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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 2022

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 2022 (“the period”).

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

- Revenue reached an all-time high of US\$1,215.5 million, an increase of 86.7% compared to 1H 2021, primarily benefiting from increased wafer shipments and improved average selling price.
- Gross margin was 30.3%, an increase of 6.1 percentage points compared to 1H 2021, primarily driven by improved average selling price and product mix, partially offset by increased depreciation and labor costs.
- Profit for the period was US\$155.4 million, an increase of 167.4% compared to 1H 2021.
- Profit for the period attributable to owners of the parent was US\$186.9 million, an increase of 142.3% compared to 1H 2021.
- Basic earnings per share was US\$0.144, an increase of 144.1% compared to 1H 2021.
- ROE (annualized) was 13.0%, an increase of 7.0 percentage points compared to 1H 2021.
- Net cash flows from operating activities were US\$407.8 million, an increase of 155.0% compared to 1H 2021.
- Capacity reached 324,000 8-inch equivalent wafers per month, compared to 268,000.
- Wafer shipments were 2,093,000 8-inch equivalent wafers, an increase of 49.6% compared to 1H 2021.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	1H 2022 <i>US\$'000</i> Unaudited	1H 2021 <i>US\$'000</i> Unaudited	Change
Revenue	1,215,471	650,953	86.7%
Cost of sales	(846,578)	(493,125)	71.7%
Gross profit	368,893	157,828	133.7%
Other income and gains	20,006	21,232	(5.8)%
Fair value loss on an investment property	(316)	–	100%
Selling and distribution expenses	(7,026)	(4,608)	52.5%
Administrative expenses	(138,914)	(100,799)	37.8%
Other expenses	(53,205)	(97)	54,750.5%
Finance costs	(14,980)	(5,054)	196.4%
Share of profits of associates	2,299	2,936	(21.7)%
Profit before tax	176,757	71,438	147.4%
Income tax expense	(21,407)	(13,335)	60.5%
Profit for the period	155,350	58,103	167.4%
Attributable to:			
Owners of the parent	186,877	77,141	142.3%
Non-controlling interests	(31,527)	(19,038)	65.6%

Revenue

Revenue reached an all-time high of US\$1,215.5 million, an increase of 86.7% compared to 1H 2021, primarily benefiting from increased wafer shipments and improved average selling price.

Cost of sales

Cost of sales was US\$846.6 million, an increase of 71.7% compared to 1H 2021, primarily due to increased wafer shipments, depreciation and labor costs.

Gross profit

Gross profit was US\$368.9 million, an increase of 133.7% compared to 1H 2021, primarily driven by improved average selling price and product mix, partially offset by increased depreciation and labor costs.

Selling and distribution expenses

Selling and distribution expenses were US\$7.0 million, an increase of 52.5% compared to 1H 2021, primarily due to increased labor expenses.

Administrative expenses

Administrative expenses were US\$138.9 million, an increase of 37.8% compared to 1H 2021, primarily due to increased labor expenses and decreased government grants for research and development.

Other expenses

Other expenses were US\$53.2 million, compared to US\$97,000 in 1H 2021, primarily due to foreign exchange losses.

Finance costs

Finance costs were US\$15.0 million, an increase of 196.4% compared to 1H 2021, primarily due to increased bank borrowings.

Share of profits of associates

Share of profit of associates were US\$2.3 million, a decrease of 21.7% compared to 1H 2021, due to decreased profit realized by the associates.

Income tax expense

Income tax expense was US\$21.4 million, an increase of 60.5% compared to 1H 2021, 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\$155.4 million, an increase of 167.4% compared to 1H 2021. Net profit margin was 12.8%, an increase of 3.9 percentage points compared to 1H 2021.

