



华虹宏力  
HHGRACE

HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(於香港註冊成立之有限公司)

(Stock Code: 01347)

(股份代號：01347)



2023

年度報告  
ANNUAL REPORT

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# DEFINITIONS

In this annual report, unless otherwise required by the context, the following terms shall have the meanings set out below.

“Annual General Meeting” or “AGM”	an annual general meeting of the Company to be held on 9 May 2024;
“Articles”	the articles of association of the Company (as amended from time to time);
“Audit Committee”	the audit committee of the Board;
“Board”	the Board of Directors of the Company;
“China IC Fund”	China Integrated Circuit Industry Investment Fund Co., Ltd.* (國家集成電路產業投資基金股份有限公司), a company incorporated in the PRC on 26 September 2014; its shareholders include the Ministry of Finance, the enterprises in the Integrated Circuit Industry Cluster, large-scale state-owned enterprises, certain financial institutions and private enterprises. It mainly focuses on the manufacturing of semiconductor wafers and takes into account the upstream and downstream links covering chip design, package test, equipment and materials etc;
“China IC Fund II”	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.* (國家集成電路產業投資基金二期股份有限公司), a company established in the PRC on 22 October 2019; its shareholders include the Ministry of Finance, the enterprises in the Integrated Circuit Industry Cluster, large-scale state-owned enterprises, certain financial institutions and private enterprises. It mainly invests in the value chain of the integrated circuit industry via equity investment, primarily in integrated circuit chip manufacturing as well as chip designing, packaging test and equipment and materials. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, China IC Fund II is not an associate of China IC Fund under Chapter 14A of the Listing Rules;
“China” or “the PRC”	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where otherwise required by the context, references in this annual report to “China” and the “PRC” do not include Taiwan, the Macau Special Administrative Region and Hong Kong Special Administrative Region;
“Company” or “Hua Hong Semiconductor”	Hua Hong Semiconductor Limited, a company incorporated in Hong Kong with limited liability on 21 January 2005 and, except where otherwise required by the context, all of its subsidiaries, or its present subsidiaries where the context refers to the time before it became the holding company of its present subsidiaries;
“Company Secretary”	the Company Secretary of the Company;
“Director(s)”	the Director(s) of the Company;

## DEFINITIONS

“EPS”	earnings per share;
“Executive Director(s)”	the Executive Director(s) of our Company;
“Extraordinary General Meeting” or “EGM”	an extraordinary general meeting of the Company;
“GDP”	gross domestic product;
“Grace Cayman”	Grace Semiconductor Manufacturing Corporation, an exempted company with limited liability incorporated in the Cayman Islands on 5 October 1999 and a wholly – owned subsidiary of our Company;
“Grace Shanghai”	Shanghai Grace Semiconductor Manufacturing Corporation (上海宏力半導體製造有限公司), a company incorporated in the PRC on 20 December 2000 and a wholly – owned subsidiary of our Company. It was deregistered on 3 August 2018;
“Group”	our Company and our subsidiaries or, where required by the context, with respect to the period before our Company became the holding company of our present subsidiaries (or became such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be);
“HHGrace”	Shanghai Huahong Grace Semiconductor Manufacturing Corporation (上海華虹宏力半導體製造有限公司), a company incorporated in the PRC on 24 January 2013 and a wholly-owned subsidiary of our Company;
“HHNEC”	Shanghai Hua Hong NEC Electronics Co., Ltd. (上海華虹NEC電子有限公司), a company incorporated in the PRC on 17 July 1997 and a wholly-owned subsidiary of our Company. It was deregistered on 3 August 2018;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;

## DEFINITIONS

“Huahong Group”

Shanghai Huahong (Group) Co., Ltd. (上海華虹(集團)有限公司), a company incorporated in the PRC on 9 April 1996 as Shanghai Hua Hong Microelectronics Co., Ltd. and renamed as Shanghai Huahong (Group) Co., Ltd. in 1998, and a significant shareholder of our Company;

“Huahong Group Framework Agreement”

the framework agreement dated 30 December 2022 entered into between the Company and Huahong Group to regulate the sales and purchase transactions and provision of services between the Group and Huahong Group, its subsidiaries or associates (as defined under Chapter 14A of the Listing Rules) for the year ending 31 December 2023;

“Huahong Real Estate”

Shanghai Huahong Real Estate Co., Ltd. (上海華虹置業有限公司), a company incorporated in the PRC on 28 October 2011 and a wholly-owned subsidiary of Huahong Technology Development;

“Huahong Technology Development”

Shanghai Huahong Technology Development Co., Limited (上海華虹科技發展有限公司), a connected person, a company incorporated in the PRC on 10 May 2010, and a company 50% held by and consolidated with Huahong Group and 50% held by HHGrace;

“Huajin Property Management”

Shanghai Huajin Property Management Co., Ltd. (上海華錦物業管理有限公司), a company incorporated in the PRC on 8 June 2012, a wholly-owned subsidiary of Huahong Technology Development and a connected person of the Company;

“Huali Integrated”

Shanghai Huali Integrated Circuit Corporation (上海華力集成電路製造有限公司), a company incorporated in the PRC on 8 August 2016. Its Shareholders include Shanghai Huali Microelectronics Corporation, Shanghai Integrated Circuit Industry Investment Fund Co., Ltd. and China Integrated Circuit Industry Investment Fund Co., Ltd.;

“Huali Micro”

Shanghai Huali Microelectronics Corporation (上海華力微電子有限公司), a company incorporated in the PRC on 18 January 2010 and a connected person;

“Hua Hong Manufacturing”

Hua Hong Semiconductor Manufacturing (Wuxi) Co., Ltd.\* (華虹半導體製造(無錫)有限公司), a company incorporated in the PRC on 17 June 2022 and a non-wholly owned subsidiary of the Company;

“Hua Hong Wuxi”

Hua Hong Semiconductor (Wuxi) Limited, a company incorporated in the PRC on 10 October 2017 and held 51% by the Group. Upon completion of the Capital Injection Agreement, the registered capital of Hua Hong Wuxi shall increase from US\$1,800 million to approximately US\$2,536.85 million and Hua Hong Wuxi remains a non-wholly owned subsidiary of the Company held as to approximately 22.22%, 28.78%, 20.00%, 20.58% and 8.42% by the Company, HHGrace, Wuxi Xi Hong Lian Xin, China IC Fund and China IC Fund II, respectively;

## DEFINITIONS

“Independent Non-Executive Director(s)”	the Independent Non-Executive Director(s) of our Company;
“INESA”	INESA (Group) Co., Ltd. (上海儀電(集團)有限公司), formerly known as INESA Holding Group (上海儀電控股(集團)有限公司), a state-owned company incorporated in the PRC in December 1993, and a controlling shareholder of our Company prior to 17 December 2020;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time;
“Nomination Committee”	the nomination committee of the Board;
“Non-Executive Director(s)”	the Non-Executive Director(s) of our Company;
“O-Cubes”	O-Cubes (Shanghai) Microelectronics Technology Co., Ltd. (白盒子(上海)微電子科技有限公司), a company incorporated in the PRC owned as to 30% by SAIL;
“QST”	QST Corporation (上海矽睿科技有限公司), a company incorporated in the PRC on 13 September 2012 and a connected person of the Company until 1 September 2020;
“Remuneration Committee”	the remuneration committee of the Board;
“RMB”	Renminbi, the lawful currency of the PRC;
“RMB Share(s)” or “A Share(s)”	the ordinary share(s) of the Company which are listed on the STAR Market and traded in RMB;
“RMB Share Issue”	the Company’s issue of 407,750,000 RMB Shares, which are listed and became available for trading on the STAR Market on 7 August 2023, further information of which are set out in the announcements of the Company dated 21 March 2022, 12 May 2022, 27 June 2022, 4 November 2022, 30 January 2023, 13 April 2023, 10 May 2023, 17 May 2023, 28 May 2023, 7 June 2023, 28 June 2023, 5 July 2023, 14 July 2023, 18 July 2023, 21 July 2023, 24 July 2023, 26 July 2023, 27 July 2023, 31 July 2023 and 4 August 2023, and the circulars of the Company dated 7 June 2022, 5 June 2023 and 29 June 2023;
“SAIL”	Shanghai Alliance Investment Limited (上海聯和投資有限公司), a company incorporated in the PRC on 26 September 1994, a substantial shareholder of our Company;
“SFC”	the Securities and Futures Commission of Hong Kong;

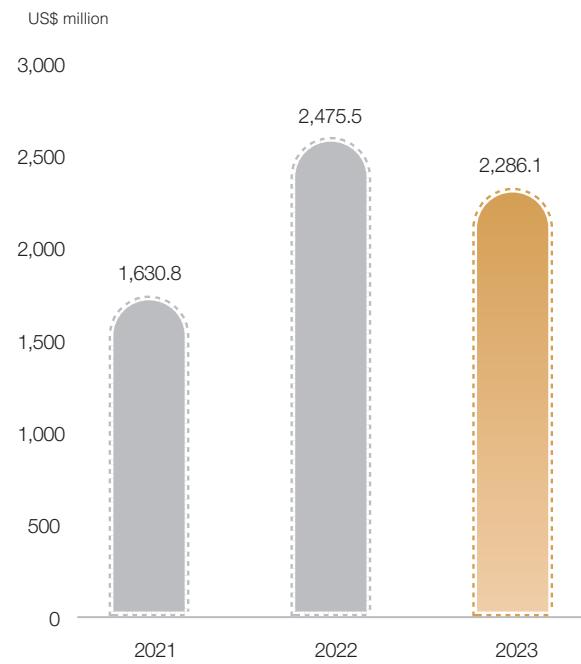
## DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time;
“Shanghai Awinic”	Shanghai Awinic Technology Co., Ltd. (上海艾為電子技術股份有限公司), a company incorporated in the PRC on 18 June 2008 whose shares are listed on the STAR Market of the Shanghai Stock Exchange (stock code: 688798);
“Shanghai Huali”	Huali Micro and its subsidiaries;
“Shareholders”	holders of ordinary shares in the capital of the Company;
“SITRI”	Shanghai Industrial µTechnology Research Institute (上海新微技術研發中心有限公司), a company incorporated in the PRC in May 2013 and a connected person of the Company;
“STAR Market”	the Science and Technology Innovation Board of the Shanghai Stock Exchange;
“US\$”	United States dollars, the lawful currency of the United States;
“Wuxi Xi Hong Guo Xin”	Wuxi Xi Hong Guo Xin Investment Co., Ltd.* (無錫錫虹國芯投資有限公司), a professional investment company incorporated in the PRC on 16 January 2023, jointly controlled by municipal and district-level state-owned enterprises; and
“Wuxi Xi Hong Lian Xin”	Wuxi Xi Hong Lian Xin Investment Co., Ltd.* (無錫錫虹聯芯投資有限公司), a professional investment company incorporated in the PRC on 19 December 2017, jointly established by municipal and district-level state-owned enterprises.

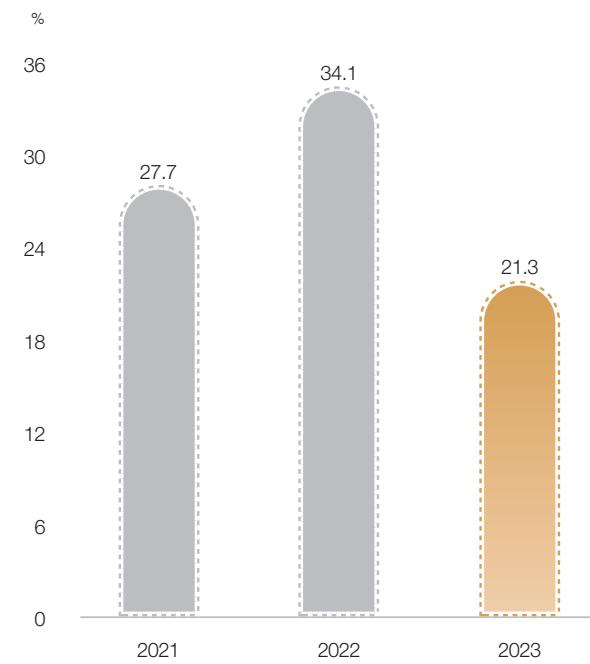
\* For identification purpose only

# KEY FINANCIALS

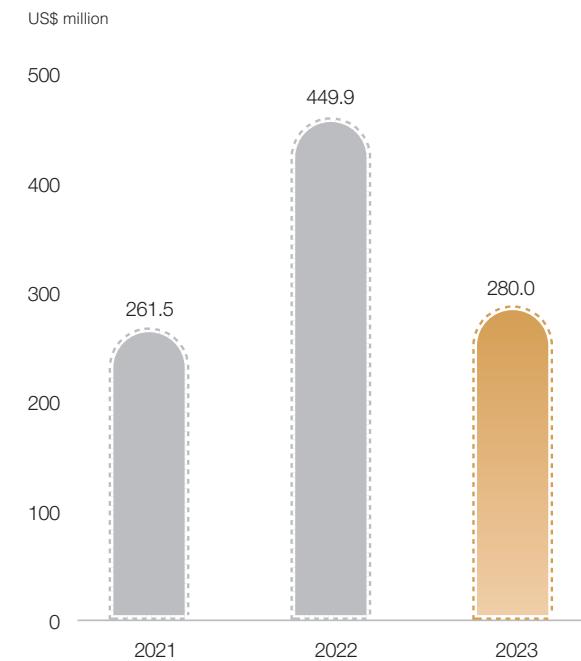
## Revenue



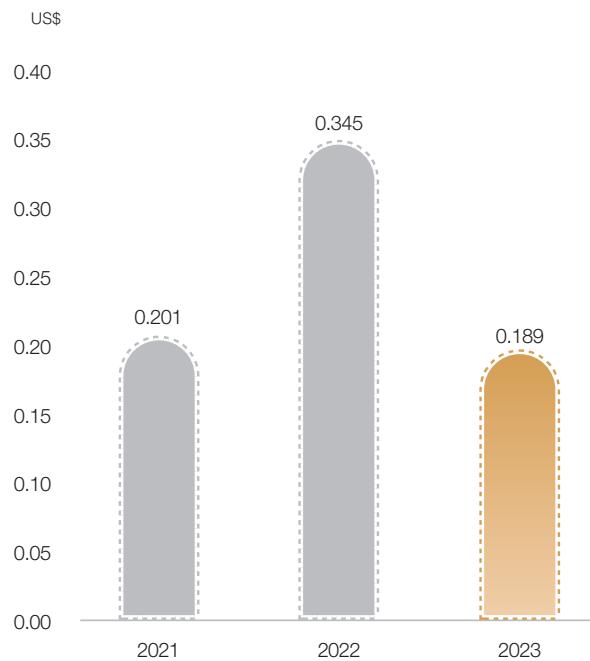
## Gross Profit Margin



## Profit attributable to owners of the parent



## EPS



# LETTER TO SHAREHOLDERS

Dear Shareholders,

Looking back at 2023, it was an exceptionally rare, significant, and milestone year in the development history of Hua Hong Semiconductor, given the challenging and complex external environment, volatile market conditions, and a labyrinthine competitive landscape where opportunities and challenges coexisted. The two major manufacturing bases in Shanghai and Wuxi acted as mighty wheels, steering with stability. Upholding the beliefs of "Courage, Perseverance and Unity", our entire workforce converged together to form an unstoppable force. Overcoming obstacles with determination, we not only navigated the market's ups and downs smoothly, but also wrote a new glorious chapter in the pursuit of harmony and sustainable development. With the advantages of our "8-inch + 12-inch" strategy, the Company stayed committed to continuous innovation of specialty technologies and developed core competitiveness of products using our specialty platforms, including Embedded/Standalone Non-Volatile Memory, Power Discrete, Analog & PM, and Logic & RF. We persisted in our forward-looking "Specialty IC + Power Discrete" dual-pronged strategy, rapidly penetrated downstream emerging markets, including communication, new energy, Internet of Things, and automotive electronics, continuously providing excellent products and services for our global customers.

In the dynamic summer of 2023, Hua Hong Semiconductor was officially listed on the STAR Market, joining the ranks of "A+H" dual-listed companies and forging a closer bond with the capital market. Seizing this opportunity, we are poised to drive rapid scaling of our 12-inch production line, pursue excellence in our 8-inch production line, and conduct in-depth research and development on specialty technologies. Confronted with severe challenges during the Reporting Period, such as the slowdown in global economic growth, declining market demand, and rising costs of raw materials and labor, revenue of the Company was US\$2,286.1 million, a decrease of 7.7% compared to the year 2022. The overall gross profit margin was also subject to challenges, decreasing 12.8 percentage points to 21.3% compared to the previous year. Despite such a challenging market environment, Hua Hong Semiconductor has maintained steadfast development momentum. The Company actively adjusted its strategic plan, strengthened internal management, and increased its investment in research and development, in order to pursue breakthroughs and precisely seize opportunities for recovery in adverse market conditions.

As at the end of 2023, the Company had an expanded monthly capacity (8-inch equivalent) of 391,000 wafers and an annual shipment of 4.103 million wafers. In particular, Hua Hong Wuxi has successfully achieved its monthly capacity of 94,500 wafers, with IC process nodes covering 90 nm to 65/55 nm. It is a global leading 12-inch production line devoted to specialty technologies and the world's first 12-inch power semiconductor foundry. In June 2023, the Hua Hong Manufacturing Project was launched with an investment of US\$6.7 billion for the construction of a new 12-inch specialty technology production line with a monthly capacity of 83,000 wafers. The project officially commenced in June, and installation of the main plant's steel structure was completed in December, showcasing "Hua Hong speed" once again. Capacity release of the Wuxi manufacturing base will provide strong support for improvement and development of the integrated circuit industry supply chain in the Yangtze River Delta region. At the same time, adhering to the development concept of "Driven by innovation, led by technology" with a strong focus on high-quality development, the Company will continue to enhance its core competitiveness, with an aim to make greater contributions to the sustained and healthy development of the integrated circuit industry in China and globally.

## LETTER TO SHAREHOLDERS

“This arduous journey is as tough as iron, but now we are striding forward from the very beginning”. Looking ahead to 2024, we will closely keep up with market trends, further advance research and development of new technologies, optimize and upgrade existing platforms, strengthen our advantages in various specialty technologies, focus on new quality productivity, and drive the synergy of the industrial ecosystem. Upholding an innovative mindset, we will create more products for our customers all over the world with an international vision. We express our heartfelt gratitude to all of our shareholders, partners, and friends from all walks of life for their ongoing care, support for, and cooperation with Hua Hong Semiconductor. Let’s work together to jointly build a better future, with no concern for the past, no fear of the present, and no hesitation in pursuing our strategy!

