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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

The Board of Directors ("the Board") of Hua Hong Semiconductor Limited ("the Company" or "Hua Hong Semiconductor", together with its subsidiaries, the "Group") is pleased to announce the consolidated results of the Company for the year ended 31 December 2022.

Highlights in comparison with 2021 figures are:

- Revenue was US$2,475.5 million, an all-time high and an increase of 51.8% over the prior year.
- Gross margin was 34.1%, increased by 6.4 percentage points, compared to 27.7% in 2021, mainly due to improved average selling price and product mix, partially offset by increased depreciation costs.
- Net profit was $406.6 million, 76.0% over 2021.
- Profit for the year attributable to owners of the parent was US$449.9 million, 72.1% over 2021.
- Basic earnings per share was US$0.345, 71.6% over 2021.
- Return on equity was 15.2%, 5.5 percentage points over 2021.
- Net cash flows generated from operating activities were US$750.9 million, 44.8% over 2021.
- Capacity reached 324,000 8-inch equivalent wafers per month, compared to 313,000.
- Wafer shipments (in 8-inch equivalent wafers) were 4,087,000, compared to 3,328,000.
- In order to better serve market demand, enhance the Company's market position and core competitiveness in the wafer foundry industry, and cope with the changing market environment, the Company is maintaining a stable, prudent, and responsible policy for our shareholders. Based on the principles for a sustainable operation and long-term development, the Board did not recommend the payment of any dividend for the year ended 31 December 2022 (2021: nil). The Company will retain sufficient cash to continue its investment activities, in order to maximize benefits for our shareholders.

LETTER TO SHAREHOLDERS

Dear Shareholders,

In 2022, an extraordinary and challenging year, almost all the world's economies were affected by the continuous resurgence of the once-in-a-century pandemic, reshaping of the global industry supply chain, and geopolitical challenges. The semiconductor industry also entered a period of adjustment. Despite many uncertainties in the macro environment, Hua Hong Semiconductor continued to forge ahead and made continuous improvement in 2022, with its growth leading the industry. With the advantages of our "8-inch + 12-inch" strategy, the Company stayed committed to continuous innovation of specialized process technologies and developed core competitiveness of products using our specialized process platforms, including embedded/standalone non-volatile memory, power device, and analog & PM. We persisted in our advanced "Specialty IC + Power Discrete" dual-pronged strategy, rapidly penetrated downstream emerging markets, expanded our markets in automobiles, new energy, Internet of Things, data centers, etc., continuously providing excellent wafer foundry services and solutions for our global customers.

During the reporting period, the Company's revenue hit a record high of US$2,475.5 million, representing an increase of 51.8% compared to the previous year, and regional revenues from the United States, Europe, Japan, and China increased significantly. In 2022, we experienced strong demand in our market segments. The Company achieved a year-on-year increase of more than 100% in annual revenue from automotive electronics and a continual increase in the number of new products introduced. Meanwhile, the Company made steady progress in the new energy market and played a significant role in supporting the global industry chain in the wind power/photoelectricity/energy storage field. Diversified process platforms, abundant customer resources at home and abroad, and a forward-looking and dedicated capacity arrangement enabled Hua Hong Semiconductor to maintain leading capacity utilization rate in the industry, despite the downward cycle of the industry. In the year, the overall gross profit margin of the Company reached 34.1%, representing an increase of 6.4 percentage points compared to the previous year. Profit for the year was US$406.6 million, representing an increase of 76.0% compared to the previous year; ROE was 15.2%, representing an increase of 5.5 percentage points compared to the previous year.

As at the end of 2022, Hua Hong Semiconductor had three 8-inch fabs and one 12-inch fab. For the most recent three years, annual production capacity (8-inch wafer equivalent) increased each year from 2.4852 million to 3.2604 million and then 3.8627 million, with a CAGR of 24.67%. The existing 12-inch fab was operated at a high level with a monthly production capacity of 65,000 wafers in 2022. The Company plans to increase its monthly production capacity to 95,000 wafers in 2023 and will start construction of a new 12-inch production line in due course, continuing to improve its manufacturing capacity and technological upgrading.

As a key part of the global semiconductor industry supply chain, the Company has markets covering the whole industry, with its strong industry presence. With robust strength in semiconductor manufacturing in China, the Company won the "20-year Special Contribution Award in China Semiconductor in 2022 China IC Design Achievement Award." As a well-known enterprise in Shanghai, the Company worked judiciously in cities to promote regional economic development in the Yangtze River Delta. Its contribution was recognized by all corners of society. In the year, it won the "Outstanding Contribution Award for Scientific and Technological Innovation in Pudong New Area" again.

Only with diligent employees will we be able to achieve success in the face of more complicated and fierce competition. We will continue to strengthen our advantages in various specialized technologies, constantly optimize product structure in close alignment with market trends, and accumulate new momentum for high-quality development. New opportunities will be identified from challenges and new prospects will be opened up in a changing environment. Hua Hong Semiconductor will unswervingly innovate with international vision to create new products for our customers all over the world and make achievements by establishing development projects in new areas of technology. We sincerely thank all our employees, shareholders, customers, and friends from all walks of life for their support for and cooperation with Hua Hong Semiconductor. Let's work together to achieve another year of splendid results.

Mr. Suxin Zhang
Chairman and Executive Director

Mr. Junjun Tang
President and Executive Director

Shanghai, PRC
30 March 2023

BUSINESS REVIEW

Revenue Analysis

Revenue of Hua Hong Semiconductor for 2022 was US$2,475.5 million, representing a significant increase of 51.8% compared to the previous year. As at the end of 2022, the Company has been profitable for 48 consecutive quarters. The good performance for the year was mainly due to the continuous optimization of product mix and capacity expansion of the Company. Despite significant changes in the global semiconductor market environment in 2022, the Company adjusted its production line arrangements promptly to meet the market demand and carried out active expansion in automobiles, industrial control, data centers, new energy generation, and new energy application, thus achieving rapid growth. Due to the gradual implementation of the Company's "8-inch +12-inch" strategy, the 12-inch production platform was continuously expanded and supported by the market. With diversified support of advanced "Specialty IC + Power Discrete" specialized process technology, product quality and performance were widely recognized by the market. The Company also maintained good results in the traditional consumer market. In 2022, the Company maintained its business growth in terms of Embedded/Stand-alone memory, discrete, and analog & PM platforms, which will continue to create value for shareholders and the market in 2023.