FINANCIAL STATUS

	30 June 2022 <i>US\$'000</i> Unaudited	31 December 2021 <i>US\$'000</i> Audited	Change
Non-current assets			
Property, plant and equipment	2,955,516	3,116,501	(5.2)%
Investment property	175,337	184,883	(5.2)%
Right-of-use assets	81,994	75,331	8.8%
Investment in an associate	118,129	122,040	(3.2)%
Equity instruments designated at fair value through other comprehensive income	221,072	257,788	(14.2)%
Other non-current assets	66,371	54,364	22.1%
Total non-current assets	3,618,419	3,810,907	(5.1)%
Current assets			
Inventories	473,935	432,917	9.5%
Trade and notes receivables	241,967	181,042	33.7%
Due from related parties	14,212	6,910	105.7%
Other current assets	184,212	157,935	16.6%
Restricted and time deposits	349	2,248	(84.5)%
Cash and cash equivalents	1,707,650	1,610,140	6.1%
Total current assets	2,622,325	2,391,192	9.7%
Current liabilities			
Trade payables	303,263	194,385	56.0%
Interest-bearing bank borrowings	231,334	195,024	18.6%
Due to related parties	15,630	7,501	108.4%
Government grants	66,876	66,837	0.1%
Other current liabilities	614,012	616,654	(0.4)%
Total current liabilities	1,231,115	1,080,401	13.9%
Net current assets	1,391,210	1,310,791	6.1%
Non-current liabilities			
Interest-bearing bank borrowings	1,346,974	1,395,279	(3.5)%
Lease liabilities	15,687	16,137	(2.8)%
Deferred tax liabilities	15,102	25,735	(41.3)%
Total non-current liabilities	1,377,763	1,437,151	(4.1)%
Net assets	3,631,866	3,684,547	(1.4)%

Explanation of items with fluctuation over 10% from 31 December 2021 to 30 June 2022

Equity instruments designated at fair value through other comprehensive income

Equity instruments designated at fair value through other comprehensive income decreased from US\$257.8 million to US\$221.1 million, primarily due to changes in fair value and exchange realignment.

Other non-current assets

Other non-current assets increased from US\$54.4 million to US\$66.4 million, primarily due to increased prepayments for capital expenditure.

Trade and notes receivables

Trade and notes receivables increased from US\$181.0 million to US\$242.0 million, primarily due to increased revenue.

Due from related parties

Due from related parties increased from US\$6.9 million to US\$14.2 million, primarily due to increased receivables from certain of our related party.

Other current assets

Other current assets increased from US\$157.9 million to US\$184.2 million, primarily due to increased prepayments and deductible value added tax.

Restricted and time deposits

Restricted and time deposits decreased from US\$2.2 million to US\$0.3 million, primarily due to decreased pledged deposits.

Trade payables

Trade payables increased from US\$194.4 million to US\$303.3 million, primarily due to increased purchases of materials.

Due to related parties

Due to related parties increased from US\$7.5 million to US\$15.6 million, primarily due to a receipt of rental prepayment from one of our related parties.

Deferred tax liabilities

Deferred tax liabilities decreased from US\$25.7 million to US\$15.1 million, primarily due to a reversal of dividend withholding tax accrued for 2021.

CASH FLOW

	1H 2022 <i>US\$'000</i> Unaudited	1H 2021 <i>US\$'000</i> Unaudited	Change
Net cash flows generated from operating activities	407,848	159,958	155.0%
Net cash flows used in investing activities	(227,059)	(302,247)	(24.9)%
Net cash flows (used in)/generated from financing activities	(27,648)	187,512	(114.7)%
Net increase in cash and cash equivalents	153,141	45,223	238.6%
Cash and cash equivalents at beginning of the period	1,610,140	922,786	74.5%
Effect of foreign exchange rate changes, net	(55,631)	6,513	(954.2)%
Cash and cash equivalents at end of the period	<u>1,707,650</u>	<u>974,522</u>	<u>75.2%</u>

Net cash flows generated from operating activities

Net cash flows generated from operating activities increased from US\$160.0 million to US\$407.8 million, primarily due to increased revenue, partially offset by increased payments for materials, labor expenses.

Net cash flows used in investing activities

Net cash flows used in investing activities were US\$227.1 million, primarily including US\$236.4 million for capital investments, partially offset by US\$4.8 million of receipts of government grants for equipment and US\$4.5 million of interest income.

Net cash flows used in financing activities

Net cash flows used in financing activities were US\$27.6 million, including repayment of bank borrowings of US\$97.6 million, interest payments of US\$13.8 million and lease liabilities payments of US\$2.2 million, partially offset by US\$84.4 million of proceeds from bank borrowings, and US\$1.6 million proceeds from share option exercise.

BUSINESS REVIEW

In the first half of 2022, the global and regional economic situation changed drastically, the supply chain in the semiconductor industry continued to be constrained, and the lockdown imposed due to the domestic epidemic brought many challenges to production and operations of enterprises. However, as a result of the hard work of all our staff, progress in research and development in accordance with plan, multifaceted expansion of our business and continued production, the 8-inch and 12-inch capacity utilization rate continued to stay above 100%, and the Company maintained rapid growth in performance, with sales of US\$1.215 billion, representing a year-on-year increase of 86.7%. All technology platforms grew rapidly in both shipments and price, with the results of products relating to Industrial Applications and Automotive Electronics increasing by more than 80% year-on-year, resulting in the impressive performance of the Company.