**Mr. Suxin Zhang**

*Chairman and Executive Director*

**Mr. Junjun Tang**

*President and Executive Director*

Shanghai, PRC

28 March 2024

# CORPORATE INFORMATION

## Corporate Culture

### VISION

WE EMPOWER OUR  
CUSTOMERS THROUGH  
CONTINUOUS INNOVATION

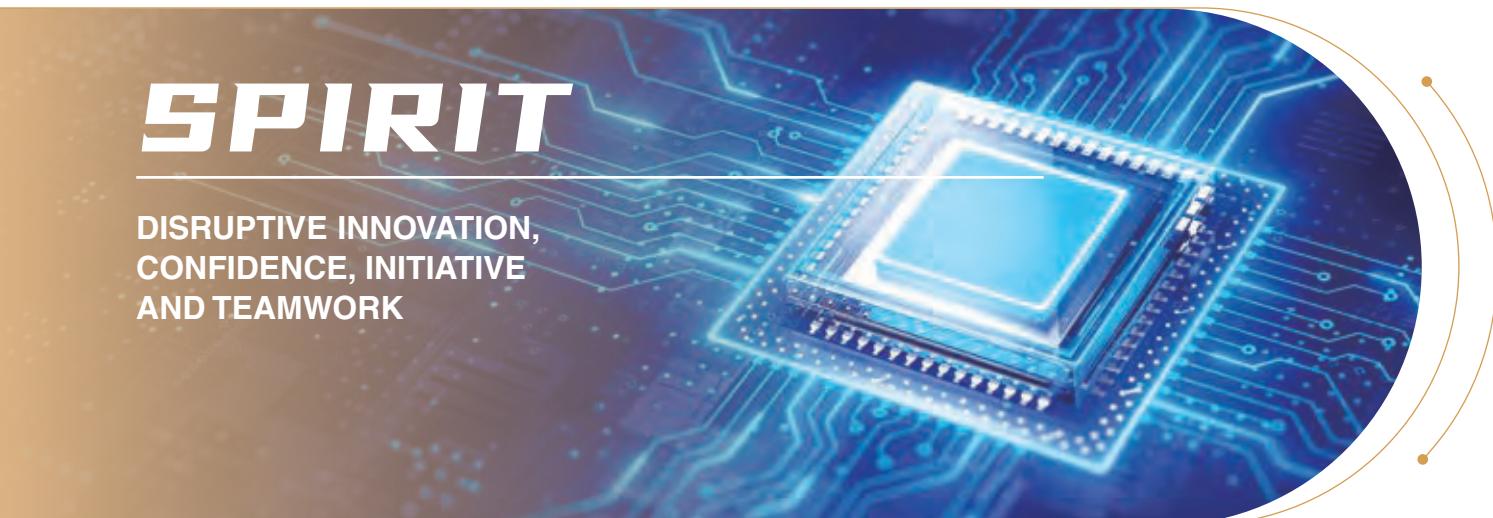


### MISSION

CREATING VALUE FOR SHAREHOLDERS,  
CUSTOMERS AND EMPLOYEES THROUGH  
COLLABORATION, INNOVATION AND BEING  
A GOOD CORPORATE CITIZEN

### SPIRIT

DISRUPTIVE INNOVATION,  
CONFIDENCE, INITIATIVE  
AND TEAMWORK



# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

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

### Non-Executive Directors

Jun Ye  
Guodong Sun  
Limin Zhou (*appointed on 19 January 2024*)  
Chengyan Xiong (*appointed on 28 March 2024*)  
Jing Wang (*resigned on 1 September 2023*)

### Independent Non-Executive Directors

Stephen Tso Tung Chang  
Kwai Huen Wong, JP  
Songlin Feng (*appointed on 28 March 2024*)  
Long Fei Ye (*resigned on 28 March 2024*)

### Company Secretary

Sui Har Lee

### Authorized Representatives

Junjun Tang  
Sui Har Lee

### Audit Committee

Stephen Tso Tung Chang (*Chairman*)  
Chengyan Xiong (*appointed on 28 March 2024*)  
Songlin Feng (*appointed on 28 March 2024*)  
Jun Ye (*until 28 March 2024*)  
Long Fei Ye (*resigned on 28 March 2024*)

### Remuneration Committee

Kwai Huen Wong, JP (*Chairman*)  
Jun Ye (*appointed on 28 March 2024*)  
Songlin Feng (*appointed on 28 March 2024*)  
Long Fei Ye (*resigned on 28 March 2024*)  
Jing Wang (*resigned on 1 September 2023*)

### Nomination Committee

Suxin Zhang (*Chairman*)  
Kwai Huen Wong, JP  
Songlin Feng (*appointed on 28 March 2024*)  
Long Fei Ye (*resigned on 28 March 2024*)

## Website

[www.huahonggrace.com](http://www.huahonggrace.com)

## Auditor

Ernst & Young  
*Certified Public Accountants*  
27/F, One Taikoo Place  
979 King's Road, Quarry Bay  
Hong Kong

## Hong Kong Legal Advisor

Herbert Smith Freehills  
23/F, Gloucester Tower  
15 Queen's Road Central  
Hong Kong

## Principal Banks

China Construction Bank Shanghai Branch  
No. 900, Lujiazui Ring Road  
Pudong New Area  
Shanghai, PRC

China Development Bank Shanghai Branch  
No. 68, Puming Road  
Shanghai, PRC

China Construction Bank Corporation Hong Kong Branch  
28/F, CCB Tower, 3 Connaught Road, Central  
Hong Kong

Bank of Communications Co., Ltd. Hong Kong Branch  
20 Pedder Street, Central  
Hong Kong

China Development Bank Jiangsu Branch  
No. 232, Middle Jiangdong Road  
Nanjing, Jiangsu, PRC

Agricultural Bank of China Wuxi Xinwu Subbranch  
No. 26, Hefeng Road, Xinwu District  
Wuxi, Jiangsu, PRC

China Construction Bank Wuxi High and New Technology Industrial Development Zone Subbranch  
No. 26, Hefeng Road, Xinwu District  
Wuxi, Jiangsu, PRC

China CITIC Bank Wuxi New District Subbranch  
No. 26, Hefeng Road, Xinwu District  
Wuxi, Jiangsu, PRC

Bank of China Wuxi High and New Technology Industrial Development Zone Subbranch  
No. 140, Wangzhuang Road, Xinwu District  
Wuxi, Jiangsu, PRC

# CORPORATE INFORMATION

## Share Registrar

Hong Kong shares:  
Tricor Investor Services Limited  
17/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

A shares:  
China Securities Depository and Clearing Corporation  
Limited, Shanghai Branch  
No. 188 South Yanggao Road  
Pudong New Area  
Shanghai

## Registered Office

Room 2212, Bank of America Tower  
12 Harcourt Road, Central  
Hong Kong

## Principal Places of Business

288 Halei Road  
Zhangjiang Hi-Tech Park  
Shanghai, PRC  
Postcode: 201203

No. 30, Xinzhou Road  
Xinwu District  
Wuxi, Jiangsu, PRC  
Postcode: 214028

No. 30-1, Xinzhou Road  
Xinwu District  
Wuxi, Jiangsu, PRC  
Postcode: 214028

## Stock Code

Hong Kong Stock Exchange: 01347  
Shanghai Stock Exchange: 688347

# DIRECTORS AND SENIOR MANAGEMENT TEAM



**Mr. Suxin Zhang**, aged 60, was appointed on 11 March 2016 as the Chairman and an Executive Director of our Company as well as a member of and Chairman of the Nomination Committee. He is currently Chairman and Secretary of the Communist Party of Huahong Group, Chairman of HHGrace, Hua Hong Wuxi, Hua Hong Manufacturing, and Shanghai Huali. Mr. Zhang has extensive experience in hi-tech strategic development, energy strategy research, and the power equipment industry. Mr. Zhang held various positions, including President of Shanghai Turbine Co., Ltd., Executive Vice President of Shanghai Electric Power Generation Group, Chairman of Siemens Gas Turbine Parts Co., Ltd., Executive Director of Shanghai Electric Group Company Limited, Vice President of Shanghai Electric (Group) Corporation, Secretary of the Communist Party and General Manager of Shanghai Jinqiao (Holdings) Limited, Chairman and Secretary of the Communist Party of Shanghai Jinqiao Export Processing Zone Development Co., Ltd., and Deputy Director of both the Shanghai Municipal Development and Reform Commission and the Administration Commission of Shanghai Zhangjiang Hi-Tech Industrial Development Zone. Mr. Zhang graduated from Tsinghua University with a Bachelor's degree in Engineering and is a professor-level Senior Engineer.



**Mr. Junjun Tang**, aged 59, has been serving the President and Executive Director of the Company since May 2019. Mr. Tang also serves as President of HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing. Mr. Tang has extensive experience in the integrated circuit industry and management and possesses strong coordination and execution ability. Prior to joining the Company, Mr. Tang was the Secretary of the Party Committee, Vice President and Executive Vice President of Huali Micro from February 2010 to March 2019. He was concurrently the President of Huali Integrated from August 2016 to March 2019. During the period from July 2008 to February 2010, Mr. Tang was the Vice Secretary of the Party Committee, President of Trade Union and head of administrative and government relationships of HHNEC. Prior to joining the Company, Mr. Tang successively held various positions, including Associate Chief Officer of Shanghai Bureau of Instrument and Telecommunications Industry (上海儀表電訊工業局), Technologist of Shanghai Radio No.17 Factory (上海無線電十七廠) and Technologist of Shanghai Semiconductor Device No.4 Factory (上海半導體器件四廠). Mr. Tang graduated from Southwest Jiaotong University with an Undergraduate's degree in Business Administration. He also graduated from China Europe International Business School with a Master's degree in Business Administration. He holds the title of Chief Senior Economist, and was awarded titles including National May 1st Labor Medal, National Model Worker, National Outstanding Party Affairs Worker.

## DIRECTORS AND SENIOR MANAGEMENT TEAM



**Mr. Jun Ye**, aged 51, has been a Non-Executive Director of our Company since February 2012, and is a Director of HHGrace. Mr. Ye has more than 20 years of experience in finance and investment. Mr. Ye has successively held various positions in SAIL, including Manager of the Investment Banking Division and the Business Development Division, General Manager Assistant and Deputy General Manager since 1996 and General Manager since May 2018. Mr. Ye is also a Director at Bank of Shanghai, Chairman of Shanghai Zhaoxin Semiconductor Co., Ltd., Sinotherapeutics Inc. and Sino-US United MetLife Insurance Company Limited. Mr. Ye obtained a Bachelor's degree in Industrial and International Trade and a Master's degree in Business Administration from Shanghai Jiao Tong University.



**Mr. Guodong Sun**, aged 47, was appointed as a Non-Executive Director of the Company with effect from 10 December 2020, and is a Director of Hua Hong Wuxi. Mr. Sun joined China Development Bank in 2000. From 2000 to 2014, Mr. Sun held various positions in China Development Bank, including Deputy Director of the Human Resources Systems Division, Deputy Director and Director of the Hubei Branch Human Resources Department, etc. Mr. Sun had been the General Manager of the Human Resources Department of Sino-IC Capital Co., Ltd. (華芯投資管理有限公司) from December 2014 to July 2016, and has been the Managing Director of Sino-IC Capital Co., Ltd. since July 2016. Mr. Sun graduated from Beijing Institute of Technology in the PRC with a Bachelor's degree in Computer Application and from Central University of Finance and Economics in the PRC with a Master's degree in Business Administration.

## DIRECTORS AND SENIOR MANAGEMENT TEAM



**Mr. Limin Zhou**, aged 47, was appointed as a Non-Executive Director of the Company and a director of its subsidiaries, namely HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, with effect from 19 January 2024. Mr. Zhou is currently serving as the vice president of Huahong Group and as a director of a number of subsidiaries of Huahong Group. Mr. Zhou has over 24 years of experience working in the semiconductor industry. Prior to joining the Company, Mr. Zhou held various positions with a number of subsidiaries of Huahong Group, including deputy department head, department head, director, vice president and executive vice president from 1999 to 2023. Mr. Zhou graduated from Shanghai University with a Bachelor's degree in engineering, majoring in electronic materials and components, and is a Senior Engineer.



**Ms. Chengyan Xiong**, aged 44, was appointed as a Non-executive Director of the Company with effect from 28 March 2024. Ms. Xiong has nearly 20 years of experience working in the finance and accounting sector. Prior to joining the Company, Ms. Xiong was a deputy chief staff member and chief staff member of the budget office of Shanghai State-owned Assets Supervision and Administration Commission\* (上海市國有資產監督管理委員會), after which she held various positions as vice department head and department head within the group companies of Huahong Group. Ms. Xiong is currently the head of capital and finance department of Huahong Group and holds various positions as a director or a supervisor at a number of the subsidiaries of Huahong Group. Ms. Xiong graduated from Shanghai University of Finance and Economics (上海財經大學) with a Master's degree in management. Ms. Xiong is also a senior accountant and a non-practising certified public accountant in the PRC.

## DIRECTORS AND SENIOR MANAGEMENT TEAM



**Ms. Jing Wang**, aged 53, was a Non-Executive Director of our Company from June 2019 to September 2023.

## DIRECTORS AND SENIOR MANAGEMENT TEAM



**Mr. Stephen Tso Tung Chang**, aged 75, is an Independent Non-Executive Director of our Company and a Director of HHGrace. Mr. Chang was a certified public accountant in Hong Kong and a member of the Hong Kong Society of Accountants from 1978 to the end of 2003. He has been a Fellow member of the Institute of Chartered Accountants in England and Wales since January 1983, and has extensive experience in accounting, auditing and financial management. Mr. Chang held various positions at Ernst & Young starting in 1976. He became a Management Committee Member of Ernst & Young in 1989 and was actively involved in establishing and monitoring the firm's internal control and risk management policy and procedures. Prior to his promotion to Managing Partner of the Professional Services Department, he was Chairman of Ernst and Young's audit and advisory business services for four years. He was a Partner of Ernst and Young and the Chairman of Ernst and Young China and Hong Kong prior to his retirement in 2003. He is a member of the Investment Committee of Shanghai Fudan University Education Development Foundation and Fudan University Education Development Foundation (overseas). He is also an Independent Non-Executive Director of China World Trade Center Co., Ltd. (stock code: 600007.SH), and was formerly an Independent Non-Executive Director of China Cinda Asset Management Co., Ltd. (stock code: 1359.HK), Kerry Properties Limited (stock code: 683.HK) and China Life Insurance Company Ltd. (stock code: 2628.HK). Mr. Chang obtained a Bachelor of Science degree in Food Science and Chemistry from the University of London.



**Mr. Kwai Huen Wong**, SBS, BBS, JP, aged 72, is an Independent Non – Executive Director of our Company and a Director of HHGrace. Mr. Wong had served as the PRC Managing Partner of two international law firms for 15 years. Prior to that, he worked for the Lands Department, Department of Justice and Legislative Council of the Hong Kong SAR Government for a total of 10 years. He was appointed as a Member of Airport Authority Hong Kong, Hospital Authority, and the Competition Commission from 2011 to 2018. He was the former Chairman of the Hong Kong International Arbitration Centre, the former President of the Law Society of Hong Kong and Inter-Pacific Bar Association, and the former Chairman of Hong Kong Copyright Tribunal. He is presently the Chairman of Hong Kong Inland Revenue Board of Review, and the Independent Non-Executive Director of Vinda International Holdings Limited (stock code: 3331.HK) and NWS Holdings Limited (stock code: 659.HK). Mr. Kwai Huen Wong was formerly a Director of the Hong Kong Mortgage Corporation Limited and an Independent Non-Executive Director of China Oilfield Services Limited. In addition, he is the Honorary Lecturer, External Examiner, and Professor at The University of Hong Kong, The Chinese University of Hong Kong, City University of Hong Kong, and Hong Kong Shue Yan University. Mr. Wong holds a Bachelor of Arts degree from The Chinese University of Hong Kong and a Bachelor of Law degree from the University of London.

## DIRECTORS AND SENIOR MANAGEMENT TEAM



**Mr. Songlin Feng**, aged 59, is an Independent Non-Executive Director of our Company with effect from 28 March 2024. He has over 32 years of experience in academic research in science and technology, including integrated circuits and semiconductors. He successively served as a deputy researcher, researcher, deputy director, director, an assistant to head and the head of the Institute of Semiconductors of the Chinese Academy of Sciences\* (中國科學院半導體研究所) from February 1992 to December 2000. From January 2001 to August 2010, he was a researcher, deputy head and the head of Shanghai Institute of Microsystems and Information Technology of the Chinese Academy of Sciences\* (中國科學院上海微系統與信息技術研究所). He successively served as a researcher, the leader of the planning team and the Dean of Shanghai Advanced Research Institute of the Chinese Academy of Sciences\* (中國科學院上海高等研究院) from March 2009 to May 2017. Mr. Feng has been an independent director of (i) INESA Intelligent Tech Inc. (雲賽智聯股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600602), (ii) GEN-S Power Group Co., Ltd. (庚星能源集團股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600753), and (iii) Shanghai Zhaoxin Semiconductor Co., Ltd.\* (上海兆芯集成電路股份有限公司). In addition, Mr. Feng has been a director of Shanghai Zhongyan Hongling Information Technology Co., Ltd.\* (上海中研宏領信息科技有限公司). Mr. Feng graduated from Wuhan University (武漢大學) with a bachelor's degree in semiconductor physics, and holds a master's degree and a doctor's degree in material sciences from from Université Paris Diderot – Paris VII, respectively.



**Mr. Long Fei Ye**, aged 82, acted as an Independent Non-Executive Director of our Company from September 2014 to March 2024.

## DIRECTORS AND SENIOR MANAGEMENT TEAM



**Mr. Daniel Yu-Cheng Wang**, aged 61, has been appointed as the Secretary of the Board of the Company since February 2012. Mr. Wang is also an Executive Vice President of our Company, HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, supervising key functional divisions including finance, information technology, administration and compliance, board office, and overseas human resources. In April 2001, Mr. Wang joined Grace Shanghai and took on a central leadership position at every phase of Grace Shanghai's growth and development. His responsibilities encompassed supervising the planning and execution of the merger, as well as the successful initial public offering of the company on both the Hong Kong Stock Exchange and the STAR board at the Shanghai Stock Exchange. Prior to joining Grace Shanghai, Mr. Wang served at LSI Logic Corporation in San Jose, Silicon Valley, California from August 1995 to March 2001 as the Division Controller in the Broadband Entertainment Division. Before that, Mr. Wang was employed by Franklin Templeton Investments in the U.S. Mr. Wang holds a Bachelor's degree in Industrial Engineering and Operations Research from the College of Engineering, University of California, Berkeley and a Master's degree of Business Administration degree in Finance and Banking from the University of San Francisco, in the U.S.. In the "All – Asia (Ex-Japan) Executive Team Ranking" published by Institutional Investor, a respected international financial magazine, he was honored as the Best Chief Financial Officer in the technology/semiconductor industry for the years 2018, 2019, 2021, and 2022.

# DIRECTORS AND SENIOR MANAGEMENT TEAM

## Senior Management

As at the date of this report, the Company's senior management includes:

**Mr. Suxin Zhang**, aged 60, is the Chairman and an Executive Director of our Company. For more information about Mr. Zhang's profile and academic background, see the section headed "Directors and Senior Management Team – Board of Directors".

**Mr. Junjun Tang**, aged 59, is the President and Executive Director of the Company. For more information about Mr. Tang's profile and academic background, see the section headed "Directors and Senior Management Team – Board of Directors".