Revenue by Service

	2022	**2022**	2021	2021	YoY Change	YoY Change
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*
Semiconductor wafers	**2,376,659**	**96.0%**	1,561,846	95.8%	814,813	52.2%
Others	**98,829**	**4.0%**	68,908	4.2%	29,921	43.4%
Total	**2,475,488**	**100.0%**	1,630,754	100.0%	844,734	51.8%

- In 2022, 96.0% of our revenue was generated from the sale of semiconductor wafers.

Revenue by Customer

	2022	**2022**	2021	2021	YoY Change	YoY Change
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*
Systems and fabless companies	**2,267,446**	**91.6%**	1,496,782	91.8%	770,664	51.5%
Integrated device manufacturers (IDMs)	**208,042**	**8.4%**	133,972	8.2%	74,070	55.3%
Total	**2,475,488**	**100.0%**	1,630,754	100.0%	844,734	51.8%

- Our revenue from systems and fabless companies accounted for 91.6%.

Revenue by Geography

	2022	2022	2021	2021	YoY Change	YoY Change
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*
China	**1,811,269**	**73.2%**	1,205,149	73.9%	606,120	50.3%
North America	**297,683**	**12.0%**	159,281	9.8%	138,402	86.9%
Other Asia	**210,610**	**8.5%**	169,227	10.4%	41,383	24.5%
Europe	**114,728**	**4.6%**	70,627	4.3%	44.101	62.4%
Japan	**41,198**	**1.7%**	26,470	1.6%	14.728	55.6%
Total	**2,475,488**	**100.0%**	1,630,754	100.0%	844,734	51.8%

- In 2022, North America was our fastest-growing market by revenue, with a year-on-year increase of 86.9% in revenue.

Revenue by Technology Type

	2022	2022	2021	2021	YoY Change	YoY Change
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*
Embedded Non-Volatile Memory (eNVM)	**767,568**	**31.0%**	459,104	28.2%	308,464	67.2%
Standalone Non-Volatile Memory (sNVM)	**208,171**	**8.4%**	88,796	5.4%	119,375	134.4%
Discrete	**774,638**	**31.3%**	557,893	34.2%	216,745	38.9%
Logic & RF	**274,384**	**11.1%**	272,053	16.7%	2,331	0.9%
Analog & Power Management (PM)	**448,648**	**18.1%**	250,466	15.4%	198,182	79.1%
Others	**2,079**	**0.1%**	2,442	0.1%	(363)	(14.9%)
Total	**2,475,488**	**100.0%**	1,630,754	100.0%	844,734	51.8%

- In 2022, eNVM technology continued to grow, with continuous and outstanding growth in the results for MCU products.

- In 2022, there was a year-on-year increase of 38.9% in revenue from Discrete, which remained the Company's largest business segment.

Revenue by Technology Node

	2022	2022	2021	2021	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
55nm & 65nm	**355,161**	**14.3%**	157,854	9.7%	197,307	125.0%
90nm & 95nm	**505,233**	**20.4%**	280,235	17.2%	224,998	80.3%
0.11μm & 0.13μm	**426,387**	**17.2%**	302,920	18.6%	123,467	40.8%
0.15μm & 0.18μm	**206,733**	**8.4%**	164,260	10.1%	42,473	25.9%
0.25μm	**15,027**	**0.6%**	22,926	1.4%	(7,899)	(34.5)%
≥0.35μm	**966,947**	**39.1%**	702,559	43.0%	264,388	37.6%
Total	**2,475,488**	**100.0%**	1,630,754	100.0%	844,734	51.8%

- Revenue from 55nm & 65nm technology nodes increased sharply, with a year-on-year increase of 125.0%.

Revenue by End Market

	2022	2022	2021	2021	YoY Change	YoY Change
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
Consumer Electronics	**1,599,116**	**64.6%**	1,039,325	63.7%	559,791	53.9%
Industrial & Automotive Electronics	**550,342**	**22.2%**	316,194	19.4%	234,148	74.1%
Communications	**248,033**	**10.0%**	218,946	13.4%	29,087	13.3%
Computing	**77,997**	**3.2%**	56,289	3.5%	21,708	38.6%
Total	**2,475,488**	**100.0%**	1,630,754	100.0%	844,734	51.8%

- All end markets recorded strong growth in revenue in 2022, particularly for Industrial & Automotive Electronics in 74.1% growth.

	Capacity and Capacity Utilization		
Fab (In thousands of wafers per month)	**2022**	2021	YoY Change
Fab 1	**65**	65	–
Fab 2	**60**	60	–
Fab 3	**53**	53	–
Total monthly 8-inch wafer capacity	**178**	178	–
Fab 7 (12-inch wafer capacity)	**65**	60	5
Capacity utilization (8-inch wafer equivalent)	**107.4%**	107.5%	(0.1)%

- In 2022, capacity utilization (8-inch wafer equivalent) was 107.4%.

In thousands of wafers	Wafer Shipments **2022**	2021	YoY Change
Wafer shipments (8-inch wafer equivalent)	**4,087**	3,328	22.8%

- In 2022, there was a year-on-year increase of 22.8% in the Company's wafer shipments.

Research and Development

Hua Hong Semiconductor is committed to research and development (R&D), innovation, and optimization of differentiated technologies, with a focus on eNVM, sNVM, Discrete, analog & PM, and logic & RF. It continues to provide customers with well-featured process technologies and services that meet market demand. In 2022, Hua Hong Semiconductor continued to expand the construction of the "8-inch + 12-inch" production platforms and enriched the advanced "Specialty IC + Power Discrete" process capability through expansion of the 12-inch production platform.

The technology platform related to eNVM remained one of the main sources of revenue for Hua Hong Semiconductor in 2022 and was mainly used for smart card IC and MCU. In terms of smart cards, shipments of smart card products produced using the 90nm embedded flash memory technology, with independent intellectual property rights, remained stable; the 55nm process was successfully mass-produced; and competitiveness of the eNVM platform remained at a high level. In terms of MCU, 12-inch embedded flash memory MCUs were mass-produced, and increased production capacity ensured double-digit growth in both shipments and sales of MCUs for the Company in 2022. The Company has a rich combination of embedded flash memory processes as well as a good market reputation. The industry-leading 0.11μm and independently-developed 90nm low power and ultra-low leakage embedded flash memory technology platforms, remained highly recognized in the market and were widely used in general MCU, Type-C interface control IC, touch control IC, smart meter control IC, and highly reliable Automotive Electronics, etc. Meanwhile, shipments using the 55nm high-speed MCU embedded flash memory technology platform, with independent intellectual property rights, increased rapidly. This further improved the richness and the competitiveness of the process platform and gradually enhanced the ability to provide manufacturing services to customers through differentiated processes.