In the first half of 2022, Embedded Non-Volatile Memory (eNVM) platform research, development, and sales were well underway. 12-inch 90nm ULL (Ultra Low Leakage) technology was successfully developed, early products passed verification and were mass produced. The 55nm eFlash MCU platform was in mass production, rapidly expanding its contribution to revenue, and has been widely recognized by customers. In terms of sales, chip demand for high-end consumer, industrial controls, automotive electronics, and other applications continued to be strong, with sales of the eNVM platform growing by more than 60% year-on-year. In the first half of 2022, sales of the 12-inch NOR Flash process platform achieved super high-speed growth YoY, due to joint efforts of the Company and customers as well as continuous growth in demand for high-end TWS (True Wireless Stereo), vehicle electronics, and other end-user applications.

The revenue of power discrete device technology platform continues to maintain rapid growth. The growth was continuously driven by the automotive and industrial applications, which are very active in the global market. Revenue increased over 60% year-on-year due to the Company's rich variety of technology of the power device, superior technology and quality assurance, and the broad global customer base. SGT MOSFET, Super-Junction MOSFET, and IGBT all maintained high growth, with IGBT sales maintaining triple-digit percentage growth year-on-year. Due to the Company's development strategy, the Company has become the only Pure Play Foundry in the world to mass produce deep trench Super-Junction MOSFET and advanced FS-Trench IGBT on both 8-inch and 12-inch production lines at the same time and continues to innovate and develop new technologies to maintain its leading position in the industry.

The 12-inch fab in Wuxi, which successfully started operation in 2019, operated very well and kept running at full capacity in the first half of 2022. Capacity expansion proceeded smoothly as planned. Device voltage capability of the 90nm BCD platform was extended further to 40V, covering a wider range of end application requirements, and providing customers with better manufacturing platform options. Product applications of the CIS technology platform have been successfully extended to the consumer electronics, security applications, and automotive markets. Overall, revenue contribution of the 12-inch platform continued to expand, accounting for over 40% of total revenue for the first half of 2022. The 12-inch platform has become the most promising growth engine of the Company.

The second half of 2022 is a mixture of challenges and opportunities for the Company. In the market environment where demands are structurally differentiated, the Company will continue to unswervingly promote its diversified development strategy, deploying more advanced “Specialty IC + Power Discrete” technologies in our “8-inch + 12-inch” production lines. The Company is providing our global customers with more comprehensive and excellent technologies and services in the specialty wafer 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 2022.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2022.

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 2022.

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 2022.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The Board of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2022.

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 2022

		For the six months ended 30 June	
	<i>Notes</i>	2022	2021
		(Unaudited)	(Unaudited)
		(US\$'000)	(US\$'000)
Revenue	4	1,215,471	650,953
Cost of sales		(846,578)	(493,125)
Gross profit		368,893	157,828
Other income and gains	4	20,006	21,232
Fair value loss on an investment property		(316)	–
Selling and distribution expenses		(7,026)	(4,608)
Administrative expenses		(138,914)	(100,799)
Other expenses		(53,205)	(97)
Finance costs		(14,980)	(5,054)
Share of profit of associates		2,299	2,936
PROFIT BEFORE TAX		176,757	71,438
Income tax expense	6	(21,407)	(13,335)
PROFIT FOR THE PERIOD		155,350	58,103
Attributable to:			
Owners of the parent		186,877	77,141
Non-controlling interests		(31,527)	(19,038)
		155,350	58,103
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	7		
Basic			
– For profit for the period		US\$0.144	US\$0.059
Diluted			
– For profit for the period		US\$0.142	US\$0.058

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	(US\$'000)	(US\$'000)
PROFIT FOR THE PERIOD	<u>155,350</u>	<u>58,103</u>
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	<u>(21,349)</u>	–
Exchange differences on translation of foreign operations	<u>(188,701)</u>	<u>33,599</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(210,050)</u>	<u>33,599</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(210,050)</u>	<u>33,599</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(54,700)</u>	<u>91,702</u>
Attributable to:		
Owners of the parent	<u>16,669</u>	102,498
Non-controlling interests	<u>(71,369)</u>	<u>(10,796)</u>
	<u>(54,700)</u>	<u>91,702</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2022

