,204	52.0%
Cost of sales	**(493,125)**	(326,972)	50.8%
Gross profit	**157,828**	101,232	55.9%
Other income and gains	**21,232**	25,406	(16.4)%
Selling and distribution expenses	**(4,608)**	(4,226)	9.0%
Administrative expenses	**(100,799)**	(129,748)	(22.3)%
Other expenses	**(97)**	(3)	3,133.3%
Finance costs	**(5,054)**	(618)	717.8%
Share of profits of associates	**2,936**	7,258	(59.5)%
Profit/(loss) before tax	**71,438**	(699)	(10,320.0)%
Income tax (expense)/credit	**(13,335)**	4,705	(383.4)%
Profit for the period	**58,103**	4,006	1,350.4%
Attributable to:			
Owners of the parent	**77,141**	38,140	102.3%
Non-controlling interests	**(19,038)**	(34,134)	(44.2)%

Revenue

Revenue reached a record high of US$651.0 million, an increase of 52.0% compared to 1H 2020, primarily due to increased wafer shipments and improved average selling price.

Cost of sales

Cost of sales was US$493.1 million, an increase of 50.8% compared to 1H 2020, primarily due to increased wafer shipments and depreciation expenses.

Gross profit

Gross profit was US$157.8 million, an increase of 55.9% compared to 1H 2020, primarily driven by improved average selling price and capacity utilization, partially offset by increased depreciation expenses.

Other income and gains

Other income and gains were US$21.2 million, a decrease of 16.4% compared to 1H 2020, primarily due to decreased fair value gains on financial assets at fair value through profit or loss and government subsidies, partially offset by increased foreign exchange gain.

Selling and distribution expenses

Selling and distribution expenses were US$4.6 million, an increase of 9.0% compared to 1H 2020, primarily due to increased labor expenses.

Administrative expenses

Administrative expenses were US$100.8 million, a decrease of 22.3% compared to 1H 2020, primarily due to decreased development costs and increased government grants for research and development.

Other expenses

Other expenses were US$97,000, compared to US$3,000 in 1H 2020.

Finance costs

Finance costs were US$5.1 million compared to US$0.6 million in 1H 2020, primarily due to increased bank borrowings.

Share of profits of associates

Share of profits of associates were US$2.9 million, a decrease of 59.5% compared to 1H 2020, due to decreased profit realized by the associates.

Income tax (expense)/credit

Income tax expense was US$13.3 million, compared to income tax credit of US$4.7 million in 1H 2020, primarily due to increased taxable profit.

Profit for the period

As a result of the cumulative effect of the above factors, profit for the period was US$58.1 million, an increase of 1,350.4% compared to US$4.0 million in 1H 2020. Net profit margin was 8.9%, compared to 0.9% in 1H 2020.

FINANCIAL STATUS

	30 June 2021 *US$'000* **Unaudited**	31 December 2020 *US$'000* Audited	Change
Non-current assets			
Property, plant and equipment	**2,710,002**	2,510,442	7.9%
Investment property	**182,287**	180,476	1.0%
Right-of-use assets	**76,997**	79,221	(2.8)%
Investment in associates	**110,699**	105,218	5.2%
Equity instruments designated at fair value through other comprehensive income	**232,575**	230,265	1.0%
Other non-current assets	**63,732**	56,706	12.4%
Total non-current assets	**3,376,292**	3,162,328	6.8%
Current assets			
Properties under development	**107,865**	–	100.0%
Inventories	**355,881**	226,476	57.1%
Trade and notes receivables	**108,358**	120,952	(10.4)%
Due from related parties	**6,253**	4,706	32.9%
Prepayments, other receivables and other assets	**61,448**	130,979	(53.1)%
Restricted and time deposits	**362**	359	0.8%
Cash and cash equivalents	**974,522**	922,786	5.6%
Total current assets	**1,614,689**	1,406,258	14.8%
Current liabilities			
Trade payables	**147,074**	130,980	12.3%
Due to related parties	**18,723**	12,647	48.0%
Other current liabilities	**589,865**	469,402	25.7%
Lease liabilities	**2,010**	4,235	(52.5)%
Interest-bearing bank borrowings	**138,627**	47,784	190.1%
Total current liabilities	**896,299**	665,048	34.8%
Net current assets	**718,390**	741,210	(3.1)%
Non-current liabilities			
Interest-bearing bank borrowings	**616,254**	518,391	18.9%
Lease liabilities	**16,463**	17,405	(5.4)%
Deferred tax liabilities	**10,391**	13,621	(23.7)%
Total non-current liabilities	**643,108**	549,417	17.1%
Net assets	**3,451,574**	3,354,121	2.9%

Explanation of items with fluctuation over 10% from 31 December 2020 to 30 June 2021

Other non-current assets

Other non-current assets increased from US$56.7 million to US$63.7 million, primarily due to increased prepayments for capital expenditures.