In 2022, continuous growth of new energy power generation and new energy applications, such as electric vehicles, and the gradual increase in market share of power devices for household appliances, communications, and other industries, will continue to promote growth of the Company's power discrete technology platform for a long period of time. Specifically, the insulated gate bipolar transistor (IGBT) technology platform continued to perform excellently, with rapid growth for eight consecutive years. The three-digit percentage growth in sales and production of IGBT in the 12-inch fab has greatly eased the problem of capacity constraints. After optimization for large current, high reliability, small pitch size, etc., IGBT technology showed strong competitiveness in electric vehicle inverters and new energy power generation. The Company made achievements in 12-inch Super Junction Metal Oxide Semiconductor Field Effect Transistor (MOSFET) with completion of the production capacity ramp-up and a three-digit growth in annual shipments. With regard to the specialty new-generation Deep-Trench technology, the Company accumulated valuable mass production experience and a good reputation among customers, as the technology was widely used in data center power supplies, charging piles, and new energy on-board chargers (OBCs) for new energy vehicles. In terms of the overall power device process platform, the Company will carry out development towards smaller pitch size and lower on-resistance, expand its presence in the automotive electronics market, continuously meet the demand of the end market, and provide customers with higher quality products and OEM services.

In terms of the BCD (Bipolar-CMOS-DMOS) process platform, the Company continued to achieve strong growth in 2022, with double-digit growth in revenue. The process scope covered low-medium, high, and ultra-high voltage products. Specifically, the Company achieved rapid production ramp-up of the 12-inch medium-low voltage 90 nm BCD process platform, which was successfully applied to digital power supplies, digital audio power amplifiers, and other market segments. In the analog power and motor driver IC applications, using the 8-inch 0.18μm and above medium-low voltage BCD process platforms, the Company maintained double-digit growth, achieving continuous improvement in market recognition and a technical level matching the industry-leading indicators. In the high and ultra-high voltage sectors, the Company has a 600-700V BCD process platform for application in lighting control as well as industrial and household motor driver chips. The process and reliability were continuously improved to meet future market demand. With changes in automotive electronics architecture and using our advantageous embedded flash memory and power device technology, the Company developed various integrated BCD processes to meet the continuous demand for highly integrated and intelligent automotive power management IC.

In addition to the above main technology platforms, Hua Hong Semiconductor continued to expand into new differentiated technology fields. With greater demands on the volume consumed and performance required for semiconductor products in smart home devices, wearable hardware, Automotive Electronics, etc., the Company continuously strengthened research and development of radio frequency, standard memory, and other technology platforms, which paid off in 2022. In terms of patents, it applied for 654 patents throughout the year and was granted a total of over 4,100 Chinese and U.S. authorised invention patents. The Company is committed to continuous innovation and providing customers with a rich selection of specialty technology platforms and extensive IP support.

2022 was a year full of both opportunities and challenges. Despite multiple challenges, the Company achieved all its production, research, and development targets. As HHGrace persisted in and practiced the advanced "Specialty IC + Power Discrete" process technology programs for a long time, the Company has maintained steady growth in results despite significant change in the traditional consumer market. Looking forward to the future, there will be rapid growth in the application of new energy in the world as well as demand for semiconductors in automobiles and other industries. The Company's process research and development will be rapidly oriented towards relevant fields. In the long run, with the continuous increase in proportion of semiconductors in end-user system products and further penetration of digitalization and informatization into daily production and life, there will certainly be a long-term positive trend in global demand for semiconductor components. In 2023, the Company will further expand the phase-I production capacity in Wuxi and start the phase-II production capacity construction plan in time to provide the market with more extensive process capability and production capacity support.

OUTLOOK

Looking forward to 2023, there will be many uncertainties in the global economic recovery. According to the forecast by an authoritative institution, the global GDP growth rate is expected to drop to 1.7% in 2023, and the GDP growth rate of China is expected to increase to 5%. The slowdown in global economic growth and the decline in traditional consumer demand may become a common challenge for the semiconductor industry in the new year. Despite the decline in overseas market demand and the accelerated transformation and upgrading of domestic market demand, Hua Hong Semiconductor actively made plan for emerging new markets including electric vehicles and new energy, accelerated its activities to meet new these market demands, and maintained the sustained and healthy development of its business in alignment with the market trends. The Company will further improve competitiveness of the 12-inch production platform. More abundant and advanced specialty technology, with long-term and continuous strategic cooperation, including mutual trust with customers, will become the key engine to maintain growth of the Company in the new year. In terms of production capacity, in order to better meet the long-term demand of the semiconductor market, the Company will give full support to the "8-inch + 12-inch" strategy, maintain optimization of the existing 8-inch platform, continue capacity expansion of phase-I for the 12-inch platform, and in due course start construction of the phase-II production capacity expansion in Wuxi. In terms of products and technical promotion, all fabs of the Company have been recognized under the IATF16949 quality system. In 2023, the Company will continue to improve its automotive electronics product lines and seize the market opportunity due to the explosive increase in demand for semiconductor components in the local automobile market supply chain. The Company will continue to improve its specialized process technology capabilities, particularly for the embedded flash memory and power discrete technology platform, with a view to maintain its dominant position and contribute to the Company's long-term and sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	2022	2021	Change
	US$'000	*US$'000*	
Revenue	**2,475,488**	1,630,754	51.8%
Cost of sales	**(1,631,832)**	(1,179,156)	38.4%
Gross profit	**843,656**	451,598	86.8%
Other income and gains	**70,986**	60,758	16.8%
Fair value gain on an investment property	**78**	183	(57.4)%
Selling and distribution expenses	**(12,464)**	(10,673)	16.8%
Administrative expenses	**(266,666)**	(198,920)	34.1%
Other expenses	**(111,360)**	(165)	67,390.9%
Finance costs	**(40,331)**	(13,226)	204.9%
Share of profit of associates	**12,171**	6,765	79.9%
Profit before tax	**496,070**	296,320	67.4%
Income tax expense	**(89,499)**	(65,349)	37.0%
Profit for the year	**406,571**	230,971	76.0%
Attributable to:			
Owners of the parent	**449,912**	261,476	72.1%
Non-controlling interests	**(43,341)**	(30,505)	42.1%

Revenue

Revenue was US$2,475.5 million, an all-time high and an increase of 51.8% over the prior year, due to increased wafer shipments and improved average selling price.