	<i>Notes</i>	30 June 2022 (Unaudited) (US\$'000)	31 December 2021 (Audited) (US\$'000)
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,955,516	3,116,501
Right-of-use assets		81,994	75,331
Investment property		175,337	184,883
Intangible assets		31,516	35,312
Investment in associates		118,129	122,040
Equity investments designated at fair value through other comprehensive income		221,072	257,788
Long term prepayments		24,890	15,573
Deferred tax assets		9,965	3,479
		<hr/>	<hr/>
Total non-current assets		3,618,419	3,810,907
CURRENT ASSETS			
Properties under development		121,026	114,492
Inventories		473,935	432,917
Trade and notes receivables	10	241,967	181,042
Prepayments, other receivables and other assets		63,186	43,443
Due from related parties		14,212	6,910
Pledged deposits		349	2,248
Cash and cash equivalents		1,707,650	1,610,140
		<hr/>	<hr/>
Total current assets		2,622,325	2,391,192
CURRENT LIABILITIES			
Trade payables	11	303,263	194,385
Other payables and accruals		575,171	560,435
Interest-bearing bank borrowings		231,334	195,024
Lease liabilities		3,309	1,676
Government grants		66,876	66,837
Due to related parties		15,630	7,501
Income tax payable		35,532	54,543
		<hr/>	<hr/>
Total current liabilities		1,231,115	1,080,401
NET CURRENT ASSETS			
		<hr/>	<hr/>
NET CURRENT ASSETS		1,391,210	1,310,791
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,009,629	5,121,698

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	<i>Note</i>	30 June 2022 (Unaudited) (US\$'000)	31 December 2021 (Audited) (US\$'000)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,346,974	1,395,279
Lease liabilities		15,687	16,137
Deferred tax liabilities		15,102	25,735
		<hr/>	<hr/>
Total non-current liabilities		1,377,763	1,437,151
		<hr/>	<hr/>
Net assets		3,631,866	3,684,547
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		1,987,494	1,986,152
Reserves		901,446	884,207
		<hr/>	<hr/>
Total equity attributable to owners of the parent		2,888,940	2,870,359
Non-controlling interests		742,926	814,188
		<hr/>	<hr/>
Total equity		3,631,866	3,684,547
		<hr/> <hr/>	<hr/> <hr/>

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 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 2021.

The financial information relating to the year ended 31 December 2021 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 2021 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 2021. The auditor's report was unqualified; did not refer to any matters to which the auditor drew attention by way of emphasis without qualifying the report; 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 2021, 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	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

Several amendments apply for the first time in 2022, 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	
	2022 (Unaudited) (US\$'000)	2021 (Unaudited) (US\$'000)
China (including Hong Kong)	902,087	474,953
United States of America	131,277	57,837
Asia (excluding China and Japan)	112,822	74,409
Europe	50,698	31,118
Japan	18,587	12,636
	<u>1,215,471</u>	<u>650,953</u>

4. REVENUE AND OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2022 (Unaudited) (US\$'000)	2021 (Unaudited) (US\$'000)
<u>Revenue from contracts with customers</u>		
Sale of goods	<u>1,215,471</u>	<u>650,953</u>
<u>Other income</u>		
Rental income	7,633	7,224
Interest income	9,115	6,585
Government subsidies	2,338	919
Others	893	723
	<u>19,979</u>	<u>15,451</u>
<u>Other gains</u>		
Gain on disposal of items of property, plant and equipment	27	–
Exchange gains, net	–	5,781
	<u>27</u>	<u>5,781</u>
	<u>20,006</u>	<u>21,232</u>

4. REVENUE AND OTHER INCOME AND GAINS (CONTINUED)

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	(US\$'000)	(US\$'000)
<u>Type of goods or service</u>		
Sales of semiconductor products and total revenue from contracts with customers	1,215,471	650,953
<u>Timing of revenue recognition</u>		
Goods transferred at a point in time and total revenue from contracts with customers	1,215,471	650,953

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2022 is included in note 3.

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	(US\$'000)	(US\$'000)
Cost of inventories sold	846,578	493,125
Write-down/(reversal of write-down) of inventories to net realisable value	6,262	(969)
Reversal of impairment of trade receivables	(126)	–
Impairment on items of property, plant and equipment	–	1,462
Exchange differences, net	49,415	(5,781)

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 2021: 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 2021: 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, 2022 and the tax holiday has not begun to take effect.