**Mr. Weiping Zhou**, aged 57, is an Executive Vice President of our Company, HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, responsible for marketing and has over 35 years of experience in the integrated circuit industry in China. Mr. Zhou joined the Company at the beginning of 2018. Prior to joining the Company, Mr. Zhou was the Executive Vice President of Shanghai Belling Corporation Limited, the General Manager of Ningbo Shanshan Ulca Solar Technology Developing Company Limited, the General Manager of Shanghai Belling Microelectronics Manufacturing Company Limited, the Deputy Secretary to the Communist Party Committee, President, Chief Executive Officer, Secretary to the Communist Party Committee and Vice President of Advanced Semiconductor Manufacturing Corporation Limited. Mr. Zhou graduated from East China Normal University with a Bachelor's degree in Solid State Electronic Technology and subsequently obtained a Master's degree in Business Administration from Fudan University, and he is a professor-level Senior Engineer.

## DIRECTORS AND SENIOR MANAGEMENT TEAM



**Mr. Lihua Ni**, aged 55, is an Executive Vice President of our Company, HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing. He joined HHGrace in May 2018. Prior to joining the Company, Mr. Lihua Ni successively worked for Wuxi Huajing Group Co., Ltd. (無錫華晶集團公司), Shanghai Hua Hong Microelectronics Co., Ltd., HHNEC, acted as a Department Manager at Shanghai Xinjin Semiconductor Fabrication Co., Ltd., the department head at HHNEC, and a Deputy Factory Director at Huali Micro. Mr. Lihua Ni graduated from Xidian University with a Bachelor of Engineering degree and obtained a Master of Engineering degree from Shanghai Jiao Tong University. He is qualified as a Senior Engineer.

**Mr. Daniel Yu-Cheng Wang**, aged 61, is an Executive Vice President of our Company, HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, responsible for overseeing finance, information technology, administration and compliance, work related to the board office, and overseas human resources. For more information about Mr. Wang's profile and academic background, see the section headed "Directors and Senior Management Team – Board of Directors".



**Dr. Weiran Kong**, aged 60, is an Executive Vice President of our Company, HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, and is in charge of technology development and design services. He joined Grace Shanghai in March 2003 and has over 30 years' experience in the semiconductor industry, with a proven track record of driving innovations in the area of NOR Flash, Logic, and Embedded Flash. Before joining Grace Shanghai, Dr. Kong was based in the U.S. and has worked for Sun Microsystems, Inc., LSI Logic Corporation, and ISSI. He obtained a Bachelor's degree in Physics from Nankai University in Tianjin and graduated with a Master's degree in Electrical Engineering and a Doctorate degree in Applied Physics from Oregon Graduate Institute of Science & Technology in the U.S. Dr. Kong holds 27 U.S. patents, 70 PRC patents and co-authored over 20 technical papers.

## DIRECTORS AND SENIOR MANAGEMENT TEAM

### Company Secretary



**Ms. Sui Har Lee**, aged 46, has been serving as the Company Secretary of the Company since November 2019. Ms. Lee is currently a Partner of Jun He Law Offices. She has around 16 years of experience in general business practices and corporate financial transactions, such as assisting corporations in listing their shares on the Hong Kong Stock Exchange, merger and acquisitions, capital reorganization, and compliance and regulatory matters in relation to the Listing Rules of the Hong Kong Stock Exchange. Ms. Lee was admitted as a Solicitor of the High Court of Hong Kong in 2005. Ms. Lee graduated from City University of Hong Kong with the degree of Bachelor of Laws and obtained the degree of Master of Laws from University College London.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report for the year ended 31 December 2023.

## Corporate Governance Practices

The Company diligently practices good corporate governance and has established corporate governance procedures that comply with the principles in the Corporate Governance Code (the “Code”) as set out in Appendix C1 to the Listing Rules.

The Company understands the importance of sound corporate governance practices and recognizes the changing regulatory environment. Therefore, the Company has continually monitored and updated its corporate governance practices, from implementing the Code and evaluating the effectiveness of its practices to responding to continuous developments in the regulatory landscape.

## Compliance with the Code Provisions

During the year ended 31 December 2023, the Company complied with the Code.

## Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. The Company has made specific enquiries with all of the Directors, each of whom has confirmed that they have, throughout the year ended 31 December 2023, complied with the required standards set out therein.

## Board of Directors

The Board is entrusted with the overall responsibility of managing the business and affairs of the Company. It has the ultimate responsibility for the day-to-day management of the Company, which is delegated to the Chairman and management.

The nine-member Board currently comprises two Executive Directors, Mr. Suxin Zhang (Chairman) and Mr. Junjun Tang (President); four Non-Executive Directors, Mr. Jun Ye, Mr. Guodong Sun, Mr. Limin Zhou and Ms. Chengyan Xiong (appointed on 28 March 2024); and three Independent Non-Executive Directors, Mr. Stephen Tso Tung Chang, Mr. Kwai Huen Wong, JP, and Mr. Songlin Feng (appointed on 28 March 2024). Ms. Jing Wang and Mr. Long Fei Ye resigned as a Non-Executive Director and an Independent Non-Executive Director on 1 September 2023 and 28 March 2024, respectively. More details of the Directors are disclosed on pages 13 to 18 of this annual report. The Company has published and maintained on its website and on the Hong Kong Stock Exchange’s website an updated list of the Directors, identifying their roles and functions.

Each of the Non-Executive Directors of the Company is appointed for a specific term of three years and is subject to re-nomination and re-election by the Company in general meetings, unless previously terminated in accordance with the terms and conditions of the relevant letter of appointment or Director’s service contract.

## CORPORATE GOVERNANCE REPORT

The Board meets regularly throughout the year. All Directors are given the opportunity to put items on the agenda for regular Board meetings. All Directors have access to the Company Secretary to ensure that all Board procedures, rules and regulations are followed. Full minutes of Board meetings are kept by the Company Secretary and are available for inspection on reasonable notice. Any Director may, in furtherance of his duties, take independent professional advice, where necessary, at the expense of the Company.

The Board is responsible for setting the strategic direction and policies of the Group and supervising management. Some functions are reserved by the Board, including, *inter alia*, the monitoring and approval of material transactions; matters involving a conflict of interest with a substantial shareholder or a Director of the Company; the approval of the quarterly, interim and final results; other disclosures to the public or regulators; and the internal control system. Decisions relating to such matters shall be subject to formal decisions of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to management under the supervision of the respective Director(s) and the leadership of the Chairman.

The Company has implemented different mechanisms to ensure independent views and input are available to the Board:

- **Composition of the Board:** During the year ended 31 December 2023, the Board had at all times complied with Rules 3.10 and 3.10A of the Listing Rules. The Company has three Independent Non-Executive Directors, representing more than one-third of the Board. At least one of the Independent Non-Executive Directors possesses appropriate professional qualifications or accounting or related financial management expertise.
- **Independence assessment:** Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-Executive Directors are independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.
- **Board decision-making:** A Director who has a material interest in any transaction, contract or arrangement shall not vote (nor shall be counted in the quorum) on any Board resolution approving the same. If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, such matter shall be dealt with in a Board meeting rather than by a written resolution.
- **Communication between the Chairman and Independent Non-Executive Directors:** The Chairman of the Board values communication with the Independent Non-Executive Directors highly and holds meetings with them at least once each year without the presence of other Directors.
- **Remuneration of Independent Non-Executive Directors:** Independent Non-executive Directors receive fixed fees for their role as members of the Board and Board committees. No equity-based compensation with performance-related elements is granted to the Independent Non-executive Directors to avoid potential bias in their decision-making or compromise to their objectivity and independence.
- **Board evaluation:** The Board assesses and reviews the time contributed by each Independent Non-Executive Director and their attendance at Board and Board committee meetings, so as to ensure that every Independent Non-Executive Director has devoted sufficient time to the Board to discharge his responsibilities as a Director of the Company.

The implementation and effectiveness of the above mechanisms are reviewed on an annual basis. The Board considers that such mechanisms had been implemented properly and effectively in the year ended 31 December 2023.

# CORPORATE GOVERNANCE REPORT

The roles of the Chairman and the President are separate. The Chairman is responsible for the overall management and operations of the Company and for proposing and reviewing the corporate directions and strategies of the Company. The Chairman is responsible for formulating business strategies and provides leadership to the Board, ensuring effective running of the Board, including that all appropriate issues are discussed by the Board in a timely manner. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and all Directors receive adequate, complete and reliable information. The Chairman of the Board highly values communication with the Independent Non-Executive Directors and will hold meetings with them at least once each year without the presence of other Directors.

The President is responsible for the day-to-day management of the Company's business and operations as well as implementation of the Company's business strategies.

## Directors' and Officers' Liabilities Insurance

Appropriate insurance has been arranged by the Company to cover potential liabilities of Directors and Officers of the Company regarding legal actions against said Directors and Officers of the Company and its subsidiaries, arising out of corporate activities of the Company.

## Board Operation

During the year ended 31 December 2023, the Board held ten Board meetings. The attendance record of each Board member at Board meetings, meetings of the Audit Committee, the Nomination Committee, and the Remuneration Committee, as well as the annual/extraordinary general meeting is set out below:

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings	Annual General Meeting	Extraordinary General Meeting
<b>Executive Directors</b>						
Suxin Zhang	7	N/A	1	N/A	1	3
Junjun Tang	10	N/A	N/A	N/A	1	4
<b>Non-Executive Directors</b>						
Jun Ye	10	6	N/A	N/A	0	0
Jing Wang <sup>(Note)</sup>	6	N/A	N/A	1	1	0
Guodong Sun	8	N/A	N/A	N/A	0	0
<b>Independent Non-Executive Directors</b>						
Stephen Tso Tung Chang	10	6	N/A	N/A	1	4
Kwai Huen Wong, JP	10	N/A	1	1	1	4
Long Fei Ye	10	6	1	1	1	4

Note: Ms. Jing Wang resigned as the non-executive Director and a member of the Remuneration Committee with effect from 1 September 2023.

# CORPORATE GOVERNANCE REPORT

In place of physical meetings, the Board may circulate written resolutions for approval by the relevant members of the Board except for matters where a substantial shareholder or a Director has a conflict of interest that the Board has determined to be material, in which case the matter shall be dealt with by a physical Board meeting (rather than a written resolution) to comply with provision C.5.7 of the Code.

The Board, having considered the attendance records of the Directors, is satisfied that each Director spends sufficient time performing his responsibilities.

## Continuous Professional Development

Directors shall keep abreast of their responsibilities as Directors and of the conduct, business activities, and development of the Company.

Under Code Provision C.1.4, the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2023, all Directors were provided with timely updates on the Company's performance, financial position, prospects, and materials on new or salient changes to laws and regulations applicable to the Group, to enable the Board as a whole and each Director individually to discharge their duties. Internally-facilitated briefings for the Directors will be arranged in the next financial year and reading material on relevant topics will be issued to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expense.

The participation by each Director in continuous professional development for the year ended 31 December 2023 is set out below:

Name of Director	Reading related rules and materials and/or attending training courses
Suxin Zhang ( <i>Chairman</i> )	✓
Junjun Tang ( <i>President</i> )	✓
Jun Ye	✓
Jing Wang	✓
Guodong Sun	✓
Stephen Tso Tung Chang	✓
Kwai Huen Wong, JP	✓
Long Fei Ye	✓

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

The Remuneration Committee currently comprises two Independent Non-Executive Directors, Mr. Kwai Huen Wong, JP, Mr. Songlin Feng (appointed on 28 March 2024) and one Non-Executive Director Mr. Jun Ye (appointed on 28 March 2024). Ms. Jing Wang resigned as a member of the Remuneration Committee on 1 September 2023. Mr. Long Fei Ye resigned as a member of the Remuneration Committee on 28 March 2024. The Chairman of the Remuneration Committee is Mr. Kwai Huen Wong, JP. Each member is sufficiently experienced and is appropriately skilled in the issues of determining Executive compensation in public companies. The Board expects committee members to exercise independent judgement in conducting the business of the committee. The roles and functions of the Remuneration Committee include the determination of the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights, and compensation payments, and making recommendations to the Board in connection with the remuneration of the Non-Executive Directors. The Remuneration Committee should consider factors such as the salaries paid by comparable companies, employment conditions elsewhere in the Group, and the desirability of performance-based remuneration. A copy of the terms of reference of the Remuneration Committee is available from the Company's website and the Hong Kong Stock Exchange's website. The Remuneration Committee shall meet at least once a year.

On 10 August 2023, the Remuneration Committee held a meeting to discuss the vesting of certain options granted under the Company's share option scheme, and resolved to submit a proposal to the Board on the vesting arrangements for such options.

Details of the emoluments of the Directors are set out in note 8 to the Financial Statements.

## Nomination Committee

The Nomination Committee currently comprises one Executive Director, Mr. Suxin Zhang, and two Independent Non-Executive Directors, Mr. Kwai Huen Wong, JP and Mr. Songlin Feng (appointed on 28 March 2024). Mr. Long Fei Ye resigned as a member of the Nomination Committee on 28 March 2024. The Chairman of the Nomination Committee is Mr. Suxin Zhang. Each member is sufficiently experienced and is appropriately skilled in the issues of nomination of directors to the Board. The Company has provided the Nomination Committee with sufficient resources to perform its duties. The Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities. The roles and functions of the Nomination Committee are to review the structure, size and composition of the Board, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, with due regard to the board diversity policy, identify individuals suitably qualified to become Board members, select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of Independent Non-Executive Directors, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the President, and monitor the implementation of the board diversity policy and review such policy, as appropriate, to ensure its effectiveness. The Nomination Committee has established a specific written committee charter which deals clearly with its authority and duties. A copy of the terms of reference of the Nomination Committee is available from the Company's website and the Hong Kong Stock Exchange's website. The Nomination Committee shall meet at least once a year.

On 9 November 2023, the Nomination Committee held a meeting to discuss issues such as the Company's remuneration policy and the competitiveness of the Company's salary levels.

Pursuant to the Articles, any person appointed as a Director to fill a casual vacancy of the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the relevant general meeting, and any Director appointed as an addition to the existing Board shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at the relevant general meeting. Every Director shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election in accordance with the Articles. The Articles also allow for removal of a Director by an ordinary resolution.

# CORPORATE GOVERNANCE REPORT

## Auditor's Remuneration

During the year ended 31 December 2023, the remuneration paid and payable to the auditors of the Company, Ernst & Young, for the provision of audit services and non-audit related services to the Company were US\$0.75 million and US\$0.01 million, respectively. Details of significant non-audit related services include tax and risk management advisory services.

## Audit Committee

At least one of the members of the Audit Committee has appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. None of the members of the Audit Committee was a former partner of the Company's existing external auditors within one year immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of the Company. The Board expects the members of the Audit Committee to exercise independent judgement and delegates the responsibilities of the corporate governance functions to the Audit Committee in order to comply with the requirement of the Code.

The Audit Committee currently comprises one Non-Executive Director, Ms. Chengyan Xiong (appointed on 28 March 2024), and two Independent Non – Executive Directors, Mr. Stephen Tso Tung Chang and Mr. Songlin Feng (appointed on 28 March 2024). Mr. Long Fei Ye resigned as a member of the Audit Committee on 28 March 2024. Mr. Jun Ye ceased to be a member of the Audit Committee on 28 March 2024 upon his re-designation as a member of the Remuneration Committee. The Chairman of the Audit Committee is Mr. Stephen Tso Tung Chang. The primary duties of the Audit Committee include the reviewing of the Company's financial reporting system, the nature and scope of the audit review as well as the effectiveness of the system of internal control procedures and risk management. The Audit Committee is also responsible for making recommendations in relation to the appointment, reappointment, and removal of the external auditors, and the reviewing and monitoring of the independence and objectivity of the external auditors. In addition, the Audit Committee discusses matters raised by the external auditors and regulatory bodies to ensure that appropriate recommendations are implemented. A copy of the terms of reference of the Audit Committee is available from the Company's website and the Hong Kong Stock Exchange's website. The Audit Committee shall meet at least twice a year.

During the year ended 31 December 2023, the Audit Committee held six meetings and all the committee members were present at the meetings. The major work performed by the Audit Committee with respect to the year ended 31 December 2023 included reviewing and recommending the re-appointment of the external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited quarterly results announcement, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2023, reviewing the audited financial statements and final results announcement for the year ended 31 December 2023, reviewing the work of the Group's audit department and assessing the effectiveness of the Group's systems of risk management and internal control. The Audit Committee also held discussions with management to ensure that the Company has adequate resources, qualified and experienced staff in the accounting and financial reporting function, training programs and budget.

# CORPORATE GOVERNANCE REPORT

## Board Diversity

The Board adopted a board diversity policy (the “Policy”) in compliance with Rule 13.92 of the Listing Rules.

The Company sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. In designing the Board's composition, Board diversity will be considered from several aspects, including without limitation, differences in the talents, skills, regional and industry experience, background, gender, age, and other qualities of the members of the Board, in order to maintain an appropriate range and balance of talents, skills, experience, and background on the Board. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. The Nomination Committee discussed and agreed on the measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

The Board believes that gender diversity is an important aspect of Board diversity. Following the resignation of Ms. Jing Wang on 1 September 2023, the Company did not have a director of a different gender at that moment and, as a result, could not meet the requirement set out in Rule 13.92 of the Listing Rules for the remaining months of the year ending 31 December 2023. The Board has made its best endeavors to identify a suitable candidate for appointment as a director. Following the appointment of Ms. Chengyan Xiong as a non-executive director on 28 March 2024, the Company is compliant with the requirement under Rule 13.92 of the Listing Rules. Gender diversity aside, the Remuneration Committee took the view that the measurable objectives for Board diversity had been achieved to a large extent for the year ended 31 December 2023. The Nomination Committee paid particular attention to the cultural and educational background, professional and technical experience, and skills of the members of the Board and also reviewed the composition of Executive Directors and Independent Non-Executive Directors, so as to ensure appropriate independence within the Board.

The Company will continue to maintain a balance of diverse perspectives on the Board that is appropriate for and conducive to the Company's growth.

## Workforce Diversity

As at 31 December 2023, the gender ratio of the Group's workforce (including the Company's senior management) was approximately 73% male to 27% female. The Company's hiring is merit-based and non-discriminatory. The Board is satisfied that the Company has achieved gender diversity in its workforce.

## Corporate Governance Functions

The Board is responsible for performing the functions set out in provision A.2.1 of the Code.

The Board reviewed the Company's corporate governance policies and practices, the training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

# CORPORATE GOVERNANCE REPORT

## Investor Relations

### Changes to the Articles during the Reporting Period

To satisfy the relevant regulatory requirements in relation to the Company's corporate governance structure after the RMB Share Issue and listing, a special resolution was proposed and passed by the Shareholders at the EGM held on 27 June 2022 to amend the Articles. Details of the amendments are set out in Appendix V to the circular of the Company dated 7 June 2022. The amended Articles took effect on 7 August 2023, being the date of listing of the RMB Shares on the STAR Market. The full text of the amended Articles is published on the websites of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)), the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Company ([www.huahonggrace.com](http://www.huahonggrace.com)).

### Shareholders' Communication Policy

The Company has adopted a shareholders' communication policy, which is subject to annual review to ensure its implementation and effectiveness. Such policy aims to ensure that Shareholders will have equal and timely access to information about the Company, so as to enable them to exercise their rights in an informed manner and to allow them to engage actively with the Company.