Properties under development

Properties under development mainly included the cost of a piece of land used for real estate development.

Inventories

Inventories increased from US$226.5 million to US$355.9 million, primarily due to increased demand from customers.

Trade and notes receivables

Trade and notes receivables decreased from US$121.0 million to US$108.4 million, primarily due to improved customer credit management.

Due from related parties

Due from related parties increased from US$4.7 million to US$6.3 million, primarily due to increased receivables from certain of our related parties.

Prepayments, other receivables and other assets

Prepayments, other receivables and other assets decreased from US$131.0 million to US$61.4 million, primarily due to decreased prepayments, partially offset by increased VAT refund receivables.

Trade payables

Trade payables increased from US$131.0 million to US$147.1 million, primarily due to increased purchases of materials for Hua Hong Wuxi.

Due to related parties

Due to related parties increased from US$12.6 million to US$18.7 million, primarily due to a receipt of rental prepayment from one of our related parties.

Other current liabilities

Other current liabilities increased from US$469.4 million to US$589.9 million, primarily due to increased advances from customers and payables for capital expenditures.

Lease liabilities

Total lease liabilities decreased from US$21.6 million to US$18.5 million, primarily due to payments of lease contracts.

Interest-bearing bank borrowings

Total interest-bearing bank borrowings increased from US$566.2 million to US$754.9 million, due to drawdowns of bank borrowings.

Deferred tax liabilities

Deferred tax liabilities decreased from US$13.6 million to US$10.4 million, primarily due to a reversal of dividend withholding tax accrued for 2020.

CASH FLOW

	1H 2021 ***US$'000*** **Unaudited**	1H 2020 *US$'000* Unaudited	Change
Net cash flows generated from operating activities	**159,958**	95,208	68.0%
Net cash flows (used in)/generated from investing activities	**(302,247)**	132,861	(237.5)%
Net cash flows generated from/(used in) financing activities	**187,512**	(1,568)	(12,058.7)%
Net increase in cash and cash equivalents	**45,223**	226,501	(80.0)%
Cash and cash equivalents at beginning of the period	**922,786**	476,286	93.7%
Effect of foreign exchange rate changes, net	**6,513**	(3,830)	(270.1)%
Cash and cash equivalents at end of the period	**974,522**	698,957	39.4%

Net cash flows generated from operating activities

Net cash flows generated from operating activities increased from US$95.2 million to US$160.0 million, primarily due to increased collection of trade receivables and receipts of government grants, partially offset by increased payments for materials, labor expenses and decreased receipts of VAT return.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$302.2 million, primarily including US$303.9 million for capital investments and US$1.4 million for investment in an associate, partially offset by US$3.1 million of interest income.

Net cash flows generated from financing activities

Net cash flows generated from financing activities were US$187.5 million, including US$190.8 million of proceeds from bank borrowings and US$6.6 million proceeds from share option exercise, partially offset by (i) interest payments of US$4.3 million, (ii) principal portion of lease liabilities payments of US$3.3 million, and (iii) a repayment of bank borrowing of US$2.3 million.

BUSINESS REVIEW

In the first half of 2021, despite the Covid-19 outbreak still remains, the global economy recovered from the trough in 2020 and was on the track of continuous development. The Company performed well in the first half of the year, with a year-on-year increase of 52% in its revenue, due to long-term demand for semiconductors, particularly rapid growth of demand for China market, and the contribution made by the Company's increasing production capacity to address the global shortage in supply of semiconductors.

With accelerated recovery of the local economy, there was rapid growth in the markets for home appliances, Internet of Things, industrial controls, and other sectors, driving continuous and rapid growth of MCU shipments by the Company. 12-inch 90nm eFlash MCUs were mass produced, while the 55nm eFlash MCU was successfully developed. Mass production is expected by the 2nd half of the year. Meanwhile, smart card ICs were gradually upgraded from the 8-inch to the 12-inch technology platforms, which enables the Company to meet additional market demand. For standalone memory, significant development of 12-inch technology platform NOR Flash products was achieved due to the continuous increasing demand of TWS, mobile phone, PC, smart speaker, vehicle electronics, and other applications and joint efforts with the Company's customers, gradually becoming a new source of revenue growth for the Company.