Cost of sales

Cost of sales was US$1,631.8 million, an increase of 38.4% over 2021, primarily due to increased wafer shipments and increased depreciation costs.

Gross profit

Gross profit was US$843.7 million, an increase of 86.8% compared to 2021, mainly due to improved average selling price and product mix, partially offset by increased depreciation costs.

Other income and gains

Other income and gains were US$71.0 million, an increase of 16.8% compared to 2021, primarily due to increased government subsidies and interest income.

Selling and distribution expenses

Selling and distribution expenses were US$12.5 million, an increase of 16.8% from 2021, primarily due to increased labor expenses.

Administrative expenses

Administrative expenses were US$266.7 million, an increase of 34.1% from 2021, primarily due to decreased government grants for research and development and increased labor expenses.

Other expenses

Other expenses were US$111.4 million, compared to US$0.2 million in 2021, largely due to foreign exchange loss versus foreign exchange gain in the previous year.

Finance costs

Finance costs were US$40.3 million, an increase of 204.9% from 2021, primarily due to increased bank borrowings.

Share of profit of associates

Share of profit of associates was US$12.2 million, an increase of 79.9% from 2021, due to increased profit realized by the associates.

Income tax expense

Income tax expense was US$89.5 million, an increase of 37.0% compared to 2021, primarily due to increased taxable profit.

Profit for the year

As a result of the cumulative effect of the above factors, profit for the year increased to US$406.6 million, from US$231.0 million in 2021. Net profit margin was 16.4%, compared to 14.2% in 2021.

FINANCIAL STATUS

	31 December 2022 *US$'000*	31 December 2021 *US$'000*	Change
Non-current assets			
Property, plant and equipment	**3,367,716**	3,116,501	8.1%
Investment property	**169,363**	184,883	(8.4)%
Right-of-use assets	**78,425**	75,331	4.1%
Investments in associates	**130,721**	122,040	7.1%
Equity investments designated at fair value through other comprehensive income	**178,632**	257,788	(30.7)%
Other non-current assets	**54,794**	54,364	0.8%
Total non-current assets	**3,979,651**	3,810,907	4.4%
Current assets			
Inventories	**578,060**	432,917	33.5%
Trade and notes receivables	**291,856**	181,042	61.2%
Due from related parties	**13,006**	6,910	88.2%
Other current assets	**182,996**	157,935	15.9%
Pledged deposits	**1,042**	2,248	(53.6)%
Cash and cash equivalents	**2,008,765**	1,610,140	24.8%
Total current assets	**3,075,725**	2,391,192	28.6%
Current liabilities			
Trade payables	**236,999**	194,385	21.9%
Interest-bearing bank borrowings	**426,756**	195,024	118.8%
Due to related parties	**6,096**	7,501	(18.7)%
Government grants	**37,714**	66,837	(43.6)%
Other current liabilities	**674,851**	616,654	9.4%
Total current liabilities	**1,382,416**	1,080,401	28.0%
Net current assets	**1,693,309**	1,310,791	29.2%
Non-current liabilities			
Interest-bearing bank borrowings	**1,481,580**	1,395,279	6.2%
Lease liabilities	**14,644**	16,137	(9.3)%
Deferred tax liabilities	**41,268**	25,735	60.4%
Total non-current liabilities	**1,537,492**	1,437,151	7.0%
Net assets	**4,135,468**	3,684,547	12.2%

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

Equity investments designated at fair value through other comprehensive income

Equity investments designated at fair value through other comprehensive income decreased from US$257.8 million to US$178.6 million, primarily due to decrease of fair value and a disposal of equity instruments.

Inventories

Inventories increased from US$432.9 million to US$578.1 million, primarily due to increased customer demand.

Trade and notes receivables

Trade and notes receivables increased from US$181.0 million to US$291.9 million, mainly due to increased revenue.

Due from related parties

Due from related parties increased from US$6.9 million to US$13.0 million, primarily due to increased receivables from certain of our related parties.

Other current assets

Other current assets increased from US$157.9 million to US$183.0 million, primarily due to increased properties under development.

Pledged deposits

Pledged deposits decreased from US$2.2 million to US$1.0 million, primarily due to decreased pledged deposits.

Cash and cash equivalents

Cash and cash equivalents increased from US$1,610.1 million to US$2,008.8 million, mainly due to reasons stated in the cash flow analysis below.

Trade payables

Trade payables increased from US$194.4 million to US$237.0 million, primarily due to increased purchase of materials.

Due to related parties

Due to related parties decreased from US$7.5 million to US$6.1 million, primarily due to decreased trade payables from certain of our related parties.

Government grants

Government grants decreased from US$66.8 million to US$37.7 million, primarily due to decreased receipts of government funding.

Interest-bearing bank borrowings

Total interest-bearing bank borrowings increased from US$1,590.3 million to US$1,908.3 million, due to increased drawdowns of bank borrowings.

Deferred tax liabilities

Deferred tax liabilities increased from US$25.7 million to US$41.3 million, primarily due to increased withholding tax accrued for dividend distribution.

CASH FLOW

	2022	2021	Change
	US$'000	*US$'000*	
Net cash flows generated from operating activities	**750,865**	518,471	44.8%
Net cash flows used in investing activities	**(930,156)**	(863,059)	7.8%
Net cash flows generated from financing activities	**672,177**	1,014,640	(33.8)%
Net increase in cash and cash equivalents	**492,886**	670,052	(26.4)%
Cash and cash equivalents at beginning of the year	**1,610,140**	922,786	74.5%
Effect of foreign exchange rate changes, net	**(94,261)**	17,302	(644.8)%
Cash and cash equivalents at end of the year	**2,008,765**	1,610,140	24.8%

Net cash flows generated from operating activities

Net cash flows generated from operating activities were US$750.9 million, an increase of 44.8% from 2021, mainly due to increased revenue, partially offset by increased payments for materials, maintenance and payrolls.

Net cash flows used in investing activities

Net cash flows used in investing activities were US$930.2 million, primarily attributed to (i) US$996.2 million for capital investments, (ii) US$6.7 million for investment in an associate, offset by receipts of (i) US$38.4 million of government grants, (ii) US$28.5 million of interest income, (iii) US$5.7 million of disposal of an equity instrument, and (iv) US$0.1 million of disposal of fixed assets.