A summary of the Company's shareholders' communication policy is set out below.

The Company provides information to Shareholders through its financial reports (including quarterly, interim and annual reports), circulars, announcements and other disclosures submitted to the Hong Kong Stock Exchange and the Shanghai Stock Exchange for publication.

To further promote effective communication, the Company maintains a website at [www.huahonggrace.com](http://www.huahonggrace.com) with information and updates on the Company's business developments and operations, list of Directors and their roles and functions, constitutional documents, terms of reference of the Board and its committees, procedures for nomination of Directors for election, corporate governance practices, financial reports, circulars, announcements and other information.

Shareholders' meetings are a primary forum for communication between the Board and Shareholders. The Company encourages Shareholders to attend and participate in general meetings to ensure a high level of accountability and to keep them informed of the Company's goals and strategies. The Chairman of the Board, other Board members, and the Chairmen of all the Board committees, or in their absence, other members of the respective committees, are available to answer any questions from Shareholders. Shareholders are given sufficient notice of the meetings, and detailed voting procedures are included in circulars to Shareholders accompanying the notices of meetings.

In addition to the above, the Company also publishes newsletters through its WeChat public account. Shareholders can subscribe to the account to obtain the latest news of the Company.

To promote investors' understanding of the Company's business, the Company organises roadshows and on-site visits to its clean rooms and exhibition halls for investors. The Company has also participated in a number of investment forums and conducted multiple exchanges with securities analysts, fund management companies, and individual investors through various means.

In order for the Company to solicit and understand the views of Shareholders and stakeholders, Shareholders and other stakeholders may make enquiries to the Company through its investor relations contact by email at [IR@hhgrace.com](mailto:IR@hhgrace.com).

The Company has reviewed the implementation and effectiveness of its shareholders' communication policy for the year ended 31 December 2023, including the steps taken at the general meetings, the handling of queries received and the multiple communication channels in place. The Company is of the view that the policy is effective and has been properly implemented.

# CORPORATE GOVERNANCE REPORT

## Company Secretary

Ms. Sui Har Lee, the Company Secretary, is responsible to the Board for ensuring that the Board procedures are followed and that the Board activities are efficiently and effectively conducted. She is also responsible for ensuring that the Board is fully apprised of the relevant legislative, regulatory, and corporate governance developments relating to the Company and facilitating the induction and professional development of Directors.

The Company Secretary reports to the Chairman and the President, plays an essential role in the relationship between the Company and its Shareholders, and assists the Board in discharging its obligations to Shareholders pursuant to the Listing Rules.

During the year ended 31 December 2023, Ms. Sui Har Lee attended relevant professional seminars to update her skills and knowledge and has complied with Rule 3.29 of the Listing Rules.

## Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary general meetings may be convened by the Directors on requisition of Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company or by such Shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to sections 566 to 568 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"). The objects of the meeting must be stated in the requisition, which must be signed by the Requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in sections 580 to 583 of the Companies Ordinance for convening an extraordinary general meeting.

## Procedures for Putting Forward Proposals at Shareholders' Meetings and Directing Enquiries from Shareholders to the Board

Shareholders may at any time send their written requests, proposals, enquiries, and concerns to the Company for the attention of Chairman of the Board or the Company Secretary whose contact details are as follows:

288 Halei Road, Zhangjiang Hi-Tech Park, Shanghai 201203, China

Tel: (86) 21 38829909

Fax: (86) 21 50809999

Email: IR@hhgrace.com

# CORPORATE GOVERNANCE REPORT

## Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll.

## Risk Management and Internal Monitoring

### Risk Management and Internal Monitoring Objectives

#### *Risk Management Objective*

From a compliance perspective, the Company has implemented the provisions of the Corporate Governance Code issued by the Hong Kong Stock Exchange to ensure the compliance with relevant requirements in a timely manner.

From the perspective of operations, the management team well understands the risks that may be confronted by the Company as it undertakes future development. Therefore, the risk management objective of the Company is to identify and assess risks and take appropriate countermeasures to evade a risk entirely, if possible, otherwise to manage these risks to reduce their impact and keep them under control. The Company has constructed a robust risk control system working on a continuous basis, established a risk management platform, clarified risk management mechanisms, improved a risk map, and carried out an annual risk evaluation. We have developed a concise, scientific, practical, and efficient risk management and control model which complies with regulatory requirements under the Code and is in line with the Company's specific evolving circumstances.

#### *Internal Control System Objective*

The Company's internal control system has fully implemented the requirements for a risk management framework as set out by COSO (Committee of Sponsoring Organizations of the Treadway Commission) as well as the guidelines of Hong Kong Institute of Certified Public Accountants for risk management. We refined the three tiers of risk map in the processes and formed risk-oriented internal control evaluation by considering the Company's ongoing operational circumstances and business characteristics. The objective is to evaluate the effectiveness and applicability of our internal monitoring system and provide reasonable guarantees for the effectiveness of the Company's operating activities, the reliability of financial reports, and compliance with laws and regulations.

# CORPORATE GOVERNANCE REPORT

## Risk Management and Internal Monitoring System

To ensure our risk management work develops efficiently and forms a long-term mechanism, the Company has established a risk management monitoring system comprising a “three-line model”. It covers the roles and duties of many different aspects as follows:

1st Line	Business Departments
	<ul style="list-style-type: none"><li>• Establish and maintain various departmental risk management mechanisms;</li><li>• Ongoing collection of risk data while performing day-to-day department tasks;</li><li>• Continue to carry out risk monitoring and early warning of the department;</li><li>• Assist in the implementation of the Company's risk management work, including providing necessary documents and samples, identify major risks related to the department, and determine major risk countermeasures;</li></ul>
2nd Line	Business Supervision and Administration Departments
	<ul style="list-style-type: none"><li>• Provide and supplement expertise, play a supportive and supervisory role, help continuously implement and improve the risk management work; analyze and report on the accuracy and effectiveness of risk management;</li></ul>
3rd Line	Internal Audit Level
	<ul style="list-style-type: none"><li>• Independently inspect and supervise risk management activities conducted by the Business Departments and the Risk Management Level, and evaluate whether the Company's risk management mechanism is implemented effectively and efficiently;</li><li>• Conduct annual comprehensive risk assessments, based on the risk assessment results, define the major risk factors and relevant response responsibilities, organize and guide relevant departments in making response plans for major risks, and follow up on the implementation of the plans;</li><li>• Urge departments or agencies to rectify problems discovered during the auditing and risk assessment process and monitor the ongoing status of the rectification work;</li><li>• Report the auditing and risk assessment results to the Audit Committee of the Company.</li></ul>

# CORPORATE GOVERNANCE REPORT

## **Risk Management and Internal Monitoring Statement**

The Board is responsible for the Company's risk management and internal monitoring system, as well as ensuring a review of the system's effectiveness. The Board designated the Internal Auditing Department to perform the internal auditing function and granted it full independent responsibility and authority. The internal auditors audited the effectiveness of the Company's risk management and internal monitoring system each year through various audit projects according to the approved auditing scope and in accordance with the provisions in D.2 of the Corporate Governance Code, and no material deficiency was found.

Based on audits by the Internal Auditing Department, the Board believes that the Company's risk management and internal monitoring system is adequate, trustworthy, and effective. However, one must recognise that the Company's risk management and internal monitoring framework can only manage rather than completely eliminate risks that may affect the Company's ability to accomplish its business objectives. Therefore, it provides a reasonable but not an absolute guarantee for the avoidance of material misstatement or loss.

With a view to identifying, handling, and disseminating inside information in compliance with the SFO, procedures, including pre-clearance on dealing in the securities of the Company by designated members of management, notification of regular blackout period and securities dealing restrictions to relevant Directors and employees, identification of projects by code name, and dissemination of information to stated purpose and on a need-to-know basis, have been implemented by the Group to guard against possible mishandling of inside information within the Group.

## **General**

The Directors acknowledge their responsibility in preparing the Company's financial statements for each financial period to give a true and fair view of the state of affairs of the Company and in accordance with statutory requirements and applicable accounting standards. In preparing the financial statements for the year ended 31 December 2023, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair, and reasonable, and prepared the financial statements on a going concern basis.

The responsibilities of the auditors with respect to the financial reporting are set out in the Independent Auditors' Report on pages 271 to 278 of this annual report.

On behalf of the Board

**Mr. Suxin Zhang**

*Chairman*

# DIRECTORS' REPORT

The Board presents the annual report of the Company for 2023 and the audited financial statements of the Company for the period from 1 January 2023 to 31 December 2023 (the "Financial Statements").

## Principal Activities

The Company was a pure-play 8-inch and 12-inch wafer foundry as at the end of 2023, with its long-term focus on the development and application of advanced "Specialty IC + Power Discrete" differentiated specialty technologies, including Embedded/Standalone Non-Volatile Memory, Power Discrete, Analog & Power Management, Logic & RF, providing diverse specialized process wafer manufacturing services to its customers. The activities of its principal subsidiaries are set out in note 1 to the Financial Statements (Pages 287 to 288).

## BUSINESS REVIEW

### Revenue Analysis

Revenue of Hua Hong Semiconductor for 2023 was US\$2,286.1 million, representing a decrease of 7.7% compared to the previous year. According to the information released by International Business Strategies, Inc. (IBS), the global semiconductor market experienced a decline of approximately 10% in 2023 due to the continuing sluggish end-consumer market, posing challenges to the wafer foundry market. Having confidence in anticipating the long-term market growth despite these circumstances, the Company unwaveringly continued to implement its expansion strategy and optimize its product mix that is focused on 8-inch and 12-inch products. Leveraging long-term technological accumulation and continuous innovation, the Company has achieved favorable development in various fields such as automotive, industry, and new energy. With diversified support of advanced "Specialty IC + Power Discrete" specialized process technology, product quality and performance were widely recognized by the market. The Company will continue to create value for shareholders and the market in 2024.

	Revenue by Service					
	2023 US\$'000	2023 %	2022 US\$'000	2022 %	YoY	YoY
					Change US\$'000	Change %
Semiconductor wafers	2,181,591	95.4%	2,376,659	96.0%	(195,068)	(8.2%)
Others	104,522	4.6%	98,829	4.0%	5,693	5.8%
Total	2,286,113	100.0%	2,475,488	100.0%	(189,375)	(7.7%)

- In 2023, 95.4% of our revenue was generated from the sale of semiconductor wafers.

	Revenue by Customer					
	2023 US\$'000	2023 %	2022 US\$'000	2022 %	YoY	YoY
					Change US\$'000	Change %
Systems and fabless companies	2,109,482	92.3%	2,267,446	91.6%	(157,964)	(7.0%)
Integrated device manufacturers (IDMs)	176,631	7.7%	208,042	8.4%	(31,411)	(15.1%)
Total	2,286,113	100.0%	2,475,488	100.0%	(189,375)	(7.7%)

- Our revenue from systems and fabless companies accounted for 92.3%.

## DIRECTORS' REPORT

Revenue by Geography						
	2023 US\$'000	2023 %	2022 US\$'000	2022 %	YoY Change US\$'000	YoY Change %
China	1,774,178	77.6%	1,811,269	73.2%	(37,091)	(2.0%)
North America	204,882	9.0%	297,683	12.0%	(92,801)	(31.2%)
Other Asia	149,087	6.5%	210,610	8.5%	(61,523)	(29.2%)
Europe	134,760	5.9%	114,728	4.6%	20,032	17.5%
Japan	23,206	1.0%	41,198	1.7%	(17,992)	(43.7%)
Total	2,286,113	100.0%	2,475,488	100.0%	(189,375)	(7.7%)

- In 2023, Europe continued to maintain double-digit growth, with a year-on-year increase of 17.5% in revenue.

Revenue by Technology Type						
	2023 US\$'000	2023 %	2022 US\$'000	2022 %	YoY Change US\$'000	YoY Change %
Embedded Non-Volatile Memory (eNVM)	703,148	30.8%	767,568	31.0%	(64,420)	(8.4%)
Standalone Non-Volatile Memory (sNVM)	116,715	5.1%	208,171	8.4%	(91,456)	(43.9%)
Power	902,346	39.4%	774,638	31.3%	127,708	16.5%
Logic & RF	202,483	8.9%	274,384	11.1%	(71,901)	(26.2%)
Analog & Power Management (PM)	358,333	15.7%	448,648	18.1%	(90,315)	(20.1%)
Others	3,088	0.1%	2,079	0.1%	1,009	48.5%
Total	2,286,113	100.0%	2,475,488	100.0%	(189,375)	(7.7%)

- In 2023, power discrete experienced double-digit growth, mainly due to strong demand in the new energy vehicle and industrial sectors.

## DIRECTORS' REPORT

<b>Revenue by Technology Node</b>						
	<b>2023</b> <b>US\$'000</b>	<b>2023</b> <b>%</b>	2022 US\$'000	2022 %	YoY Change US\$'000	YoY Change %
55nm & 65nm	<b>291,683</b>	<b>12.8%</b>	355,161	14.3%	(63,478)	(17.9%)
90nm & 95nm	<b>386,191</b>	<b>16.9%</b>	505,233	20.4%	(119,042)	(23.6%)
0.11μm & 0.13μm	<b>405,911</b>	<b>17.8%</b>	426,387	17.2%	(20,476)	(4.8%)
0.15μm & 0.18μm	<b>147,338</b>	<b>6.4%</b>	206,733	8.4%	(59,395)	(28.7%)
0.25μm	<b>24,217</b>	<b>1.1%</b>	15,027	0.6%	9,190	61.2%
≥0.35μm	<b>1,303,773</b>	<b>45.0%</b>	966,947	39.1%	63,826	6.6%
Total	<b>2,286,113</b>	<b>100.0%</b>	2,475,488	100.0%	(189,375)	(7.7%)

- In 2023, revenue for ≥0.35μm continued to grow due to power discrete business.

<b>Revenue by End Market</b>						
	<b>2023</b> <b>US\$'000</b>	<b>2023</b> <b>%</b>	2022 US\$'000	2022 %	YoY Change US\$'000	YoY Change %
Consumer Electronics	<b>1,294,251</b>	<b>56.6%</b>	1,599,116	64.6%	(304,865)	(19.1%)
Industrial & Automotive Electronics	<b>673,395</b>	<b>29.5%</b>	550,342	22.2%	123,053	22.4%
Communications	<b>256,856</b>	<b>11.2%</b>	248,033	10.0%	8,823	3.6%
Computing	<b>61,611</b>	<b>2.7%</b>	77,997	3.2%	(16,386)	(21.0%)
Total	<b>2,286,113</b>	<b>100.0%</b>	2,475,488	100.0%	(189,375)	(7.7%)

- In 2023, the industrial and automotive electronic markets continued to maintain double-digit growth.

## DIRECTORS' REPORT

Capacity and Capacity Utilization			
Fab (In thousands of wafers per month)	2023	2022	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)	95	65	30
Capacity utilization (8-inch wafer equivalent)	94.3%	107.4%	(13.1%)

- In 2023, capacity utilization (8-inch wafer equivalent) was 94.3%.

Wafer Shipments			
In thousands of wafers	2023	2022	YoY Change
Wafer shipments (8-inch wafer equivalent)	4,103	4,087	0.4%

- In 2023, there was a year-on-year increase of 0.4% 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 (Power Management), and Logic & RF. It continues to provide customers with well-featured process technologies and services that meet market demand. In 2023, Hua Hong Semiconductor continued to expand 12-inch capacity and technology of the Hua Hong Wuxi production line; and the product mix of advanced “Specialty IC + Power Discrete” became more diverse due to the extension of 12-inch process platform.

In 2023, NVM technology platforms continued to be main sources of revenue for Hua Hong Semiconductor, including eNVM used mainly for smart card IC and MCU. Shipments remained stable for smart card products produced using embedded flash memory technology with independent intellectual property rights. The Company has leveraged the advantages of the 8-inch +12-inch embedded flash memory platform to enable customers to develop MCUs with capabilities of global industry leaders in areas such as automotive electronics, home appliances, industrial control. Our full range of automotive-grade chip products, which are produced using the multi-technology-node eFlash technology, have commenced mass production. As a result, revenue from automotive electronics has maintained year-to-year double-digit growth. The Company has collaborated with customers on our standalone flash memory platform to advance the SPI NOR flash memory and EEPROM products based on our proprietary NORD technology and traditional ETOX technology. These products have utilized smaller memory cell and gained recognition in various end-market applications. Multiple automotive-grade SPI NOR flash memory and EEPROM products have been put into mass production.

## DIRECTORS' REPORT

In 2023, the market demand for power discrete also witnessed a decrease in growth rate amid increasingly intensified price competition. Despite these challenges, Hua Hong Semiconductor has maintained growth in the revenue from its power discrete business. Our continuing innovation and generation on generation improvements in our power discrete capabilities have enabled our customers to maintain industry-leading positions by their iterative product improvements. With an increasing proportion of ultra-fine trench gate IGBT products and the orderly introduction of new-generation superjunction MOSFET technology, the Company has achieved a record high number of new products for customers in the automotive, electric vehicle, new energy and industrial sectors in recent years. Meanwhile, the Company has been continuously expanding its production capacity of the power product line while maintaining a leading domestic position in technology and product quality.

Based on the analog and power management product platform of BCD technology, the Company has collaborated with leading analog and power management customers to advance the development of various power management IC for the mobile phone market, such as fast charging and wireless charging IC, which have been widely recognized by the leading end-market brands in the industry. Furthermore, certain customers were actively identified and cultivated in preparation for expansion in the automotive electronics sector. The Company is committed to developing diverse specialized BCD+ process platforms integrating the traditional BCD process with existing digital process platforms. As a result, the Company established a leading position in the domestic market. Furthermore, following mass production of 12-inch 90 nm and 65 nm BCDs, the Company continued its development activities for the automotive electronics and emerging markets. In the second half of the year, parts of the market rebounded resulting in higher chip production volume for the fourth quarter.

To expand our 12-inch production capacity, Hua Hong Semiconductor officially commenced construction of the phase-II project 12-inch production line in Wuxi in June 2023, expanding upon Hua Hong Semiconductor's "8-inch + 12-inch" strategy and its advanced "Specialty IC + Power Discrete" dual-pronged strategy. This development not only extends our specialty process technology to more advanced nodes but also represents a new milestone and chapter in the industrial collaboration between Hua Hong Group and the Wuxi City Government. With a total investment of US\$6.7 billion, a 12-inch specialty process production line will be established to cover 65/55 – 40 nm nodes, with a monthly capacity of 83,000 wafers.

Despite persistent downward pressure on demand in the traditional consumer market in 2023 and decelerating growth rates in new energy and electric vehicle markets, Hua Hong Semiconductor remained firmly confident in the long-term growth trajectory of the semiconductor market, unswervingly pursued its strategic deployment of advanced "Specialty IC + Power Discrete" process technology and continued to enhance technological accumulation, with 672 patent applications filed by the Company in China and overseas throughout 2023 and an accumulative number of 4,427 invention patents granted in China and overseas. Following industrial upgrades and transformations in markets such as automotive, home appliances, and new energy with increasingly informatized and digitalized daily life, the Company's growing production capacity will be able to support industry's incremental demand for semiconductor chips. The Company is focused on innovation, quality, and continuity in every aspect of its production and operations, as part of our commitment to maximize benefits for shareholders and our customers.