Development of discrete devices remained good progress. There was a year-on-year increase of 40% in revenue for discrete devices in the first half of the year, with the rich process types, superior technical quality assurance and the Company's broader customer base. Shipment volume of IGBT increased 121% year-on-year. Super-Junction MOSFET and SGT-MOSFET continued to grow rapidly. The continued impetus for growth comes from extremely active global market for electric two and four wheeled vehicles, new energy, and other power conversion applications.

In the first half of 2021, the 12-inch fab in Wuxi, which was successfully put into operation in 2019, operated very well with its capacity utilization remaining high. While ensuring the existing stable supply and continuously expanding production capacity, we continue making improvements in service quality. In terms of products, 90nm eFlash, 90nm BCD, 55nm CIS, DT-SJ, and IGBT were mass produced in the 12-inch production lines, thereby better meeting the capacity needs of customers. The Company is the first Pure Play Foundry in the world to mass produce advanced FS-Trench IGBT on both 8-inch and 12-inch production lines at the same time.

Looking forward to the future, the Company's simultaneous progress in its "8+12" production line technologies and its "IC + Discrete" technology platforms development strategy for the Embedded Non-Volatile Memory, Analog & Power Management, and Logic & RF IC device and Discrete device businesses will provide its customers with comprehensive and excellent technical support in foundry field.

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 2021.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021.

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 2021.

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 2021.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2021.

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 2021

	Notes	**For the six months ended 30 June 2021 (Unaudited) (US$'000)**	2020 (Unaudited) (US$'000)
Revenue	4	**650,953**	428,204
Cost of sales		**(493,125)**	(326,972)
Gross profit		**157,828**	101,232
Other income and gains	4	**21,232**	25,406
Selling and distribution expenses		**(4,608)**	(4,226)
Administrative expenses		**(100,799)**	(129,748)
Other expenses		**(97)**	(3)
Finance costs		**(5,054)**	(618)
Share of profit of associates		**2,936**	7,258
PROFIT/(LOSS) BEFORE TAX	5	**71,438**	(699)
Income tax (expense)/credit	6	**(13,335)**	4,705
PROFIT FOR THE PERIOD		**58,103**	4,006
Attributable to:			
Owners of the parent		**77,141**	38,140
Non-controlling interests		**(19,038)**	(34,134)
		58,103	4,006
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	7		
Basic			
– For profit for the period		**US$0.059**	US$0.030
Diluted			
– For profit for the period		**US$0.058**	US$0.029

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
PROFIT FOR THE PERIOD	**58,103**	4,006
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**33,599**	(44,791)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**33,599**	(44,791)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**33,599**	(44,791)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**91,702**	(40,785)
Attributable to:		
Owners of the parent	**102,498**	5,380
Non-controlling interests	**(10,796)**	(46,165)
	91,702	(40,785)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2021

	Notes	**30 June 2021 (Unaudited) *(US$'000)***	31 December 2020 (Audited) *(US$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**2,710,002**	2,510,442
Right-of-use assets		**182,287**	180,476
Investment property		**76,997**	79,221
Intangible assets		**35,784**	36,947
Investment in associates		**110,699**	105,218
Equity investments designated at fair value through other comprehensive income		**232,575**	230,265
Long term prepayments to third parties		**17,407**	10,768
Long term prepayments to related parties		**40**	26
Deferred tax assets		**10,501**	8,965
Total non-current assets		**3,376,292**	3,162,328
CURRENT ASSETS			
Properties under development		**107,865**	–
Inventories		**355,881**	226,476
Trade and notes receivables	*10*	**108,358**	120,952
Prepayments, other receivables and other assets		**61,448**	130,979
Due from related parties		**6,253**	4,706
Restricted and time deposits		**362**	359
Cash and cash equivalents		**974,522**	922,786
Total current assets		**1,614,689**	1,406,258
CURRENT LIABILITIES			
Trade payables	*11*	**147,074**	130,980
Other payables and accruals		**491,089**	386,305
Interest-bearing bank borrowings		**138,627**	47,784
Lease liabilities		**2,010**	4,235
Government grants		**76,611**	58,926
Due to related parties		**18,723**	12,647
Income tax payable		**22,165**	24,171
Total current liabilities		**896,299**	665,048
NET CURRENT ASSETS		**718,390**	741,210
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,094,682**	3,903,538

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	30 June 2021 (Unaudited) *(US$'000)*	31 December 2020 (Audited) *(US$'000)*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**616,254**	518,391
Lease liabilities	**16,463**	17,405
Deferred tax liabilities	**10,391**	13,621
Total non-current liabilities	**643,108**	549,417
Net assets	**3,451,574**	3,354,121
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,984,207**	1,979,033
Reserves	**652,280**	549,409
	2,636,487	2,528,442
Non-controlling interests	**815,087**	825,679
Total equity	**3,451,574**	3,354,121

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 2021 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 2020.