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

	For the six months ended 30 June	
	2022 (Unaudited) (US\$'000)	2021 (Unaudited) (US\$'000)
Current income tax expense – PRC	32,740	18,012
Current income tax expense – elsewhere	25	24
Deferred tax	(11,358)	(4,701)
Total income tax expense	<u>21,407</u>	<u>13,335</u>

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 1,301,607,081 in issue during the period (six months ended 30 June 2021: 1,299,811,409).

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	
	2022 (Unaudited) (US\$'000)	2021 (Unaudited) (US\$'000)
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>186,877</u>	<u>77,141</u>

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	
	2022	2021
	('000)	('000)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,301,607	1,299,811
Effect of dilution-weighted average number of ordinary shares:		
Share options	16,282	25,170
	<u>1,317,889</u>	<u>1,324,981</u>

8. DIVIDENDS

The directors did not declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended on 30 June 2022, the major changes in property, plant and equipment include:

- The Group acquired items of property, plant and equipment with a cost of US\$214,708,000 (six months ended 30 June 2021: US\$323,152,000).
- Depreciation for items of property, plant and equipment was US\$224,253,000 during the period (six months ended 30 June 2021: US\$141,518,000).

10. TRADE AND NOTES RECEIVABLES

	30 June 2022 (Unaudited) (US\$'000)	31 December 2021 (Audited) (US\$'000)
Trade receivables	201,821	154,339
Notes receivable	41,677	28,424
	<u>243,498</u>	<u>182,763</u>
Impairment of trade receivables	(1,531)	(1,721)
	<u>241,967</u>	<u>181,042</u>

10. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	30 June 2022 (Unaudited) (US\$'000)	31 December 2021 (Audited) (US\$'000)
Within 3 months	195,515	149,900
Over 3 and within 6 months	<u>4,775</u>	<u>2,718</u>
	<u>200,290</u>	<u>152,618</u>

11. 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 2022 (Unaudited) (US\$'000)	31 December 2021 (Audited) (US\$'000)
Within 1 month	185,807	131,102
Over 1 but within 3 months	57,491	41,450
Over 3 but within 6 months	36,075	7,223
Over 6 but within 12 months	11,574	2,767
Over 12 months	<u>12,316</u>	<u>11,843</u>
	<u>303,263</u>	<u>194,385</u>

12. COMMITMENTS

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

	30 June 2022 (Unaudited) (US\$'000)	31 December 2021 (Audited) (US\$'000)
Contracted, but not provided for: Property, plant and equipment	<u>966,897</u>	<u>283,019</u>

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:

	2022 Number of options '000	2021 Number of options '000
At 1 January	4,738	5,935
Exercised during the period	<u>(195)</u>	<u>(790)</u>
At 30 June	<u>4,543</u>	<u>5,145</u>

2018 Options

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

	2022 Number of options '000	2021 Number of options '000
At 1 January	24,963	33,547
Exercised during the period	(426)	(1,623)
Forfeited during the period	<u>(226)</u>	<u>(681)</u>
At 30 June	<u>24,311</u>	<u>31,243</u>

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 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 Co., Ltd. (“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
Shanghai Huahong Technology Development Co., Ltd. (“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.*

14. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) 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	
	2022	2021
	(Unaudited)	(Unaudited)
	(US\$'000)	(US\$'000)
Sales of goods to related parties <i>(note (i))</i>		
ICRD	2,098	5,565
Huahong Zealcore	4,202	3,168
Hongri	<u>1,663</u>	<u>1,553</u>
Purchases of goods from related parties <i>(note (ii))</i>		
Hongri	9,340	10,685
NEC Management*	–	504
Huahong Zealcore	373	313
Jitong	5	76
Shanghai Huali	<u>20</u>	<u>–</u>
Rental income from a related party <i>(note (iii))</i>		
Shanghai Huali	<u>7,340</u>	<u>7,104</u>
Service fee charged by related parties <i>(note (iv))</i>		
Huajin	175	120
Huahong Real Estate	<u>–</u>	<u>28</u>
Interest expense charged by a related party under lease arrangement as a lessee <i>(note (iv))</i>		
Huahong Real Estate	<u>370</u>	<u>396</u>
Expense paid on behalf of a related party <i>(note (v))</i>		
Shanghai Huali	<u>16,884</u>	<u>14,214</u>

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

14. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (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.

(b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	(US\$'000)	(US\$'000)
Short term employee benefits	1,618	1,169
Pension scheme contributions	54	42
Equity-settled share option expense	196	319
	<hr/>	<hr/>
Total compensation paid to key management personnel	1,868	1,530
	<hr/> <hr/>	<hr/> <hr/>

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2022.

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 2022 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 2022 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 2022

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