## DIRECTORS' REPORT

### Outlook

Looking forward to 2024, the global economy remains overshadowed by various uncertainties. Nevertheless, global GDP growth is expected to reach 2.4% in 2024, an improvement compared to 2023, according to prediction by the World Bank. With consumer and industrial markets showing signs of bottoming out, it is expected that the momentum of industry growth will continue to build up. In the face of a downturn in the semiconductor market over the past two years, Hua Hong Semiconductor has persistently striven to maintain stable performance, safeguarded shareholder interests, and ensured product quality for customers. Looking into 2024, Hua Hong Semiconductor will remain committed to constantly optimizing its 8-inch product mix, and increasing the proportion of high-value products. With the accelerated construction of 12-inch production capacity according to the plan, we will ensure that the Wuxi phase II project will deliver the stated production capacity. Hua Hong Semiconductor will continue to strategically implement its advanced "Specialty IC + Power Discrete" process technology, providing customers and the market with a wide selection of process technology. Hua Hong Semiconductor will enhance its engagement in the ecosystem to ensure a balanced supply-demand relationship by actively responding to increasing demand resulting from market upgrades driven by high-quality development of automotive, home appliance, and new energy markets.

## DIRECTORS' REPORT

### MANAGEMENT DISCUSSION AND ANALYSIS

#### FINANCIAL PERFORMANCE

	2023 US\$'000	2022 US\$'000	Change
Revenue	2,286,113	2,475,488	(7.7%)
Cost of sales	(1,799,017)	(1,631,832)	10.2%
<b>Gross profit</b>	<b>487,096</b>	843,656	(42.3%)
Other income and gains	144,370	70,986	103.4%
Fair value gain on an investment property	103	78	32.1%
Selling and distribution expenses	(10,189)	(12,464)	(18.3%)
Administrative expenses	(322,868)	(266,666)	21.1%
Other expenses	(33,666)	(111,360)	(69.8%)
Finance costs	(100,497)	(40,331)	149.2%
Share of profit of associates	9,230	12,171	(24.2%)
<b>Profit before tax</b>	<b>173,579</b>	496,070	(65.0%)
Income tax expense	(47,154)	(89,499)	(47.3%)
<b>Profit for the year</b>	<b>126,425</b>	406,571	(68.9%)
<b>Attributable to:</b>			
Owners of the parent	280,034	449,912	(37.8%)
Non-controlling interests	(153,609)	(43,341)	254.4%

#### Revenue

Revenue was US\$2,286.1 million, 7.7% lower than 2022, due to decreased average selling price.

#### Cost of sales

Cost of sales was US\$1,799.0 million, an increase of 10.2% over 2022, primarily due to increased provision for inventories, depreciation and utility costs, partially offset by decreased labor costs.

#### Gross profit

Gross profit was US\$487.1 million, a decrease of 42.3% compared to 2022, mainly due to decreased average selling price and increased depreciation costs, partially offset by decreased labor costs.

#### Other income and gains

Other income and gains were US\$144.4 million, an increase of 103.4% compared to 2022, primarily due to increased government subsidies and interest income.

#### Selling and distribution expenses

Selling and distribution expenses were US\$10.2 million, a decrease of 18.3% compared to 2022, primarily due to decreased labor expenses.

#### Administrative expenses

Administrative expenses were US\$322.9 million, an increase of 21.1% from 2022, primarily due to decreased government grants for research and development activities and increased engineering wafer costs.

#### Other expenses

Other expenses were US\$33.7 million, a decrease of 69.8% compared to 2022, largely due to decreased foreign exchange loss.

## DIRECTORS' REPORT

### Finance costs

Finance costs were US\$100.5 million, an increase of 149.2% from 2022, primarily due to increased bank borrowings and increased interest rates.

### Share of profit of associates

Share of profit of associates was US\$9.2 million, a decrease of 24.2% from 2022, due to decreased profit realized by the associates.

### Income tax expense

Income tax expense was US\$47.2 million, a decrease of 47.3% compared to 2022, primarily due to decreased taxable profit.

### Profit for the year

As a result of the cumulative effect of the above factors, profit for the year decreased to US\$126.4 million from US\$406.6 million in 2022. Net profit margin was 5.5%, compared to 16.4% in 2022.

## FINANCIAL STATUS

	31 December 2023 US\$'000	31 December 2022 US\$'000	Change
<b>Non-current assets</b>			
Property, plant and equipment	<b>3,519,292</b>	3,367,716	4.5%
Investment property	<b>166,643</b>	169,363	(1.6%)
Right-of-use assets	<b>78,545</b>	78,425	0.2%
Investments in associates	<b>139,099</b>	130,721	6.4%
Equity instruments designated at fair value through other comprehensive income	<b>270,506</b>	178,632	51.4%
Other non-current assets	<b>199,780</b>	54,794	264.6%
<b>Total non-current assets</b>	<b>4,373,865</b>	3,979,651	9.9%
<b>Current assets</b>			
Inventories	<b>449,749</b>	578,060	(22.2%)
Trade and notes receivables	<b>278,669</b>	291,856	(4.5%)
Due from related parties	<b>11,219</b>	13,006	(13.7%)
Other current assets	<b>212,649</b>	182,996	16.2%
Restricted and time deposits	<b>32,088</b>	1,042	2,979.5%
Cash and cash equivalents	<b>5,585,181</b>	2,008,765	178.0%
<b>Total current assets</b>	<b>6,569,555</b>	3,075,725	113.6%
<b>Current liabilities</b>			
Trade payables	<b>235,410</b>	236,999	(0.7%)
Interest-bearing bank borrowings	<b>193,035</b>	426,756	(54.8%)
Due to related parties	<b>13,876</b>	6,096	127.6%
Government grants	<b>35,017</b>	37,714	(7.2%)
Other current liabilities	<b>495,049</b>	674,851	(26.6%)
<b>Total current liabilities</b>	<b>972,387</b>	1,382,416	(29.7%)
<b>Net current assets</b>	<b>5,597,168</b>	1,693,309	230.5%
<b>Non-current liabilities</b>			
Interest-bearing bank borrowings	<b>1,906,526</b>	1,481,580	28.7%
Other non-current liabilities	<b>49,963</b>	55,912	(10.6%)
<b>Total non-current liabilities</b>	<b>1,956,489</b>	1,537,492	27.3%
<b>Net assets</b>	<b>8,014,544</b>	4,135,468	93.8%

## DIRECTORS' REPORT

### Explanation of items with fluctuation over 10% from 31 December 2022 to 31 December 2023

#### **Equity instruments designated at fair value through other comprehensive income**

Equity instruments designated at fair value through other comprehensive income increased from US\$178.6 million to US\$270.5 million, primarily due to increase of fair value of equity instruments.

#### **Other non-current assets**

Other non-current assets increased from US\$54.8 million to US\$199.8 million, primarily due to increased long-term prepayments.

#### **Inventories**

Inventories decreased from US\$578.1 million to US\$449.7 million, primarily due to decreased finished goods and work in progress.

#### **Due from related parties**

Due from related parties decreased from US\$13.0 million to US\$11.2 million, primarily due to decreased receivables from certain of our related parties.

#### **Other current assets**

Other current assets increased from US\$183.0 million to US\$212.6 million, primarily due to increased properties under development.

#### **Restricted and time deposits**

Restricted and time deposits increased from US\$1.0 million to US\$32.1 million, primarily due to increased pledged deposits.

#### **Cash and cash equivalents**

Cash and cash equivalents increased from US\$2,008.8 million to US\$5,585.2 million, mainly due to reasons stated in the cash flow analysis below.

#### **Due to related parties**

Due to related parties increased from US\$6.1 million to US\$13.9 million, primarily due to a payable of technology purchased from certain related parties.

#### **Other current liabilities**

Other current liabilities decreased from US\$674.9 million to US\$495.0 million, primarily due to decreased advanced payments from customers.

#### **Interest-bearing bank borrowings**

Total interest-bearing bank borrowings increased from US\$1,908.3 million to US\$2,099.6 million, due to increased drawdowns of bank borrowings.

## DIRECTORS' REPORT

### CASH FLOW

	2023 US\$'000	2022 US\$'000	Change
Net cash flows generated from operating activities	<b>641,695</b>	750,865	(14.5%)
Net cash flows used in investing activities	<b>(833,312)</b>	(930,156)	(10.4%)
Net cash flows generated from financing activities	<b>3,781,746</b>	672,177	462.6%
<b>Net increase in cash and cash equivalents</b>	<b>3,590,129</b>	492,886	628.4%
Cash and cash equivalents at beginning of the year	<b>2,008,765</b>	1,610,140	24.8%
Effect of foreign exchange rate changes, net	<b>(13,713)</b>	(94,261)	(85.5%)
<b>Cash and cash equivalents at end of the year</b>	<b>5,585,181</b>	2,008,765	178.0%

#### Net cash flows generated from operating activities

Net cash flows generated from operating activities were US\$641.7 million, a decrease of 14.5% compared to 2022, mainly due to decreased receipts from customers, partially offset by decreased payments for materials, maintenance and payrolls.

#### Net cash flows used in investing activities

Net cash flows used in investing activities were US\$833.3 million, primarily attributed to US\$906.6 million for capital investments, offset by receipts of (i) US\$61.6 million of interest income, and (ii) US\$11.7 million of government grants for equipment.

#### Net cash flows generated from financing activities

Net cash flows generated from financing activities were US\$3,781.7 million, including (i) US\$2,937.0 million proceeds from issuance of shares on the STAR Market, (ii) US\$787.9 million of capital contribution from non-controlling interests, (iii) US\$615.4 million of proceeds from bank borrowings, (iv) US\$4.9 million from share option exercises, and (v) US\$3.0 million of government grants for finance costs, offset by (i) US\$422.1 million of repayments of bank borrowings, (ii) US\$106.6 million of interest payments, (iii) increase of US\$31.2 million in pledged margin deposits (iv) US\$4.6 million payment of principal portion of lease payments, and (v) US\$2.0 million payments of listing fee.

#### 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\$2,008.8 million as of 31 December 2022 to US\$5,585.2 million as of 31 December 2023.

## DIRECTORS' REPORT

### 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 2023, 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\$17.5 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 the Chinese Mainland in US\$, rather than the subsidiaries' functional currency, which is RMB. During the year, approximately 22% of our sales were denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst 53% of costs of sales were denominated in the subsidiaries' functional currency.

In addition, we have currency exposures from interest-bearing bank borrowings held by our subsidiaries operating in the Chinese Mainland. As at 31 December 2023, interest-bearing bank borrowings with a carrying amount of US\$1,653.0 million were dominated in US\$, rather than the subsidiaries' functional currency, which is RMB.

As at 31 December 2023, if the US\$ had strengthened or weakened against the RMB by 5 percent, with all other variables held constant, our profit before tax for the year would have been approximately US\$47.6 million lower or higher.

#### **Credit risk**

We trade only with recognised 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.

# DIRECTORS' REPORT

## Gearing Ratio

Details of the gearing ratio are set out in note 38 to the Financial Statements.

## Results

The results of the Group for the year ended 31 December 2023 and the state of affairs as at that date are set out in the Financial Statements on pages 279 to 282 of this report.

## Final Dividends

The Board recommended the payment of a final dividend of HK\$0.165 per Share (equivalent to US\$36,234,000) in respect of the year ended 31 December 2023 (the "Final Dividend"). The Final Dividend is denominated and declared in Hong Kong dollars, among which, dividends for RMB Shares will be paid in RMB calculated using the average central parity rate between Hong Kong dollars and RMB announced by the People's Bank of China for the week immediately preceding the date of the declaration of dividend by the Board (HK\$1 is equivalent to RMB0.90736). Dividends for Hong Kong Shares will be paid in Hong Kong dollars. Please refer to the announcement on final dividend distribution plan published by the Company on the Shanghai Stock Exchange for details of the dividend distribution on RMB Shares.

Subject to the approval by the Shareholders at the AGM, the Final Dividend will be payable on or about 26 June 2024 to the Shareholders whose names appear on the register of members of the Company on 6 June 2024.

## Dividend Policy

Subject to the approval of the Shareholders and the requirements of law, it has been decided that the Company will pay dividends to the Shareholders for the year of 2015 and onwards if the Group is profitable, the operations environment is stable, and there is no significant investment made by the Group. It is intended that the average of dividends paid in three consecutive years will be no less than 30% of the average distributable net profit of these three years. The remaining net profit will be used for the development and operations of the Group.

This dividend policy will continue to be reviewed from time to time and there can be no assurance that dividends will be paid in any amount for any given period. In the event that the Board recommends a dividend, the form and amount will depend on the assessment by the Directors of the factors affecting the Group from time to time.

## Distributable Reserves

As at 31 December 2023, the Company has US\$314,127,000 in distributable reserves available for distribution to Shareholders.

## DIRECTORS' REPORT

### Bank Loans

The particulars of bank loans of the Group as at 31 December 2023 are set out in note 26 to the Financial Statements.

As at 31 December 2023, certain of the Group's bank loans were secured by pledges of the Group's assets. Please refer to note 26 to the Financial Statements for further details.

### Financial Summary

A summary of the published results and the assets and liabilities of the Group for the past five financial years is set out on page 392. This summary does not form part of the audited financial statements.

### Property, Plant and Equipment

Details of additions and other changes during the year ended 31 December 2023 in the property, plant and equipment, and investment property of the Group are set out in notes 13 and 14 to the Financial Statements.

In addition, details of the investment property are set out below:

Location	Type of Use	Term of Lease	Group's Interest	Gross Floor Area (sq.m.)
Portions of 9 buildings No. 818 Guo Shou Jing Road Zhangjiang Hi-Tech Park Pudong New Area Shanghai, PRC	Industrial use	Held under a land use right for a term expiring on 8 March 2051	100%	91,563.11

### Significant Events After the Reporting Period

On 28 March 2024, the Company proposed a final dividend of HK\$0.165 per ordinary share totaling approximately US\$36,234,000 for the year ended 31 December 2023. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### Share Capital

Details of movement in the share capital of the Company during the year ended 31 December 2023 are set out in note 30 to the Financial Statements. These movements include the automatic inclusion of the amount standing to the share premium account into the share capital as from 3 March 2014, in accordance with section 37 of Schedule 11 to the New Companies Ordinance (Cap. 622), as part of the transition to the no-par value regime.

# DIRECTORS' REPORT

## Share Option Scheme

A share option scheme (the "Share Option Scheme") was approved by an extraordinary general meeting of the Company held on 1 September 2015. A summary of the Share Option Scheme is as follows:

Purpose of the Share Option Scheme:

The purpose of the Share Option Scheme is to attract, retain and provide incentives to the Participants (defined below), to provide them with the opportunity to obtain Shares of the Company, and to link their interests closely to the operating results and share performance of the Company, with the view to increasing the value of the Company.

Participants:

The participants of the Share Option Scheme ("Participants") include (1) existing Executive and Non-Executive Directors of any member of the Group; or (2) senior management and key managerial and technical personnel having a direct impact on the results of operations and sustainable development of any member of the Group, subject always to any limits and restrictions specified in the Share Option Scheme, but shall not include any Independent Non-Executive Directors.

Maximum entitlement of each Participant:

If the total number of Shares allotted and which may fall to be allotted upon exercise of all the share options ("Share Options") granted and to be granted (including exercised, cancelled, and outstanding Share Options) to a Participant in any 12-month period in aggregate exceeds 1% of the issued share capital of the Company at the time, no further grant of Share Options shall be given to such Participant. Share Options may be granted to a Participant in excess of the individual limit of 1% in any 12-month period only with the approval of the Shareholders at a general meeting. No Share Option shall be granted to any person who holds over 5% of Shares which carry voting rights on the Grant Date (as defined in the Share Option Scheme), unless such grant is approved by shareholders at the general meeting.

Minimum period, if any, for which an option must be held before it can be exercised:

Two years unless otherwise stated in the grant notice of the Share Option.

The amount payable on application or acceptance of the Share Option and the period within which payments or calls must be made or loans for such purposes must be paid:

HK\$1.00 is to be paid by each grantee as consideration for the grant of Share Option within 28 days from the date of proposed offer.

Number of options available for grant at the beginning and the end of year 2023, and the remaining life of the Share Option Scheme:

The Share Option Scheme shall be valid and effective for a period of seven (7) years commencing on the date of adoption. It has therefore expired on 1 September 2022. No further options could be granted, and none has been granted, under the Share Option Scheme from that date.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 21,144,481 shares, representing approximately 1.23% of the total number of shares in issue (representing all shares in issue of the listed company (including A Shares)).

## DIRECTORS' REPORT

### Share Options Granted under the Share Option Scheme

On 4 September 2015, the Company granted 30,250,000 share options (the "2015 Options") to subscribe for a total of 30,250,000 ordinary shares of the Company to certain individuals under the Share Option Scheme. Details of the 2015 Options are as follows:

Date of grant: 4 September 2015

Exercise price of options granted: HK\$6.912

Number of options granted: 30,250,000 (representing 1.76% of the issued shares of the Company as at 31 December 2023).

Validity period of the options: From 4 September 2015 to 3 September 2022 (seven (7) years), both dates inclusive.

Vesting period of the options: One third of the options shall vest on each of 4 September 2017, 4 September 2018, and 4 September 2019.

The exercise price of HK\$6.912 per Share represents a premium of 0% over the higher of (i) the closing price of HK\$6.87 per Share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the date of the grant; (ii) the average closing price of HK\$6.912 per Share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five trading days immediately preceding the date of the grant; and (iii) the closing price of HK\$6.800 per Share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the day immediately before the grant date.

On 24 December 2018, the Company granted 34,500,000 share options (the "2018 Options") to subscribe for a total of 34,500,000 ordinary shares of the Company to certain individuals under the Share Option Scheme. Details of the 2018 Options are as follows:

Date of Grant: 24 December 2018

Exercise price of options granted: HK\$15.056

Number of options granted: 34,500,000 (representing 2.01% of the issued shares of the Company as at 31 December 2023).

Validity period of the options: From 24 December 2018 to 23 December 2025 (seven (7) years), both dates inclusive

Vesting period of the options: For employees at or above the level of the vice president of the Company (together with Directors), one fourth of the 2018 Options shall vest on each of 24 December 2020, 24 December 2021, 24 December 2022, and 24 December 2023; for the other employees of the Company, one third of the 2018 Options shall vest on each of 24 December 2020, 24 December 2021, and 24 December 2022

## DIRECTORS' REPORT

The exercise price of HK\$15.056 per share represents the higher of (i) the closing price of HK\$14.440 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the date of the grant; (ii) the average closing price of HK\$15.056 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of the grant; (iii) the closing price of HK\$14.380 per Share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the day immediately before the grant date; and (iv) the nominal value of the share.