The financial information relating to the year ended 31 December 2020 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 2020 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 2020. 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 2020, 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendments to HKAS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*

Several amendments apply for the first time in 2021, 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	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
China (including Hong Kong)	**474,954**	262,093
United States of America	**57,837**	59,121
Asia (excluding China and Japan)	**74,409**	57,866
Europe	**31,118**	35,298
Japan	**12,636**	13,826
	650,953	428,204

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Revenue from contracts with customers		
Sale of goods	**650,953**	428,204
Other income		
Rental income	**7,224**	6,169
Interest income	**6,585**	5,670
Government subsidies	**919**	7,060
Others	**723**	404
	15,451	19,303
Other gains		
Fair value gains on financial assets at fair value through profit or loss	**–**	5,112
Exchange gains, net	**5,781**	991
	5,781	6,103
	21,232	25,406

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Type of goods or service		
Sales of semiconductor products and total revenue from contracts with customers	**650,953**	428,204
Timing of revenue recognition		
Goods transferred at a point in time and total revenue from contracts with customers	**650,953**	428,204

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2021 is included in note 3.

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Cost of inventories sold	**493,125**	326,972
(Reversal)/write-down of inventories to net realisable value	**(969)**	239
Impairment on items of property, plant and equipment	**1,462**	–
Loss on disposal of property, plant and equipment	**8**	–
Exchange differences, net	**(5,781)**	(991)

6. INCOME TAX

Profits arising in Hong Kong were subject to profits tax at the rate of 16.5% during the period (six months ended 30 June 2020: 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 2020: 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 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 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 a "High and New Technology Enterprise" and was therefore entitled to a preferential tax rate of 15% from 2021 to 2023.

6. INCOME TAX (CONTINUED)

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. ("Hua Hong Wuxi"), is entitled to an exemption from CIT for five years, commencing from the first year that Hua Hong Wuxi generates taxable profit, and a deduction of 50% on the CIT rate for the following five years. Hua Hong Wuxi was in accumulated tax loss positions as of June 30, 2021 and the tax holiday has not begun to take effect.

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Current income tax expense – PRC	**(18,012)**	(9,841)
Current income tax expense – elsewhere	**(24)**	(17)
Deferred tax	**4,701**	14,563
Total income tax (expense)/credit	**(13,335)**	4,705

During the period, the directors of a subsidiary established in Mainland China approved that any undistributed profits of the subsidiary generated in 2020 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$10,922,000 (six months ended 30 June 2020: US$15,832,000).

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 1,299,811,409 in issue during the period (six months ended 30 June 2020: 1,291,026,256).

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	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**77,141**	38,140

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

	Number of shares For the six months ended 30 June	
	2021	2020
	('000)	*('000)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,299,811**	1,291,026
Effect of dilution-weighted average number of ordinary shares:		
Share options	**25,170**	10,425
	1,324,981	1,301,451

8. DIVIDENDS

The directors did not declare any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended on 30 June 2021, the Group acquired items of property, plant and equipment with a cost of US$323,152,000 (six months ended 30 June 2020: US$351,371,000). Depreciation for items of property, plant and equipment was US$141,518,000 during the period (six months ended 30 June 2020: US$88,425,000).

For the six months ended 30 June 2021, certain items of the Group's machinery of US$1,462,000 (six months ended 30 June 2020: Nil) were obsolete with a minimal recoverable amount determined based on their fair value less costs of disposal and were therefore fully impaired.

No significant property, plant and equipment were disposed by the Group during the six months ended 30 June 2021 and 2020, respectively.