Net cash flows generated from financing activities

Net cash flows generated from financing activities were US$672.2 million, including (i) US$514.6 million of proceeds from bank borrowings, (ii) US$392.0 million of capital contribution from non-controlling interests, (iii) US$11.1 million of government grants for interest expenses, and (iv) US$6.3 million of proceeds from issue of shares, offset by (i) US$199.7 million of repayments of bank borrowings, (ii) US$47.3 million of interest payments, (iii) US$3.2 million payment of principal portion of lease payments, (iv) US$0.8 million payments of share issued expenses, and (v) US$0.8 million payment of pledged deposits.

Net increase in cash and cash equivalents

As a result of the cumulative effect of the above factors, cash and cash equivalents increased from US$1,610.1 million as of 31 December 2021 to US$2,008.8 million as of 31 December 2022.

FINANCIAL RISKS

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with a floating interest rate. Our policy is to manage interest rate risk using a mix of fixed and variable rate debts.

As at 31 December 2022, if the interest rates had been 100 basis points higher/lower with all other variables held constant, profit before tax for the year would have been US$14.5 million lower/higher, mainly as a result of higher/lower interest expense on floating rate bank borrowings.

Foreign currency risk

We have transactional currency exposures, arising primarily from sales or purchases by our significant subsidiaries operating in Mainland China in US$ rather than the subsidiary's functional currency, which is RMB. During the year, approximately 27% of the our sales were denominated in currencies other than the functional currency of the subsidiary making the sale, whilst 71% of costs of sales were denominated in the subsidiary's functional currency.

In addition, we have currency exposures from interest-bearing bank borrowings, held by our subsidiary operating in Mainland China. As at 31 December 2022, interest-bearing bank borrowings with a carrying amount of US$1,775.8 million are dominated in United States dollars, other than the subsidiary's functional currency, which is RMB.

As at 31 December 2022, if the US dollar had strengthened or weakened against the RMB by 5%, with all other variables held constant, our profit before tax for the year would have been approximately US$60.5 million lower or higher.

Credit risk

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

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

Liquidity risk

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

Capital management

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

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

DIVIDENDS

The Board did not recommend the payment of any dividend for the year ended 31 December 2022.

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 in the year ended 31 December 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the eligibility of shareholders to attend and vote at the AGM

Latest time to lodge transfer documents for registration	4:30 p.m. on 5 May 2023
Closure of register of members	8 to 11 May 2023 (both dates inclusive)
Record date	11 May 2023

In order to be eligible to attend and vote at the annual general meeting, unregistered holders of shares should ensure all share transfer forms accompanied by the relevant share certificates are lodged with the Company's branch share registrar Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than the aforementioned latest time.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. Detailed corporate governance practices will be stated in the Company's annual report for the year ended 31 December 2022. The Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2022.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The Board of the Company is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2022 with comparative figures for the year 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	**2022**	2021
		US$'000	*US$'000*
Revenue	*4*	**2,475,488**	1,630,754
Cost of sales		**(1,631,832)**	(1,179,156)
Gross profit		**843,656**	451,598
Other income and gains	*4*	**70,986**	60,758
Fair value gain on an investment property		**78**	183
Selling and distribution expenses		**(12,464)**	(10,673)
Administrative expenses		**(266,666)**	(198,920)
Other expenses	*4*	**(111,360)**	(165)
Finance costs	*6*	**(40,331)**	(13,226)
Share of profits of associates		**12,171**	6,765
PROFIT BEFORE TAX	*5*	**496,070**	296,320
Income tax expense	*7*	**(89,499)**	(65,349)
PROFIT FOR THE YEAR		**406,571**	230,971
Attributable to:			
Owners of the parent		**449,912**	261,476
Non-controlling interests		**(43,341)**	(30,505)
		406,571	230,971
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	*9*		
Basic			
– For profit for the year		**US$0.345**	US$0.201
Diluted			
– For profit for the year		**US$0.342**	US$0.198

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022	2021
	US$'000	*US$'000*
PROFIT FOR THE YEAR	**406,571**	230,971
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(309,458)**	80,630
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(309,458)**	80,630
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(53,707)**	15,564
Income tax effect	**8,348**	(2,335)
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	**(45,359)**	13,229
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(354,817)**	93,859
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**51,754**	324,830
Attributable to:		
Owners of the parent	**153,027**	336,438
Non-controlling interests	**(101,273)**	(11,608)
	51,754	324,830

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2022** ***US$'000***	31 December 2021 *US$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,367,716**	3,116,501
Investment property		**169,363**	184,883
Right-of-use assets		**78,425**	75,331
Intangible assets		**32,986**	35,312
Investments in associates	*10*	**130,721**	122,040
Equity investments designated at fair value through other comprehensive income		**178,632**	257,788
Long-term prepayments to third parties		**7,742**	15,573
Deferred tax assets		**14,066**	3,479
Total non-current assets		**3,979,651**	3,810,907
CURRENT ASSETS			
Properties under development		**134,723**	114,492
Inventories		**578,060**	432,917
Trade and notes receivables	*11*	**291,856**	181,042
Prepayments, other receivables and other assets		**48,273**	43,443
Due from related parties	*17(c)*	**13,006**	6,910
Pledged deposits	*12*	**1,042**	2,248
Cash and cash equivalents	*12*	**2,008,765**	1,610,140
Total current assets		**3,075,725**	2,391,192
CURRENT LIABILITIES			
Trade payables	*13*	**236,999**	194,385
Other payables and accruals		**593,971**	560,435
Interest-bearing bank borrowings	*14*	**426,756**	195,024
Lease liabilities		**4,704**	1,676
Government grants		**37,714**	66,837
Due to related parties	*17(c)*	**6,096**	7,501
Income tax payable		**76,176**	54,543
Total current liabilities		**1,382,416**	1,080,401
NET CURRENT ASSETS		**1,693,309**	1,310,791
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,672,960**	5,121,698

continued/…

	Note	**31 December 2022**	31 December 2021
		US$'000	*US$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**1,481,580**	1,395,279
Lease liabilities		**14,644**	16,137
Deferred tax liabilities		**41,268**	25,735
Total non-current liabilities		**1,537,492**	1,437,151
Net assets		**4,135,468**	3,684,547
EQUITY			
Share capital		**1,994,462**	1,986,152
Reserves		**1,036,008**	884,207
Total equity attributable to owners of the parent		**3,030,470**	2,870,359
Non-controlling interests		**1,104,998**	814,188
Total equity		**4,135,468**	3,684,547

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Hua Hong Semiconductor Limited (the "Company") is a limited liability company incorporated in Hong Kong on 21 January 2005. The registered office of the Company is located at Room 2212, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The principal place of business is located at No. 288, Halei Road, Zhangjiang Hi-Tech Park, Shanghai.