On 29 March 2019, the Company granted 500,000 share options (the "March 2019 Options") to subscribe for a total of 500,000 ordinary shares of the Company to one individual under the Share Option Scheme. Details of the March 2019 Options are as follows:

Date of Grant: 29 March 2019

Exercise price of options granted: HK\$18.400

Number of options granted: 500,000 (representing 0.03% of the issued shares of the Company as at 31 December 2023)

Validity period of the options: From 29 March 2019 to 28 March 2026 (seven (7) years), both dates inclusive  
Vesting

period of the options: One fourth of the options will vest on each of 23 December 2021, 12 August 2022, 11 August 2023, and 29 March 2024

The exercise price of HK\$18.400 per share represents the higher of (i) the closing price of HK\$18.400 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the date of the grant; (ii) the average closing price of HK\$18.176 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of the grant; (iii) the closing price of HK\$18.220 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the day immediately before the grant date; and (iv) the nominal value of the share.

On 23 December 2019, the Company granted 2,482,000 share options (the "December 2019 Options") to subscribe for a total of 2,482,000 ordinary shares of the Company to certain individuals under the Share Option Scheme. Details of the December 2019 Options are as follows:

Date of Grant: 23 December 2019

Exercise price of options granted: HK\$17.952

Number of options granted: 2,482,000 (representing 0.14% of the issued shares of the Company as at 31 December 2023)

Validity period of the options: From 23 December 2019 to 22 December 2026 (seven (7) years), both dates inclusive

Vesting period of the options: For employees at or above the level of the vice president of Hua Hong Wuxi, one fourth of the options will vest on each of 23 December 2021, 23 December 2022, 23 December 2023, and 23 December 2024; for the other employees of Hua Hong Wuxi, one third of the options will vest on each of 23 December 2021, 23 December 2022, and 23 December 2023

## DIRECTORS' REPORT

The exercise price of HK\$17.952 per share represents the higher of (i) the closing price of HK\$17.260 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the date of the grant; (ii) the average closing price of HK\$17.952 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of the grant; (iii) the closing price of HK\$17.200 per share as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange on the day immediately before the grant date; and (iv) the nominal value of the share.

Among the March 2019 Options, 500,000 share options were granted to the Directors of the Company, subject to their acceptance.

Details of the movements in the share options during the year ended 31 December 2023 are as follows:

Number of share options	Name or category of participants					Total
	Director	Mr. Junjun Tang	Resigned director	Other employees		
Granted at 4 September 2015	-	988,000	-	29,262,000	-	30,250,000
Granted at 24 December 2018	-	-	680,000	-	33,820,000	34,500,000
Granted at 29 March 2019	500,000	-	-	-	-	500,000
Granted at 23 December 2019	-	-	-	-	2,482,000	2,482,000
Cancelled/Lapsed during the year 2015	-	-	-	-130,000	-	-130,000
Cancelled/Lapsed during the year 2016	-	-	-	-1,458,000	-	-1,458,000
Cancelled/Lapsed during the year 2017	-	-	-	-1,353,399	-	-1,353,399
Cancelled/Lapsed during the year 2018	-	-	-	-754,595	-	-754,595
Cancelled/Lapsed during the year 2019	-	-	-600,000	-58,000	-1,035,000	-1,729,000
Cancelled/Lapsed during the year 2020	-	-119,000	-80,000	-	-993,904	-84,000
Cancelled/Lapsed during the year 2021	-62,500	-	-	-	-5,751,868	-592,993
Cancelled/Lapsed during the year 2022	-	-	-	-	-543,728	-73,983
Exercised during the period	-	-	-	-	1,913,454	88,500
Cancelled during the period	-	-	-	-	-	-6,900
Lapsed during the period	-	-	-	-	-8,168	-8,168
Outstanding at 1 January 2023	437,500			-	21,389,723	1,611,648
Outstanding at 31 December 2023	437,500			-	19,468,101	1,516,248
Vesting period of share options	From 29 March 2019 to 28 March 2026	From 4 September 2015 to 3 September 2022	From 24 December 2018 to 23 December 2025	From 4 September 2015 to 3 September 2022	From 24 December 2018 to 23 December 2025	From 23 December 2019 to 22 December 2026
Exercise period of share options	From 29 March 2021 to 28 March 2026	From 4 September 2017 to 3 September 2022	From 24 December 2020 to 23 December 2025	From 4 September 2017 to 3 September 2022	From 24 December 2020 to 23 December 2025	From 23 December 2021 to 22 December 2026
Exercise price of share options	HK\$18.400	HK\$6.912	HK\$15.056	HK\$6.912	HK\$15.056	HK\$17.952
Weighted average closing price of the shares immediately before the dates on which the share options were exercised					HK\$27.58	HK\$31.15

Save as disclosed above, the Company has not adopted any other share option scheme during the year ended 31 December 2023.

# DIRECTORS' REPORT

## Reserves

Details of movements in the reserves of the Group during the year ended 31 December 2023 are set out in the consolidated statement of changes in equity on pages 283 to 284 of this report.

## Issuance and Listing of Securities

Type of shares and other derivative instruments	Issue price	Issue amount	Listing date	Trading amount approved to be listed
Ordinary share	RMB52.00	407,750,000	7 August 2023	103,974,252 (Circulating shares not subject to selling restrictions); 303,775,748 (Circulating shares subject to selling restrictions)

In order to enhance the overall competitiveness and strengthen the sustainable development capabilities of the Company, an extraordinary general meeting of the Company was held on 27 June 2022 to consider and approve the resolution on the application for the initial public offering and listing of not more than 433,730,000 RMB Shares on the STAR Market of the Shanghai Stock Exchange. The Board is of the view that the offering and listing of the Company is in line with the relevant national industrial policies and the Company's development strategies, which will facilitate the further expansion of the Company's production capacity, enhance the Company's research and development capabilities and enrich the technological platform. It helps the Company to better meet market demands and enhance its market position and core competitiveness in the wafer foundry industry.

On 7 August 2023, the Company was listed on the STAR Market of the Shanghai Stock Exchange under the stock abbreviation of Hua Hong Company (華虹公司) and stock code of 688347.

Through issuing the RMB Shares on the STAR Market of the Shanghai Stock Exchange, a total of 407,750,000 ordinary shares of the Company have been subscribed by eligible off-line investors, as well as eligible natural persons, legal entities and other institutional investors (other than those prohibited by the laws and regulations and regulatory documents of the PRC) or such other target subscribers meeting the relevant qualification requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange, who have maintained stock accounts with the Shanghai Stock Exchange.

## DIRECTORS' REPORT

The total proceeds raised amounted to RMB21,203,000,000. After deducting the issuance expenses, including underwriting, sponsorship fees, as well as other issuance expenses, the net proceeds amounted to RMB20,920,677,000, at an issue price of RMB52.00 per ordinary share (the closing price of the Company's shares on the Hong Kong Stock Exchange was HK\$26.35 as at the date of the announcement of the Company in relation to the terms of the RMB Share Issue (i.e. 4 August 2023)). Upon receipt of the proceeds, the entire amount has been deposited into a dedicated account for the proceeds, which was approved by the Board. The proceeds raised will be utilised in accordance with the previously disclosed intended use of the proceeds as set out below:

Unit: RMB

Previously disclosed intended use of proceeds	Amount of committed investments	Accumulated unutilised proceeds at the end of the Reporting Period	Expected timeframe for usage of unutilised proceeds
Hua Hong Manufacturing (Wuxi) Project	12,500,000,000.00	11,721,659,938.34	By the end of 2025
8-Inch Factory Optimisation and Upgrading Project	2,000,000,000.00	1,965,732,745.52	By the end of 2025
Specialty Technological Innovation, Research and Development Project	2,500,000,000.00	2,368,704,324.02	By the end of 2026
Replenishment of Working Capital	1,000,000,000.00	–	N/A

### Formation of Joint Venture during the Reporting Period

On 18 January 2023, the Company, HHGrace, China IC Fund II and Wuxi Xi Hong Guo Xin (together, the "JV Shareholders") entered into a joint venture agreement (the "JV Agreement"), pursuant to which the parties conditionally agreed to establish a joint venture (i.e. the Wuxi Phase II project (HH Fab9)) through Hua Hong Manufacturing and invest US\$880.38 million, US\$1,169.82 million, US\$1,165.8 million and US\$804 million in cash, respectively, in Hua Hong Manufacturing. Pursuant to the JV Agreement, Hua Hong Manufacturing shall engage in the manufacturing and sale of integrated circuits and 12-inch (300mm) wafers adopting 65/55 nm to 40 nm processes. On the same day, the JV Shareholders and Hua Hong Manufacturing entered into an investment agreement (the "JV Investment Agreement") to convert Hua Hong Manufacturing into a joint venture and increase the registered capital of Hua Hong Manufacturing from RMB6.68 million to US\$4.02 billion. The JV Agreement, the JV Investment Agreement, the Land Transfer Agreement (as defined in the section headed "Connected Transactions" below) and the transactions contemplated thereunder constituted major transactions under Chapter 14 of the Listing Rules and were approved by the Shareholders at the EGM held on 17 March 2023.

Please refer to the announcements of the Company dated 18 January 2023 and 17 March 2023 and the circular of the Company dated 24 February 2023 for further details.

# DIRECTORS' REPORT

## Continuing Connected Transactions

The Group disclosed in the prospectus dated 3 October 2014 the continuing connected transactions with, amongst others, Huali Micro, Huahong Real Estate and Huajin Property Management. Certain details of such transactions are summarized in the table below. With respect to such transactions, the Company had applied for and the Hong Kong Stock Exchange had granted a waiver from, among others, strict compliance with the announcement and independent shareholders' approval requirement (as the case may be). Details of such continuing connected transactions of the Group together with certain other continuing connected transactions conducted during 2023 are set out as follows:

Transaction	Transaction Date	Parties to the Transaction	Connected Relationship	Transaction	Actual Transaction Amount 2023	Proposed Annual Caps 2023
(1)	1 January 2023	Huahong Group (as purchaser) The Company (as seller)	Huahong Group is a substantial shareholder of the Company. Hongri and Huahong Zealcore are owned 51% and 93.02% owned by Huahong Group, respectively.	The Company's sale of semiconductor products to Huahong Group, its subsidiaries and associates, including Hongri and Huahong Zealcore, pursuant to the Huahong Group Framework Agreement.	US\$20,578,000	US\$21,100,000
(2)	1 January 2023	Huahong Group (as seller) The Company (as purchaser)	Huahong Group is a substantial shareholder of the Company. Hongri and Huahong Zealcore are owned 51% and 93.02% owned by Huahong Group, respectively.	The Company's purchase of wafers and chemicals from Huahong Group, its subsidiaries and associates, including Hongri and Huahong Zealcore, pursuant to the Huahong Group Framework Agreement.	US\$19,234,000	US\$31,500,000
(3)	1 January 2023	SAIL (as purchaser) The Company (as seller)	SAIL is a substantial shareholder of the Company.	The Company's sale of semiconductor products to SAIL, its subsidiaries and associates, including SITRI and O-Cubes, pursuant to the SAIL Sales Framework Agreement.	US\$357,000	US\$2,000,000

## DIRECTORS' REPORT

Transaction	Transaction	Parties to the Transaction	Connected Relationship	Transaction	Actual Transaction Amount 2023	Proposed Annual Caps 2023
(4)	1 January 2021	HHGrace (as service provider) Hua Hong Wuxi (as recipient of service)	Hua Hong Wuxi is a non-wholly owned subsidiary which is held as to approximately 20.58% by China IC Fund, a substantial shareholder of the Company.	Service agreement between HHGrace (as service provider) and Hua Hong Wuxi (as recipient of services) in relation to the provision of corporate services by HHGrace to Hua Hong Wuxi. Accordingly, Hua Hong Wuxi is a connected subsidiary of the Company.	RMB145,000,000 (approx. US\$20,644,000)	RMB145,000,000 (approx. US\$20,644,000)
(5)	1 January 2023	HHGrace (as recipient of service) Hua Hong Wuxi (as service provider)	Hua Hong Wuxi is a non-wholly owned subsidiary which is held as to approximately 20.58% by China IC Fund, a substantial shareholder of the Company.	Service agreement between HHGrace (as recipient of service) and Hua Hong Wuxi (as service provider) in relation to the provision of chemical placing services. Accordingly, Hua Hong Wuxi is a connected subsidiary of the Company.	US\$47,000	US\$2,400,000
(6)	25 February 2010 (together with the supplemental agreements dated 10 June 2011 and 25 July 2014)	Huali Micro (as lessee) The Company (as lessor)	Huali Micro is 53.85% owned by Huahong Group, a substantial shareholder of the Company.	Lease agreement between Huali Micro (as lessee) and the Company (as lessor) in relation to the factory premise situated at Hill 2, 13th street, Zhangjiang Hi-Tech park, Pudong New Area, Shanghai, PRC leased by the Company to Huali Micro for their 300mm wafer production line. The total gross floor area leased was 96,048.2 square meters.	RMB97,189,000 (approx. US\$13,786,000)	RMB99,000,000 (approx. US\$14,095,000)
(7)	1 January 2023	Huali Micro (as lessee) HHGrace (as lessor)	Huali Micro is 53.85% owned by Huahong Group, a substantial shareholder of the Company.	Lease agreement between Huali Micro (as lessee) and HHGrace (as lessor) in relation to certain clean rooms in HHGrace's factory premises leased to Huali Micro. The total gross floor area leased was 192 square meters.	RMB1,402,000 (approx. US\$199,000)	RMB4,200,000 (approx. US\$598,000)

## DIRECTORS' REPORT

Transaction	Transaction Date	Parties to the Transaction	Connected Relationship	Transaction	Actual Transaction Amount 2023	Proposed Annual Caps 2023
(8)	10 January 2013 (together with a supplemental agreement dated 10 June 2014)	Huahong Real Estate (as lessor) The Company (as lessee)	Huahong Real Estate is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a substantial shareholder of the Company, and 50% held by HHGrace, a wholly-owned subsidiary of the Company.	Lease agreement between Huahong Real Estate (as lessor) and the Company (as lessee) in relation to the dormitory premises situated at Hua Hong Innovation Park, Nong 2777, Jinxiu Road East, Pudong New Area, Shanghai, PRC ("Dormitory Premises") rented by the Company from Huahong Real Estate for use as staff quarters for the Company's employees. The total gross floor area rented was 17,412.87 square meters.	RMB11,504,000 (approx. US\$1,631,000) <sup>(1)</sup>	RMB12,700,000 (approx. US\$1,808,000)
(9)	1 January 2023	Huajin Property Management (as property manager) The Company (as lessee)	Huajin Property Management is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a substantial shareholder of the Company, and 50% held by HHGrace, a wholly-owned subsidiary of the Company.	Property management agreement between Huajin Property Management (as property manager) and the Company (as lessee) in relation to the engagement of Huajin Property Management by the Group to provide property management services for the Dormitory Premises.	RMB3,993,000 (approx. US\$567,000)	RMB5,700,000 (approx. US\$812,000)
(10)	1 January 2023	Huahong Real Estate (as lessor) HHGrace (as lessee)	Huahong Real Estate is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, a substantial shareholder of the Company, and 50% held by HHGrace, a wholly-owned subsidiary of the Company.	Lease agreement between Huahong Real Estate (as lessor) and HHGrace (as lessee) in relation to the dormitory premises situated at Hua Hong Innovation Park, Nong 2777, Jinxiu Road East, Pudong New Area, Shanghai, PRC ("Additional Dormitory Premises") rented by the Company from Huahong Real Estate for use as staff quarters for the Company's employees. The total gross floor area rented was 9,977.17 square meters.	RMB6,285,000 (approx. US\$891,000) <sup>(2)</sup>	RMB7,300,000 (approx. US\$1,039,000)

## DIRECTORS' REPORT

*Notes:*

- (1) The Group entered into a twenty-year lease with respect to certain dormitory premises from Huahong Real Estate before the adoption of Hong Kong Financial Reporting Standard 16. Thus, the Group are not required to re-comply with the notifiable or connected transaction Rules. The amount of rent payable by the Group under the lease is US\$1,631,000 per year. As at 31 December 2023, the balances of those right-of-use assets and lease liabilities were US\$10,932,000 and US\$13,498,000, respectively.
- (2) The Group entered into an additional lease of dormitory premises from Huahong Real Estate. The amount of rent payable by the Group under the lease is US\$891,000 per year. As at 31 December 2023, the balances of those right-of-use assets and lease liabilities were US\$7,151,000 and US\$7,292,000, respectively.

The price and terms of the continuing connected transactions as described above were determined in accordance with the pricing policies and guidelines as set out in the relevant announcements of the Company. The Board (including the Independent Non-Executive Directors) has reviewed the continuing connected transactions as described above and confirmed that such transactions did in fact continue in 2023:

- (i) in the ordinary and usual course of business of the Company;
- (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The auditors of the Company have confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions of 2023:

- (i) nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Company's Board;
- (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- (iii) nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the relevant annual caps disclosed in the relevant announcement(s) with respect to each of the disclosed continuing connected transactions.

# DIRECTORS' REPORT

## Connected Transactions

### Technology Development Agreement

On 1 December 2023, HHGrace entered into a technology development agreement (the "Technology Development Agreement") with Huali Micro, pursuant to which Huali Micro agreed to provide HHGrace with a non-exclusive licence to use certain technological know-how together with ancillary technical consulting services in support of Hua Hong Manufacturing's production line of 12-inch (300 mm) wafers with 40 nm processes, for a consideration of between RMB110 million and RMB180 million (inclusive of tax).

As at the date of the Technology Development Agreement, Huali Micro was 53.85% owned by Huahong Group, a substantial shareholder of the Company. Accordingly, Huali Micro was a connected person of the Company and the entering into of the Technology Development Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 1 December 2023 for further details.

### China IC Fund II Subscription Agreement

On 28 June 2023, the Company, China IC Fund II, Guotai Junan Securities Co., Ltd. and Haitong Securities Co., Ltd. entered into a share subscription agreement (the "China IC Fund II Subscription Agreement"), pursuant to which China IC Fund II would participate in the RMB Share Issue as a strategic investor by subscribing for RMB Shares under the RMB Share Issue up to an aggregate subscription amount of RMB3,000,000,000, subject to allotment.

As at the date of the China IC Fund II Subscription Agreement, China IC Fund II held 29% of the equity interests in Hua Hong Manufacturing, which was a non-wholly owned subsidiary of the Company. Therefore, China IC Fund II was a substantial shareholder of Hua Hong Manufacturing and was a connected person of the Company at the subsidiary level pursuant to Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the China IC Fund II Subscription Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

The China IC Fund II Subscription Agreement and the transaction contemplated thereunder were approved by the Shareholders at the EGM held on 14 July 2023. The final number of RMB Shares allotted to China IC Fund II under the China IC Fund II Subscription Agreement was determined to be 48,334,249 RMB Shares, with an aggregate allotted amount of RMB2,513,380,948.

Please refer to the announcements of the Company dated 28 June 2023, 14 July 2023 and 24 July 2023 and the circular of the Company dated 29 June 2023 for further details.

### Land Transfer Agreement

In connection with the JV Agreement and JV Investment Agreement, on 18 January 2023, Hua Hong Manufacturing and Hua Hong Wuxi entered into a land transfer agreement (the "Land Transfer Agreement"), pursuant to which Hua Hong Wuxi conditionally agreed to transfer and Hua Hong Manufacturing conditionally agreed to purchase several plots of land located in Wuxi, Jiangsu for a total consideration of RMB170,100,450, for the purpose of developing fabs housing Hua Hong Manufacturing's production lines for manufacturing integrated circuits and 12-inch (300mm) wafers.