10. TRADE AND NOTES RECEIVABLES

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	(US$'000)	*(US$'000)*
Trade receivables	**81,780**	97,809
Notes receivable	**28,010**	24,762
	109,790	122,571
Impairment of trade receivables	**(1,432)**	(1,619)
	108,358	120,952

10. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	30 June 2021 (Unaudited) *(US$'000)*	31 December 2020 (Audited) *(US$'000)*
Within 3 months	**76,882**	91,156
Over 3 and within 6 months	**3,466**	4,849
Over 6 months but within one year	**–**	185
	80,348	96,190

11. 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:

	30 June 2021 (Unaudited) *(US$'000)*	31 December 2020 (Audited) *(US$'000)*
Within 1 month	**95,829**	91,935
Over 1 but within 3 months	**29,975**	20,514
Over 3 but within 6 months	**6,182**	6,041
Over 6 but within 12 months	**4,752**	1,946
Over 12 months	**10,336**	10,544
	147,074	130,980

12. COMMITMENTS

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

	30 June 2021 (Unaudited) *(US$'000)*	31 December 2020 (Audited) *(US$'000)*
Contracted, but not provided for:		
Property, plant and equipment	**580,748**	180,581

13. 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:

	2021 Number of options '000	2020 Number of options '000
At 1 January	**5,935**	13,947
Exercised during the period	**(790)**	(4,415)
At 30 June	**5,145**	9,532

2018 Options

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

	2021 Number of options '000	2020 Number of options '000
At 1 January	**33,547**	35,811
Exercised during the period	**(1,623)**	–
Forfeited during the period	**(681)**	(320)
At 30 June	**31,243**	35,491

14. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name of related party	Relationship with the Group
Huahong Group and its subsidiaries	
– Hua Hong International Inc. ("Huahong International")	Shareholder of the Company
– Shanghai Huahong Zealcore Electronics Technology 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
– Shanghai Huali Microelectronics Corporation ("Shanghai Huali")	Subsidiary of Huahong Group
NEC Corporation ("NEC")*	Shareholder of the Company (before 19 February 2021)
– NEC Management Partner, Ltd. ("NEC Management")*	Subsidiary of NEC
SAIL and its subsidiaries	
– Shanghai Alliance Investment Ltd. ("SAIL")	Holding company of Sino-Alliance International Ltd.
– Sino-Alliance International Ltd. ("SAIL International")	Shareholder of the Company
– QST Corporation ("QST")**	Subsidiary of SAIL (before 1 September 2020)
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 Nanyang Wanbang Software Technology Co., Ltd. ("Wanbang")***	Subsidiary of INESA
Shanghai Huahong Technology Development Co., Limited ("Huahong Technology Development")	Associate of the Group
– Shanghai 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

* *NEC disposed all of its shareholdings in Huahong Group on 19 February 2021. From then on, NEC and its subsidiaries are no longer related parties to the Group.*

** *QST issued new ownership interests to third parties on 1 September 2020 and therefore a dilution in the SAIL's interests occurs. From then on, QST ceased to be a subsidiary of SAIL and is no longer a related party to the Group.*

*** *INESA, a shareholder of Huahong Group, and its subsidiaries are no longer disclosed as related parties to the Group since 1 January 2021.*

14. 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	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Sales of goods to related parties *(note (i))*		
ICRD	**5,565**	5,219
Huahong Zealcore	**3,168**	1,486
Hongri	**1,553**	–
QST	**–**	2,141
Purchases of goods from related parties *(note (ii))*		
Hongri	**10,685**	5,443
NEC Management*	**504**	396
Huahong Zealcore	**313**	244
Jitong	**76**	181
Shanghai Huali	**–**	1,442
Purchases of intangible assets from a related party *(note (ii))*		
Shanghai Huali	**–**	17,100
Rental income from a related party *(note (iii))*		
Shanghai Huali	**7,104**	6,368
Service fees charged by related parties *(note (iv))*		
Huajin	**120**	107
Huahong Real Estate	**28**	50
Shanghai INESA	**–**	1,702
Nanyang Software	**–**	19
Wanbang	**–**	1
Interest expense charged by a related party under lease arrangement as a lessee *(note (iv)*		
Huahong Real Estate	**396**	387
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**14,214**	12,578

* *The related party transactions with NEC Management above were conducted from 1 January 2021 to 19 February 2021.*

14. 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	
	2021	2020
	(Unaudited)	(Unaudited)
	(US$'000)	*(US$'000)*
Short term employee benefits	**1,169**	1,023
Pension scheme contributions	**42**	26
Equity-settled share option expense	**319**	539
Total compensation paid to key management personnel	**1,530**	1,588

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2021.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed and approved the unaudited results of the Group for the six months ended 30 June 2021 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 2021 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, 12 August 2021

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

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

Non-executive Directors
Guodong Sun
Jing Wang
Jun Ye

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