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

In the opinion of the directors, the parent of the Company is Shanghai Huahong (Group) Co., Ltd. ("Huahong Group"), which is a state-owned company established in the People's Republic of China ("PRC") and supervised by the Shanghai State-owned Assets Supervision and Administration Commission ("Shanghai SASAC"). The ultimate parent of the Company is Shanghai SASAC.

2.1 BASIS OF PREPARATION

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

The financial information relating to the years ended 31 December 2022 and 2021 included in this announcement does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Ordinance")) in this announcement are not specified financial statements (within the meaning of the same section). The specified financial statements for the year ended 31 December 2021 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Ordinance. The specified financial statements for the year ended 31 December 2022 have not been but will be delivered to the Registrar of Companies in Hong Kong in accordance with the Ordinance. Auditor's reports have been prepared on the specified financial statements for the years ended 31 December 2021 and 2022. Those reports were unqualified, did not refer to any matters to which the auditor drew attention by way of emphasis without qualifying the reports, and did not contain statements under section 406(2) or 407(2) or (3) of the Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The amendments are not expected to have any significant impact on the Group's financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

Revenues are attributed to geographical areas based on the locations of customers. Revenues by geographical segment based on the locations of customers for the year are presented as follows:

	2022	2021
	US$'000	*US$'000*
China (including Hong Kong)	**1,811,269**	1,205,149
North America	**297,683**	159,281
Asia (excluding China and Japan)	**210,610**	169,227
Europe	**114,728**	70,627
Japan	**41,198**	26,470
	2,475,488	1,630,754

The Group is involved in the business of the manufacture and sale of semiconductor products. Revenue from the sale of semiconductor products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the semiconductor products, where the performance obligation is satisfied. The normal credit term is 30 to 45 days upon delivery. Payment in advance is required for some contracts.

Information about major customers

No revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer for the year ended 31 December 2022 (31 December 2021: Nil).

4. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

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

	2022	2021
	US$'000	*US$'000*
Revenue from contracts with customers		
Sale of goods	**2,475,488**	1,630,754
Other income		
Gross rental income from investment property operating leases:		
Fixed lease payments	**14,358**	14,488
Interest income	**26,944**	13,437
Government subsidies	**27,679**	7,288
Sale of scrap materials	**1,476**	586
Others	**524**	1,015
	70,981	36,814
Gains		
Foreign exchange gains, net	**–**	23,944
Gain on disposal of items of property, plant and equipment	**5**	–
	70,986	60,758
Other expenses		
Foreign exchange loss, net	**106,804**	–
Loss on disposal of items of property, plant and equipment	**–**	76
Others	**4,556**	89
	111,360	165
Types of goods		
Sales of semiconductor products and total revenue from contracts with customers	**2,475,488**	1,630,754
Timing of revenue recognition		
Goods transferred at a point in time and total revenue from contracts with customers	**2,475,488**	1,630,754

The disaggregation of the Group's revenue based on the geographical region for the year ended 31 December 2022 is given in note 3.

5. PROFIT BEFORE TAX

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

	2022 *US$'000*	2021 *US$'000*
Cost of inventories sold	**1,631,832**	1,179,156
Depreciation of property, plant and equipment	**439,917**	302,245
Depreciation of right-of-use assets	**5,842**	5,676
Amortisation of intangible assets	**11,101**	10,095
Research and development costs	**160,936**	86,068
Lease payments not included in the measurement of lease liabilities	**2,625**	1,572
Auditor's remuneration	**1,395**	660
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**382,804**	289,787
Equity-settled share option expense	**1,226**	296
Pension scheme contributions (defined contribution scheme)*	**31,660**	28,287
	415,690	318,370
Impairment of items of property, plant and equipment	**858**	3,914
(Reversal of)/provision for impairment of trade receivables	**(16)**	273
Write-down/(reversal) of inventories to net realisable value	**19,612**	(180)
Changes in fair value of an investment property	**(78)**	(183)

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6 FINANCE COSTS

	2022 *US$'000*	2021 *US$'000*
Interest on bank borrowings	**39,451**	12,347
Interest on lease liabilities	**880**	879
	40,331	13,226

7. INCOME TAX

Profits arising in Hong Kong were subject to profits tax at the rate of 16.5% during the year (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 year (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 Company's subsidiaries registered in the PRC and only having operations in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25%.

Pursuant to the relevant laws and regulations in the PRC and with approval from the tax authorities in charge, one of the Group's subsidiaries, HHGrace, is qualified as a "High and New Technology Enterprise" and was therefore entitled to a preferential tax rate of 15% from 2020 to 2022.

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, 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 at 31 December 2022 and the tax holiday has not begun.

The Company's subsidiary incorporated and operating in Japan was subject to corporation tax at a rate of 33.58% (2021: 33.58%).

The Company's subsidiary incorporated and operating in the United States was subject to federal corporation income tax at a rate of 21% during the year (2021: 21%), as well as state tax at 8.84% (2021: 8.84%).

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

	2022	2021
	US$'000	*US$'000*
Current income tax – PRC	**74,516**	49,910
Current income tax – elsewhere	**43**	41
Withholding tax on the distribution of dividend from a PRC subsidiary	**2,500**	–
Deferred tax	**12,440**	15,398
	89,499	65,349

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

	2022	2021
	US$'000	*US$'000*
Profit before tax	**496,070**	296,320
Tax at the statutory tax rate of 25%	**124,018**	74,080
Effect of different tax rates for specific provinces and countries or enacted by local authority	**(57,612)**	(39,700)
Adjustments in respect of current tax of previous periods	**309**	71
Profits attributable to associates	**(1,826)**	(1,015)
Expenses not deductible for tax	**434**	153
Tax losses not recognised due to tax holiday	**50,695**	47,629
Tax losses not recognised due to improbable future taxable profits	**1,481**	2,144
Temporary differences not recognised	**129**	927
Additional deduction of research and development costs	**(42,532)**	(33,753)
Additional deduction of equipment	**(3,630)**	–
Effect of withholding tax at 10% (2021: 10%) on the distributable profits of the Group's PRC subsidiary	**18,033**	14,813
Tax charge at the Group's effective rate	**89,499**	65,349