As at the date of the Land Transfer Agreement, Hua Hong Wuxi was a non-wholly owned subsidiary of the Company which was held as to approximately 20.58% by China IC Fund, a substantial shareholder of the Company. Accordingly, Hua Hong Wuxi was a connected subsidiary of the Company and the entering into of the Land Transfer Agreement constituted a connected transaction of the Company under the Chapter 14A of the Listing Rules.

## DIRECTORS' REPORT

The Land Transfer Agreement and the transaction contemplated thereunder were approved by the Shareholders at the EGM held on 17 March 2023.

Please refer to the announcements of the Company dated 18 January 2023 and 17 March 2023 and the circular of the Company dated 24 February 2023 for further details.

### Related Party Transactions

During the year ended 31 December 2023, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the year ended 31 December 2023 are disclosed in note 35 to the financial statements. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules. Save as disclosed in the section headed "Continuing Connected Transactions and Connected Transactions" in this annual report, the other related party transactions disclosed in note 35 were not regarded as connected transactions or were exempt from reporting, announcement, and shareholder approval requirements under the Listing Rules.

### Performance of the Equity Investments

The table below sets out the breakdown of the performance with respect to the Equity Investments during the year ended 31 December 2023.

	Huali Micro (USD' 000)	QST (USD' 000)	Shanghai Awinic (USD' 000)
Initial investment cost	229,133	1,704	2,120
Book value at the beginning of the year	174,170	2,020	2,442
Changes in fair value	94,313	969	28
Exchange realignment	(3,355)	(40)	(41)
Book value at the end of the year	265,128	2,949	2,429
Dividends received	–	–	–
Gain on disposals	–	–	1,943
Subscribed capital contribution/ number of shares held	RMB1,400,000,000	10,377,050	178,000
Percentage of equity interest held	5.3900%	0.6220%	0.1072%
Size compared to the total assets of the Company	3.8%	0.0%	0.0%

During the year ended 31 December 2023, the Group did not dispose of any equity interest in Huali Micro, QST or Shanghai Awinic. Changes in the fair value of the Company's equity investment in Huali Micro, QST, and Shanghai Awinic were US\$94,313,000, 969,000, and US\$28,000 respectively.

Huali Micro was established in 2010. As an industry-leading IC wafer foundry company, Huali Micro has advanced process technologies and offers comprehensive solutions. It is devoted to providing one-stop wafer foundry technical services for process technology nodes from 65/55nm to 28/22nm for design companies, IDM companies, and other system companies. Huali Micro has two 12-inch fully-automated wafer fabs in China.

## DIRECTORS' REPORT

During the financial year of 2023, the book value of the Company's equity investment in Huali Micro increased by US\$90,958,000, including an increase of US\$94,313,000 in the fair value and a foreign currency statement loss of around US\$3,355,000. Accordingly, the Board is of the view that the performance of Huali Micro during the financial year of 2023 has been in line with its expectations.

QST was founded in September 2012 and has a robust IP portfolio, with over 83 patents issued. QST is a leading sensor platform company engaged in the development and marketing of Innovative MEMS sensors and solutions to simplify advanced perception, measurement, and control in consumer, automotive, and industrial applications.

During the financial year of 2023, the book value of the Company's equity investment in QST increased by US\$930,000, including an increase of US\$969,000 in the fair value and a foreign currency statement loss of around US\$40,000. As the business of QST is still in its early development stage, the Board is of the view that the performance and strategic planning of QST during 2023 have been consistent with its expectations.

Shanghai Awinic, founded in June 2008, is a high-tech company focusing on high-quality and high-performance IC design of mixed signal, analog, and RF for mobile phone, AI, Internet of Things, automotive electronics, wearables, and consumer electronics. Shanghai Awinic is a listed company on the STAR Market of the Shanghai Stock Exchange.

During the financial year of 2023, the book value of the Company's equity investment in Shanghai Awinic decreased by US\$13,000, including an increase of US\$28,000 in the fair value and a foreign currency statement loss of around US\$41,000. The Board is of the view that the performance of Shanghai Awinic during the financial year of 2023 has been in line with its expectation.

The Company confirms that it has complied with the accounting policy of investments and other financial assets (policies under HKFRS 9, applicable since 1 January 2018) as contained in the annual report of the Company for the year ended 31 December 2023.

The Company expects the future prospects of the aforementioned investments to be largely in line with that over the past year. No significant changes in investment strategy or source of funding are expected for the coming year.

### Annual General Meeting

The AGM will be held on Thursday, 9 May 2024.

### 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 3 May 2024
Closure of register of members	6 May 2024 to 9 May 2024 (both dates inclusive)
Record date	9 May 2024

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.

#### For determining entitlement of Shareholders to the proposed final dividend

Latest time to lodge transfer documents for registration	4:30 p.m. on 4 June 2024
Closure of Register of members	5 June to 6 June 2024 (both dates inclusive)
Record date	6 June 2024
Payable date	26 June 2024

## DIRECTORS' REPORT

For the purpose of ascertaining the Shareholders' entitlement to the proposed Final Dividend, the register of members of the Company will be closed from 5 June to 6 June 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed Final Dividend, unregistered holders of Shares should ensure all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on 4 June 2024.

### Directors and Directors' Service Contracts

The Directors of the Company during the year and as of the date of this report were:

#### **Executive Directors:**

Mr. Suxin Zhang (*Chairman*)  
Mr. Junjun Tang (*President*)

#### **Non-Executive Directors:**

Mr. Jun Ye  
Mr. Guodong Sun  
Mr. Limin Zhou (*appointed on 19 January 2024*)  
Ms. Chengyan Xiong (*appointed on 28 March 2024*)  
Ms. Jing Wang (*resigned on 1 September 2023*)

#### **Independent Non-Executive Directors:**

Mr. Stephen Tso Tung Chang  
Mr. Kwai Huen Wong, JP  
Mr. Songling Feng (*appointed on 28 March 2024*)  
Mr. Long Fei Ye (*resigned on 28 March 2024*)

Each of the Directors of the Company is appointed for a specific term of three years and is subject to re-nomination and re-election by the Company in general meetings, unless his/her appointment has been early terminated in accordance with the terms and conditions of the relevant letter of appointment or director's service contract.

Mr. Suxin Zhang, Mr. Junjun Tang and Mr. Kwai Huen Wong, JP will retire by rotation from office as Directors at the Annual General Meeting in accordance with articles 117 to 118 of the Articles. Mr. Limin Zhou, Mr. Songlin Feng and Ms. Chengyan Xiong appointed by the Board as a Non-Executive Director, Independent Non-Executive Director and Non-Executive Director of the Company on 19 January 2024, 28 March 2024 and 28 March 2024, respectively, will retire at the Annual General Meeting in accordance with article 122 of the Articles. Mr. Suxin Zhang, Mr. Junjun Tang, Mr. Kwai Huen Wong, JP, Mr. Limin Zhou, Mr. Songlin Feng and Ms. Chengyan Xiong, being eligible, will offer themselves for re-election pursuant to the Articles.

None of the Directors proposed for re-election at the general meeting has a service contract which is terminable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation of independence from each of the existing Independent Non – Executive Directors and Mr. Long Fei Ye in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the aforesaid current and former Independent Non-Executive Directors are independent in accordance with the Listing Rules.

### Profiles of Directors and Senior Management

Profiles of Directors and Senior Management of the Company are set out on pages 13 to 21 of this report.

## DIRECTORS' REPORT

### Remuneration of the Highest Paid Individuals and Directors and Senior Management

Details of the remuneration of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements in this annual report, respectively.

### Interests of the Directors and the Chief Executive in Shares and Underlying Shares of the Company

As at 31 December 2023, save as disclosed below, none of the Directors or the Chief Executive of the Company had any interests or short positions in the shares, underlying shares, or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), as recorded in the register kept under section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Name of Director	Capacity	Number of underlying shares held in long position <sup>(1)</sup>	Approximate percentage of interests
Mr. Junjun Tang	Beneficial owner	448,500	0.03%

*Note:*

(1) Long position in (a) 437,500 underlying shares of the Company under share options granted pursuant to the Share Option Scheme and (b) 11,000 RMB Shares he held.

### Interests of Directors in a Competing Business

During the year, none of the Directors of the Group had any interests in a business which competes, either directly or indirectly, with the business of the Company or the Group.

### Interests of Directors in Transactions, Arrangements or Contracts of Significance

On 18 January 2023, Hua Hong Manufacturing and Hua Hong Wuxi entered into a land transfer agreement (the "Land Transfer Agreement"), pursuant to which Hua Hong Wuxi conditionally agreed to transfer and the Hua Hong Manufacturing conditionally agreed to purchase several plots of land located in Wuxi, Jiangsu for a total consideration of RMB170,100,450. Since (i) Hua Hong Wuxi was owned by China IC Fund as to 20.58% as at the date of the Land Transfer Agreement, and was the transferor under the Land Transfer Agreement, (ii) Sino IC Capital was the fund manager of China IC Fund, and (iii) Mr. Guodong Sun, a non-executive Director of the Company, was the managing director of Sino IC Capital, to avoid potential conflict of interest, Mr. Guodong Sun abstained from voting at the Board meeting authorising the entering into of the Land Transfer Agreement. Please refer to the section headed "Continuing Connected Transactions and Connected Transactions – Connected Transactions – Land Transfer Agreement" for further details of the Land Transfer Agreement.

Save as disclosed above, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries or associates was a party and in which a Director or an entity connected with a Director has or had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2023 or at any time during the year.

### Directors' Securities Transactions

The Company has devised its own code of conduct regarding Directors dealing in the Company's securities (the "Company Code") on terms no less exacting than the Model Code. Specific enquiry has been made to all the Directors, and the Directors have confirmed that they have complied with the Company Code and the Model Code throughout 2023.

## DIRECTORS' REPORT

### Indemnity and Insurance

The Company provides directors and officers liabilities (D&O) insurance for the Directors and Officers. The D&O insurance covers day-to-day management liability and is renewed every year.

### Director(s) of the Subsidiaries

The names of Directors who have served on the boards of the Company's subsidiaries during the year ended 31 December 2023, or during the period from the end of the year 2023 to the date of this report, were as follows:

<b>Name of the Subsidiary</b>	<b>Place of Incorporation</b>	<b>Name of the Director(s)</b>
Grace Cayman	Cayman Islands	Mr. Suxin Zhang Mr. Jun Ye
HHGrace	Shanghai, PRC	Mr. Suxin Zhang Mr. Junjun Tang Ms. Jing Wang <sup>1</sup> Mr. Yuchuan Ma Mr. Takayuki Morita Mr. Jun Ye Mr. Stephen Tso Tung Chang Mr. Kwai Huen Wong, JP Mr. Long Fei Ye Mr. Limin Zhou <sup>2</sup>
Hua Hong Wuxi	Wuxi, PRC	Mr. Suxin Zhang Mr. Jun Wei Mr. Junjun Tang Mr. Guodong Sun Ms. Jing Wang <sup>3</sup> Ms. Qi Chen <sup>4</sup> Mr. Xin Jin Mr. Xiaoming Zhu <sup>5</sup> Mr. Weihua Wu <sup>6</sup> Mr. Limin Zhou <sup>7</sup>
Huahong Real Estate (Wuxi) Co., Ltd.	Wuxi, PRC	Mr. Weiping Zhou
Hua Hong Manufacturing	Wuxi, PRC	Mr. Suxin Zhang Mr. Jun Wei <sup>8</sup> Mr. Junjun Tang <sup>8</sup> Mr. Guodong Sun <sup>8</sup> Mr. Xin Jin <sup>8</sup> Mr. Weihua Wu <sup>8</sup> Mr. Limin Zhou <sup>8</sup> Ms. Jing Wang <sup>9</sup> Ms. Qi Chen <sup>10</sup>
Global Synergy Technology Limited	Hong Kong, PRC	Mr. Daniel Yu-Cheng Wang Mr. Cheng Fu
HHGrace Semiconductor USA, Inc.	CA, USA	Mr. Daniel Yu-Cheng Wang Mr. Cheng Fu
HHGrace Semiconductor Japan Co., Ltd.	Tokyo, Japan	Ms. Maki Nakamura Mr. Daniel Yu-Cheng Wang Mr. Cheng Fu

## DIRECTORS' REPORT

### Notes:

- (1) Ms. Jing Wang's resignation as a director of HHGrace was registered with the relevant market supervision and management authority on 29 December 2023.
- (2) Mr. Limin Zhou's appointment as a director of HHGrace was registered with the relevant market supervision and management authority on 31 January 2024.
- (3) Ms. Jing Wang's resignation as a director of Hua Hong Wuxi was registered with the relevant market supervision and management authority on 2 November 2023.
- (4) Ms. Qi Chen's appointment as a director of Hua Hong Wuxi was registered with the relevant market supervision and management authority on 13 January 2023. Ms. Qi Chen's resignation as a director of Hua Hong Wuxi was registered with the relevant market supervision and management authority on 2 November 2023.
- (5) Mr. Xiaoming Zhu's resignation as a director of Hua Hong Wuxi was registered with the relevant market supervision and management authority on 13 January 2023.
- (6) Mr. Weihua Wu's appointment as a director of Hua Hong Wuxi was registered with the relevant market supervision and management authority on 2 November 2023.
- (7) Mr. Limin Zhou's appointment as a director of Hua Hong Wuxi was registered with the relevant market supervision and management authority on 2 November 2023.
- (8) The appointment of each of Mr. Jun Wei, Mr. Junjun Tang, Mr. Guodong Sun, Mr. Xin Jin, Mr. Weihua Wu, and Mr. Limin Zhou as a director of Hua Hong Manufacturing was registered with the relevant market supervision and management authority on 8 November 2023.
- (9) Ms. Jing Wang's resignation as a director of Hua Hong Manufacturing was registered with the relevant market supervision and management authority on 8 November 2023.
- (10) Ms. Qi Chen's resignation as a director of Hua Hong Manufacturing was registered with the relevant market supervision and management authority on 8 November 2023.

### Interests of Substantial Shareholders and Other Persons in the Shares and Underlying Shares of the Company

As at 31 December 2023, persons other than a Director or Chief Executive of the Company, having interests of 5% or more or short positions in the shares and underlying shares of the Group, were as follows:

Substantial shareholders	Capacity and nature of interest	Number of shares held	Approximate percentage of aggregate interests in issued share capital*
Shanghai Hua Hong International, Inc. ("Hua Hong International") <sup>(2)</sup>	Legal and beneficial owner	347,605,650 <sup>(1)</sup>	20.25%
Huahong Group <sup>(2)</sup>	Interest in a controlled corporation	347,605,650 <sup>(1)</sup>	20.25%
Sino-Alliance International, Ltd. ("Sino-Alliance International")	Legal and beneficial owner	160,545,541 <sup>(1)(3)</sup>	9.35%
Sino-Alliance International	Interest in a controlled corporation	28,415,606 <sup>(1)</sup>	1.66%
SAIL	Interest in a controlled corporation	188,961,147 <sup>(1)(4)</sup>	11.01%
Xinxin (Hong Kong) Capital Co., Limited	Legal and beneficial owner	178,705,925 <sup>(1)</sup>	10.41%
Xun Xin (Shanghai) Investment Co., Ltd.	Interest in a controlled corporation	178,705,925 <sup>(1)</sup>	10.41%
China IC Fund	Interest in a controlled corporation	178,705,925 <sup>(1)</sup>	10.41%

### Notes:

- (1) Long positions in the shares of the Company.
- (2) Hua Hong International is a wholly-owned subsidiary of Huahong Group.
- (3) Including 3,084 shares held in escrow by Sino-Alliance International pursuant to an escrow arrangement.
- (4) SAIL indirectly held interests in the Company through two wholly-owned subsidiaries, including Sino-Alliance International.

\* The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2023, i.e., 1,716,588,694 shares.

## DIRECTORS' REPORT

Save as disclosed above, so far as is known to any of the Directors and the Chief Executive of the Company, as at 31 December 2023, no other person or corporation other than a Director or Chief Executive of the Company had any interests or short positions in any shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### **Arrangements to Purchase Shares or Debentures**

At no time during the year ended 31 December 2023 were rights to acquire benefits by means of an acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them, or was the Company or any of its holding companies, subsidiaries, or fellow subsidiaries, a party to any arrangements to enable the Directors or their respective spouses or minor children to acquire such rights in any other body corporate.

### **Major Customers and Suppliers**

For the year ended 31 December 2023, the purchases attributable to the Group's top five suppliers combined were less than 30% of total purchases, and the turnover attributable to the Group's top five customers combined was less than 30% of total turnover.

### **Emolument Policy**

As at 31 December 2023, the Group had a total of 6,863 employees. The Group recruits and promotes individuals based on their merit and development potential. The emolument policy for employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications, and competence.

The emoluments of the Directors are determined by the Remuneration Committee, having regard to the Group's operating results and individual performance. The emoluments of the Directors on a named basis are set out in note 8 to the financial statements for the year ended 31 December 2023.

### **Purchase, Sale or Redemption of Securities**

For the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Right of First Refusal**

There are no provisions for right of first refusal under the Articles, or the laws of Hong Kong, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### **Corporate Governance**

The Company is committed to maintaining a high standard of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report in this annual report.

### **Compliance with the Relevant Laws and Regulations**

As far as the Board is aware, the Company has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

## DIRECTORS' REPORT

### Environmental and Social Responsibilities

The Company firmly believes that robust and effective environmental, social, and governance (ESG) management is the foundation for sustainable and high-quality development. The concept of ESG has been deeply integrated into the Company's strategy, management, and long-term development goal and has been involved in the entire process of our business operations, so as to drive continuous business growth and create and share value for all stakeholders.

In 2023, the Company systematically advanced various ESG management goals and monitored their progress. It actively carried out ESG-related initiatives and achieved outstanding results, including special technical transformation related to safety and environmental protection, safeguarding employee rights and interests and production safety, deepening product research and development and innovation, establishing responsible supply chains, and strengthening risk compliance and control. During the reporting period, the Company passed the social responsibility audit certification by EcoVadis, a global corporate social responsibility (CSR) assessment agency, and received a bronze medal.

### Compliance with the Deed of Non-Competition and the Deed of Right of First Refusal

Huahong Group, SAIL, and INESA, being the then controlling shareholders of the Company, entered into a deed of non-competition (the "Deed of Non-Competition") dated 23 September 2014, details of which have been set out in the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with Controlling Shareholders" of the Company's prospectus dated 3 October 2014 (the "Prospectus"). In addition, Huahong Group and SAIL also entered into a deed of right of first refusal (the "Deed of Right of First Refusal") dated 10 June 2014, details of which have been set out in the paragraph headed "Right of First Refusal" in the section headed "Relationship with Controlling Shareholders" of the Prospectus. The Company has reviewed the written declaration from each of the controlling shareholders mentioned above on their compliance with their undertakings under the Deed of Non-Competition and the Deed of Right of First Refusal (as the case may be) for the year ended 31 December 2023. The Independent Non-Executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition and the Deed of Right of First Refusal (as the case may be) have been complied with by the relevant parties.