8. DIVIDEND

The directors did not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,303,399,389 (2021: 1,300,169,098) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at the exercise price 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:

	2022	2021
	US$'000	*US$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**449,912**	261,476

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,303,399,389**	1,300,169,098
Effect of dilution – weighted average number of ordinary shares:		
Share options	**10,545,888**	19,996,637
	1,313,945,277	1,320,165,735

10. INVESTMENTS IN ASSOCIATES

	2022	2021
	US$'000	*US$'000*
Carrying amount	**130,721**	122,040

Particulars of the material associate are as follows:

Name of company	**Place of registration and business**	**Paid-in capital**	**Percentage of equity interest attributable to the Group**	**Principal activities**
		RMB'000		
Shanghai Huahong Technology Development Co., Ltd. ("Huahong Technology Development")	PRC/Mainland China	548,000	50%	Technology development and investment
Shanghai Huahong Investment Development Co., Ltd ("Huahong Investment Development")	PRC/Mainland China	480,000	20%	Investment

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

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

The following table illustrates the summarised financial information of Huahong Technology Development and Huahong Investment Development:

	Huahong Technology Development		**Huahong Investment Development**	
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021
	US$'000	*US$'000*	***US$'000***	*US$'000*
Current assets	**31,186**	27,884	**24,365**	16,969
Non-current assets	**307,918**	324,496	**76,980**	21,354
Current liabilities	**(91,340)**	(100,312)	**(186)**	(37)
Non-current liabilities	**(23,606)**	(23,233)	**(7,949)**	(175)
Net assets	**224,158**	228,835	**93,210**	38,111
Net assets, excluding goodwill	**224,158**	228,835	**93,210**	38,111
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's interest in the associate	**50%**	50%	**20%**	20%
Carrying amount of the investment	**112,079**	114,418	**18,642**	7,622

	Huahong Technology Development		**Huahong Investment Development**	
	2022	2021	**2022**	2021
	US$'000	*US$'000*	***US$'000***	*US$'000*
Revenue	**26,283**	29,423	**850**	104
Profit and total comprehensive income	**14,832**	13,342	**23,775**	470

11. TRADE AND NOTES RECEIVABLES

	2022	2021
	US$'000	*US$'000*
Trade receivables	**229,409**	154,339
Notes receivables	**64,038**	28,424
	293,447	182,763
Impairment of trade receivables	**(1,591)**	(1,721)
	291,856	181,042

The Group's trading terms with its customers are mainly on credit and the credit period is generally 30 to 60 days. There is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2022	2021
	US$'000	*US$'000*
Within 3 months	**212,563**	149,900
3 to 6 months	**15,255**	2,718
	227,818	152,618

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

	2022	2021
	US$'000	*US$'000*
At 1 January	**1,721**	1,619
Impairment losses, net	**(16)**	273
Write-off	**–**	(199)
Exchange realignment	**(114)**	28
As at 31 December	**1,591**	1,721

The Group applies a simplified approach in calculating ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss for all trade and notes receivables. To measure the expected credit losses, trade and notes receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses have also incorporated forward-looking information. The expected credit loss rates for trade and notes receivables that were not yet past due or aged within 3 months are minimal.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

The credit quality of the trade receivables is as follows:

As at 31 December 2022

		Past due		
	Current	**Less than 3 months**	**Over 1 year**	**Total**
Expected credit loss rate	**0.07%**	**1.63%**	**100.00%**	**0.69%**
Gross carrying amount *(US$'000)*	**224,961**	**3,065**	**1,383**	**229,409**
Expected credit losses *(US$'000)*	**158**	**50**	**1,383**	**1,591**

As at 31 December 2021

		Past due		
	Current	Less than 3 months	Over 1 year	Total
Expected credit loss rate	0.18%	1.40%	100.00%	1.12%
Gross carrying amount *(US$'000)*	152,329	570	1,440	154,339
Expected credit losses *(US$'000)*	273	8	1,440	1,721

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022	2021
	US$'000	*US$'000*
Cash and bank balances	**736,530**	379,995
Time deposits	**1,273,277**	1,232,393
	2,009,807	1,612,388
Less: pledged deposits:		
Pledged deposits	**(1,015)**	(2,221)
Others	**(27)**	(27)
Cash and cash equivalents	**2,008,765**	1,610,140

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to US$1,305,378,000 (2021: US$975,405,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

13. 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:

	2022	2021
	US$'000	*US$'000*
Within 1 month	**141,338**	131,102
1 to 3 months	**60,772**	41,450
3 to 6 months	**11,699**	7,223
6 to 12 months	**9,388**	2,767
Over 12 months	**13,802**	11,843
	236,999	194,385

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

14. INTEREST-BEARING BANK BORROWINGS

	2022		
	Effective interest rate (%)	**Maturity**	**US$'000**
Current			
Bank loans – unsecured	**0.55-5.50**	**2023**	**314,039**
Current portion of long-term bank loans – secured	**1.20-6.30**	**2023**	**112,717**
			426,756
Non-current			
Secured bank loans	**1.20-6.63**	**2024-2030**	**1,451,580**
Unsecured bank loans	**2.00**	**2024-2030**	**30,000**
			1,481,580
			1,908,336

	2021		
	Effective interest rate (%)	Maturity	US$'000
Current			
Bank loans – unsecured	0.78-1.14	2022	180,989
Current portion of long term bank loans – secured	1.20-4.10	2022	14,035
			195,024
Non-current			
Secured bank loans	0-4.10	2023-2028	1,395,279
			1,590,303

	2022	2021
	US$'000	*US$'000*
Analysed into:		
Bank loans repayable:		
Within one year	**426,756**	195,024
In the second year	**183,281**	107,943
In the third to fifth years, inclusive	**827,919**	677,961
After five years	**470,380**	609,375
	1,908,336	1,590,303

Except for bank loans of US$132,562,000 (2021: US$30,249,000) which are denominated in RMB, all borrowings are dominated in United States dollars.

As at 31 December 2022 and 2021, certain of the Group's bank loans were secured by pledges of the Group's assets with carrying values as follows:

	2022	2021
	US$'000	*US$'000*
Property, plant and equipment	**1,803,095**	2,256,289
Right-of-use assets	**50,231**	46,604
Properties under development	**88,033**	–
	1,941,359	2,302,893

15. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme includes two batches, each of which was effective on 4 September 2015 (the "2015 Options") and on 24 December 2018 (the "2018 Options"), respectively. Eligible participants of the Scheme include the Company's directors, including a non-executive director, an executive director and other employees of the Group. The share options, unless otherwise cancelled or amended, will remain in force for 7 years from the respective effective dates.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of two to five years and ends on a date which is not later than the expiry date of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

2015 Options

The following 2015 Options were outstanding during the year:

	2022		2021	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**6.912**	**4,738**	6.912	5,935
Exercised during the year	**6.912**	**(4,738)**	6.912	(1,197)
At 31 December	**–**	**–**	6.912	4,738

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

2022 Number of options ***'000***	2021 Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
–	1,952	6.912	4 September 2018 to 3 September 2022
–	2,786	6.912	4 September 2019 to 3 September 2022
–	4,738		

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

The 4,738,000 (2021: 1,197,000) share options exercised under the 2015 Options during the year, resulting in the issue of 4,738,000 (2021: 1,197,000) ordinary shares of the Company for a total cash consideration of US$4,173,000 (2021: US$1,065,000). An amount of US$1,803,000 (2021: US$465,000) was transferred from the share option reserve to share capital upon the exercise of the share options.

2018 Options

The following 2018 Options were outstanding during the year:

	2022		2021	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**15.317**	**24,963**	15.310	33,547
Exercised during the year	**15.244**	**(907)**	15.088	(2,177)
Forfeited during the year	**15.403**	**(618)**	15.357	(6,407)
At 31 December	**15.318**	**23,438**	15.317	24,963

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

2022 Number of options *'000*	2021 Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
6,523	6,954	15.056	24 December 2020 to 23 December 2025
4,512	4,943	15.056	24 December 2021 to 23 December 2025
9,429	9,859	15.056	24 December 2022 to 23 December 2025
925	1,025	15.056	24 December 2023 to 23 December 2025
62	62	18.400	29 March 2021 to 28 March 2026
125	125	18.400	29 March 2022 to 28 March 2026
125	125	18.400	29 March 2023 to 28 March 2026
125	125	18.400	29 March 2024 to 28 March 2026
256	316	17.952	23 December 2021 to 22 December 2026
639	677	17.952	23 December 2022 to 22 December 2026
642	677	17.952	23 December 2023 to 22 December 2026
75	75	17.952	23 December 2024 to 22 December 2026
23,438	24,963		

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

The Group recognised a share option expense of the 2018 Options of US$1,226,000 (2021: US$296,000) during the year.

The 907,000 (2021: 2,177,000) share options exercised under the 2018 Options during the year, resulting in the issue of 907,000 (2021: 2,177,000) ordinary shares of the Company for a total cash consideration of US$1,768,000 (2021: US$4,235,000). An amount of US$566,000 (2021: US$1,354,000) was transferred from the share option reserve to share capital upon the exercise of the share options.

At the end of the reporting period, the Company had 23,438,000 2018 Options outstanding. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 23,438,000 additional ordinary shares of the Company and additional share capital of US$60,844,000 (including US$14,796,000 transferred from the share option reserve to share capital).

At the date of approval of these financial statements, the Company had 22,670,809 2018 Options outstanding, which represented approximately 1.73% % of the Company's shares in issue as at that date.

16. COMMITMENTS

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

	2022	2021
	US$'000	*US$'000*
Contracted, but not provided for:		
Property, plant and equipment	**284,304**	283,019

17. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	**Relationship with the Group**
Huahong Group and its subsidiaries	
– Hua Hong International Inc. ("Huahong International")	26.60% 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	Subsidiary of Huahong Group
NEC Corporation ("NEC")*	Shareholder of the Company (before 19 February 2021)
– NEC Management Partner, Ltd. ("NEC Management")	Subsidiary of NEC
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 of all of its shareholdings in the Company on 19 February 2021. From then on, NEC and its subsidiaries are no longer related parties to the Group.

(b) Related party transactions

The Group had the following material transactions with related parties during the year:

	2022 **US$'000**	2021 US$'000
Sales of goods to related parties *(note (i))*		
Huahong Zealcore#	**9,711**	6,404
ICRD#	**4,394**	8,742
Hongri#	**3,342**	3,376
Purchases of goods from related parties *(note (ii))*		
Hongri#	**18,422**	18,247
Huahong Zealcore#	**825**	688
Shanghai Huali	**69**	519
Jitong	**20**	249
NEC Management	**–**	233
Rental income from a related party *(note (iii))*		
Shanghai Huali#	**14,254**	14,497
Service fees charged by related parties *(note (iv))*		
Huajin	**400**	338
Huahong Real Estate	**–**	28
Interest expense charged by a related party *(notes (iv) and (vi))*		
Huahong Real Estate	**714**	795
Expense paid on behalf of a related party *(note (v))*		
Shanghai Huali	**32,728**	30,760

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

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

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

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

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

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

Note (vi) The Group entered into a 20-year lease in respect of certain dormitory properties from Huahong Real Estate. The amount of rent payable by the Group under the lease is US$1,696,000 per year. At 31 December 2022, the balances of those right-of-use assets and lease liabilities were US$12,229,000 (31 December 2021: US$14,573,000) and US$14,772,000 (31 December 2021: US$17,225,000), respectively.

(c) Outstanding balances with related parties

	2022	2021
	US$'000	*US$'000*
Amounts due from related parties		
Shanghai Huali	**10,996**	6,359
Huahong Zealcore	**1,457**	406
ICRD	**553**	145
	13,006	6,910
Amounts due to related parties		
Shanghai Huali	**3,115**	3,673
Hongri	**2,613**	2,995
Huahong Zealcore	**211**	304
ICRD	**76**	468
Huajin	**53**	5
Jitong	**28**	32
Huahong Real Estate	**–**	24
	6,096	7,501

(d) Compensation of key management personnel of the Group

	2022	2021
	US$'000	*US$'000*
Short term employee benefits	**5,622**	6,569
Pension scheme contributions	**103**	81
Equity-settled share option expense	**419**	364
Total compensation paid to key management personnel	**6,144**	7,014

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event affecting the Group after 31 December 2022.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive directors of the Company, has reviewed the results of the Group for the year ended 31 December 2022 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Company's auditor, Ernst & Young, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on this announcement.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

APPRECIATION

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

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

Shanghai, PRC, 30 March 2023

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