## DIRECTORS' REPORT

### Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Directors are satisfied that the Company has maintained the prescribed minimum public float under the Listing Rules.

### Auditors

A resolution will be submitted at the AGM to re-appoint Ernst & Young as auditors of the Company.

On behalf of the Board

**Mr. Suxin Zhang**

*Chairman*

28 March 2024

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Management Statement of the Board

The Company adheres to the entrepreneurial spirit of “set a course mastering the challenges ahead” and promotes the “Hua Hong 520 Spirit” of “showing loyalty to and love for the motherland, always keeping the promise, being diligent and dedicated, and always fulfilling the mission”. By embracing the concept of “openness, innovation, and cooperation” and driven by “bravery, perseverance, and unity”, we have strengthened business operations and development, advanced production expansion, perfected the innovation system, and enhanced technological capabilities, thereby achieving stable and coordinated operation and sustainable development.

The Company firmly believes that Environmental, Social, and Governance (ESG) management has laid the foundation for sustainable and high-quality development. We have crafted ESG management objectives for 2030, focusing on water resource management, energy use management, greenhouse gas emissions management, waste emission management, and sustainable supply chain management. In identifying, assessing, and managing ESG issues, the Company takes into consideration its development strategy and external policy trends. In 2023, we added “corporate governance”, “environmental management”, and “intellectual property protection” as new issues and upgraded the “anti-corruption” issue to “business ethics issue” as well as the “emissions management” issue to the “emissions and waste management” issue. These adjustments better address concerns of stakeholders and ensure effectiveness of the Company’s ESG management strategies and measures. In 2023, the Company passed corporate social responsibility (CSR) audit certification by the global corporate social responsibility (CSR) assessment agency Eco Vadis, covering labor, environmental management, business ethics, and sustainable procurement and received a bronze medal.

The management and practical progress of ESG issues in this report were considered and approved at the third meeting of the Board of Directors of the Company held in 28 March 2024.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1 ESG Management System

### 1.1 ESG Management Structure

Based on the corporate vision of "Continuous Innovation and Empowering the Future for Global Customers", the Company established a top-down environmental, social, and governance (ESG) management structure, continues to improve the ESG management system, encourages innovation-driven development, fosters innovative talents, and strives to reduce the impact of business operation on the environment. We also make efforts to diversify the supply chain capabilities and promote the joint creation of corporate business and social values.

The Board, as the highest decision-making/management body for the Company's ESG management, is responsible for the following aspects:

- a) to direct the formulation of ESG management policies and strategies of the Company and ensure that they are up to date, relevant, and in compliance with applicable legal and regulatory requirements;
- b) to direct the identification and determination of the importance of significant ESG issues of the Company;
- c) to supervise the setting and implementation of the Company's ESG goals, including: setting ESG management performance goals of the Company; monitoring progress in achieving the goals; and advising on actions required to achieve the goals;
- d) to review and approve the Company's annual Environmental, Social, and Governance Report and other ESG related disclosures.

The management level will be responsible for supervising the overall implementation according to the formulated ESG targets, and the ESG working group assists in development and implementation of ESG management and regularly reports to the Board on the progress of ESG key performance indicators, so as to promote the realization of the Company's ESG management targets.



# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1.2 ESG management strategies and targets

The Company has integrated ESG management into its products, business operations, and corporate development and formed a complete ESG management strategy covering the four aspects of "Responsibility for Employees", "Responsibility for the Industry", "Responsibility for People's Livelihood", and "Responsibility for Investors".



# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company has set ESG management targets for water use efficiency, energy use efficiency, GHG emissions, waste reduction, and conflict mineral due diligence, based on the development of its business and its ESG performance in operations. On an annual basis, the Board of Directors reviews ESG performance and achievement of the Company's ESG goals for the previous year and discloses the results in the ESG report, so as to promote the achievement of ESG management targets.

## ESG Management Targets and Progress in 2023

Aspect	Target	Progress in 2023
<b>Water resources management</b>	The water consumed per unit product (m <sup>3</sup> per 8-inch wafer) in 2030 will decrease by <b>12%</b> as compared with 2015	The water consumed per unit product in 2023 was <b>2.83</b> m <sup>3</sup> per 8-inch wafer, decreasing by <b>11%</b> as compared with 2015
<b>Energy consumption management</b>	Comprehensive energy consumption per unit product (MWh per 8-inch wafer) in 2030 will decrease by <b>7%</b> as compared with 2015	Comprehensive energy consumption per unit product in 2023 was <b>0.30</b> MWh per 8-inch wafer, decreasing by <b>21%</b> as compared with 2015
<b>GHG emissions management</b>	GHG emissions per unit product (tCO <sub>2</sub> e per 8-inch wafer) in 2030 will decrease by <b>12%</b> as compared with 2015	GHG emissions per unit product in 2023 was <b>0.14</b> tCO <sub>2</sub> e per 8-inch wafer, remaining basically flat as compared with 2022
<b>Waste discharge management</b>	Under the philosophy of lean manufacturing management, the Company will take reduction measures to continuously reduce hazardous waste produced per unit product and non-hazardous waste produced per unit product	<ul style="list-style-type: none"> <li>Under the philosophy of lean manufacturing management, the Company continuously reduced generation of hazardous waste</li> <li>The non-hazardous waste produced per unit product in 2023 was <b>2.36</b> kg per 8-inch wafer, remaining flat as compared with 2022</li> <li>100% compliance on wastewater discharge in 2023</li> </ul>
<b>Wastewater Discharge Management</b>	100% compliance on discharge	
<b>Air Emission Discharge Management</b>	100% compliance on discharge	<ul style="list-style-type: none"> <li>100% compliance on air emission discharge in 2023</li> </ul>
<b>Sustainable supply chain management</b>	The due diligence rate on suppliers of conflict minerals will reach 100%, and the utilization rate of compliant minerals will reach 100%	<ul style="list-style-type: none"> <li>Have conducted due diligence on suppliers of “conflict minerals”, with a coverage rate of <b>100%</b>, and completed the latest version of the investigation report on conflict minerals and extended minerals</li> <li>According to due diligence, all suppliers are found to use compliant raw materials with the utilization rate of compliant minerals up to <b>100%</b></li> </ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Social Recognitions in 2023

No.	Honors
	<b>Global</b>
1	EcoVadis Bronze Medal
	<b>National</b>
2	2022 Outstanding Intelligent Manufacturing Scene
3	2023 National Worker Pioneer
4	The 15th China Semiconductor Innovation Products and Technology
	<b>Shanghai</b>
5	First Prize in Shanghai Science and Technology Award
6	Water Efficiency Leader of Key Water-Using Enterprises in Shanghai
7	2022 Top 20 Enterprises with Corporate Social Responsibility Reports in Shanghai
8	100 Smart Factories in Shanghai
9	2023 Top 100 Innovative High-Tech Enterprises in Shanghai
10	Shanghai Outstanding Invention Gold Award
11	Shanghai Model Unit for Open and Democratic Factory Affairs Management
12	Shanghai Women's Civilization Post
13	Shanghai Worker Pioneer
14	Shanghai Model Worker's Small Home
15	Second Prize in Shanghai Industrial Water Reuse Outstanding Cases
	<b>Jiangsu</b>
16	Wuxi Model Unit for Happy Enterprise Construction
17	Wuxi City Model Worker's Home

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1.3 Involvement of Stakeholders

Based on the business and operational characteristics of our Company and leveraging the experience and practices in industry at home and abroad, Hua Hong Semiconductor has determined the following to be our stakeholders: our shareholders and senior management, customers, employees, government agencies and regulators, partners, communities, and the public and actively communicates with all of these stakeholders via various channels and methods, including websites, media, meetings, reports, and social activities.

### Communications and Issues of Concern of Stakeholders

Key stakeholders	Description	Issues concerned	Communications and responses
Shareholders and senior management	Domestic and foreign investors holding equity and debt investments in our Company, and senior management members of the Company	<ul style="list-style-type: none"> <li>Compliant operation</li> <li>Corporate governance</li> <li>Risk management</li> <li>Business ethics</li> <li>Customer relationship management</li> <li>Water resource management</li> <li>Product quality and safety</li> <li>R&amp;D innovation</li> </ul>	<ul style="list-style-type: none"> <li>Regular reviews of laws and regulations are conducted, the outcomes of which are used for revising management systems to ensure operational compliance</li> <li>Publication of financial and performance reports, communication with investors through the Shanghai Stock Exchange e-interaction platform, emails, and roadshows</li> <li>Robust risk management system</li> <li>Improvement in anti-corruption management mechanisms</li> <li>Conducting customer satisfaction surveys</li> <li>The WRI Water Risk Atlas is used to assess water risk levels and develop a comprehensive water resource management system</li> <li>Implementation of product quality and safety management measures</li> <li>Organization of technical seminars and industry exchange meetings</li> </ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

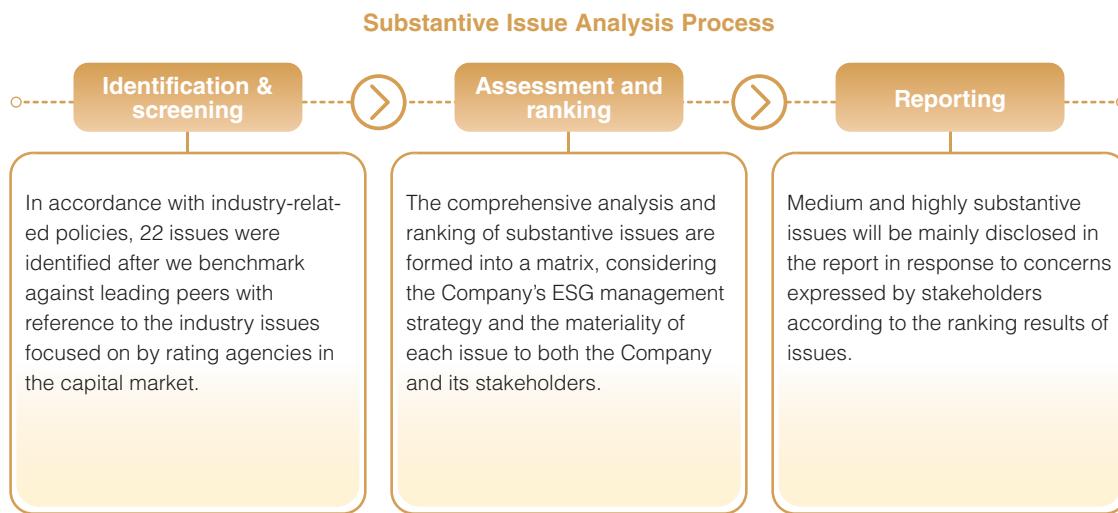
Key stakeholders	Description	Issues concerned	Communications and responses
Customers	IDMs and fabless semiconductor companies	<ul style="list-style-type: none"> <li>• Data security and privacy protection</li> <li>• Product quality and safety</li> <li>• Customer relationship management</li> <li>• R&amp;D innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of information security and privacy protection policies</li> <li>• Implementation of product quality and safety management measures</li> <li>• Conducting customer surveys</li> <li>• Organization of technical seminars and industry exchange meetings</li> </ul>
Employees	Our employees and contract personnel who serve our Company on a continuous basis	<ul style="list-style-type: none"> <li>• Employee interests and welfare</li> <li>• Employee health and safety</li> <li>• Employee development and training</li> </ul>	<ul style="list-style-type: none"> <li>• Formulation of an employee handbook</li> <li>• Establishment of a platform for talent development and learning sharing</li> <li>• Organization of safety production training and health checkups</li> <li>• Diversification of the employee training system</li> </ul>
Government and regulators	Manufacturing, tax, environmental protection security and other departments, local governments, SFC and other governmental or regulatory authorities	<ul style="list-style-type: none"> <li>• Compliant operation</li> <li>• Green products</li> <li>• Emissions management and waste management</li> <li>• Energy management</li> <li>• Climate change mitigation and adaptation</li> </ul>	<ul style="list-style-type: none"> <li>• Robust internal control and compliance system</li> <li>• Green production</li> <li>• Research and development of low-carbon and energy-efficient products</li> <li>• Emissions and waste are properly managed through recycling and other methods</li> <li>• Collaboration with institutional inspections</li> <li>• Organization of energy-saving and carbon reduction initiatives</li> </ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

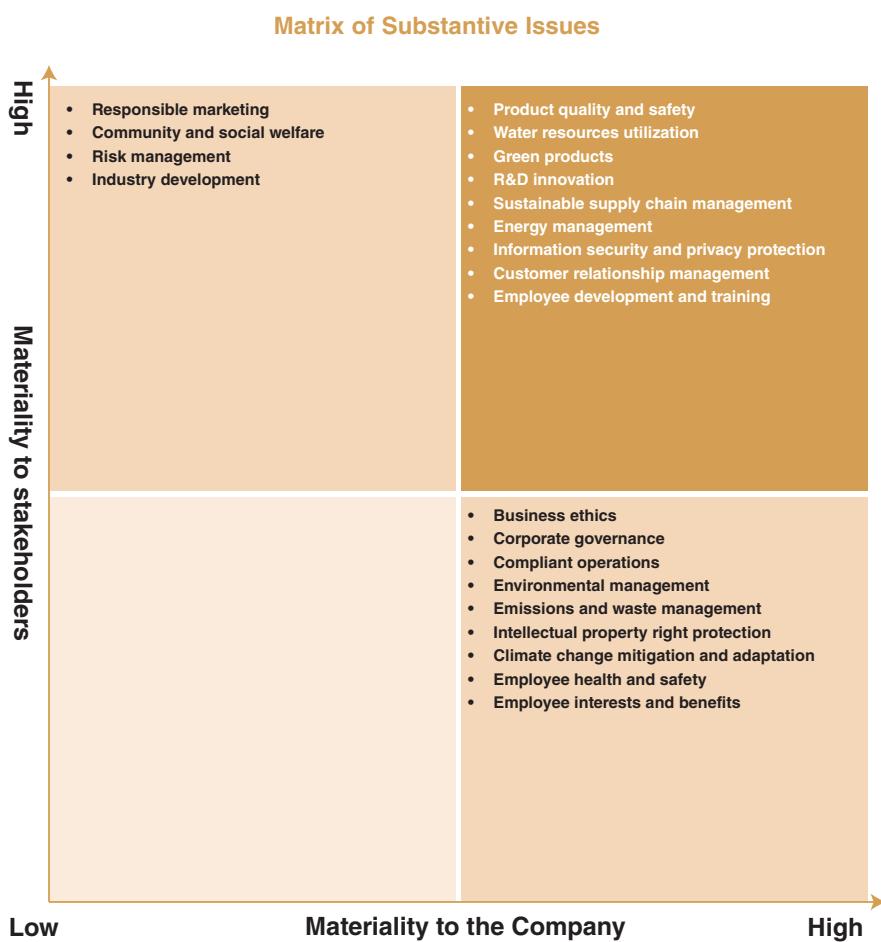
Key stakeholders	Description	Issues concerned	Communications and responses
Partners	Suppliers, research institutions, industry associations, etc.	<ul style="list-style-type: none"> <li>Industry development</li> <li>Product quality and safety</li> <li>R&amp;D innovation</li> <li>Sustainable supply chain management</li> </ul>	<ul style="list-style-type: none"> <li>Active participation in industry exchanges</li> <li>Optimization of product quality management</li> <li>More investments in research and development</li> <li>Promotion of responsible sourcing</li> </ul>
Communities and the public	Communities in which we operate, the public and media, etc.	<ul style="list-style-type: none"> <li>Community and public benefit</li> </ul>	<ul style="list-style-type: none"> <li>Engagement in Community activities, employee volunteer activities, public welfare activities, social cause campaigns, etc.</li> </ul>

## 1.4 Identification and Analysis of Substantive Issues

The identification and analysis of substantive ESG issues represent a crucial element in ESG management. The Company has developed a comprehensive process for identifying and analyzing material issues, whereby regularly carrying out identification and screening work. In light of our ESG management strategy and business development, the Company, together with the Board of Directors and the ESG Working Group, evaluates and ranks identified substantive issues in collaboration with external experts from two dimensions: materiality to the Company; and materiality to stakeholders. In 2023, the Company identified 22 substantive issues, of which 9 were of high substantive significance to both the Company and its stakeholders.



# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Descriptions on Adjustment of Issues in 2023

Issues for 2022	Issues for 2023	Explanation	Descriptions on Adjustment
—	Environmental management	In accordance with laws, regulations, and its own business nature, the Company has established a systematic management system and adopted scientific management methodologies to minimize the environmental impacts caused by its activities, aiming to achieve environmental protection.	A new issue, which better responds to stakeholders' concerns and is more in line with the Company's actual conditions.
—	Intellectual property right protection	The Company's administrative system, measures, and results pertaining to protection of its own intellectual property rights and non-infringement on others' intellectual property rights.	A new issue, which better responds to stakeholders' concerns and is more in line with the Company's actual conditions.
Anti-corruption	Business ethics	The Company's business ethics management system includes the establishment of systems and training related to anti-corruption and anti-bribery, as well as practices to regulate conduct of unfair competition, anti-trust, or anti-monopoly.	The description is adjusted to broaden the scope of issue management, including business ethics and anti-unfair competition management, which better responds to stakeholders' concerns and is more in line with the Company's actual conditions.
—	Corporate governance	The Company has established an effective governance structure to promote diversity and independence within the Board, ensuring the Company's compliant operations, as well as scientific, standardized, and transparent corporate governance.	A new issue, which better responds to stakeholders' concerns.
Emissions management	Emissions and waste management	The Company's management system and measures for the classification and treatment of wastewater, air emissions, and hazardous and non-hazardous waste, as well as reduction in discharge of wastewater, air emissions, and hazardous and non-hazardous waste, including management methods and emission data.	The description is adjusted to broaden the scope of issue management, including emissions and waste management, which better responds to stakeholders' concerns and is more in line with the Company's actual conditions.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2 Environmental Responsibilities

### Main Progress in 2023

Measures	Achievements
Technical transformation related to safety and environmental protection	A total of 46 special technical transformation projects related to safety and environmental protection An investment of RMB111.96 million in safety and environmental protection and technological transformation
Development of energy-efficient projects	The preparation of energy audit reports and clean production audit reports completed Development of 21 energy-efficient projects

### 2.1 Environmental Management System

#### Environmental Management

The Company adheres to the philosophy of environmental friendliness and sustainable development, strictly abides by the Environmental Protection Law of the People's Republic of China and other laws and regulations, and has formulated administrative systems, including the Resource and Energy Management Procedure, the Management Regulations for Water, Electricity, Steam, and Gas Metering, the Exhaust Gas Emission Management Policy, and the Waste Management Procedure. Furthermore, the Company is actively developing a number of environmental management measures, and continues to optimize environmental management procedures covering the whole life cycle, thereby improving its environmental management system.

Hua Hong Semiconductor's production and manufacturing fabs include the Shanghai Production Base<sup>1</sup> and the Wuxi production base<sup>2</sup>.

#### Hua Hong Semiconductor Environmental Management System

<b>Management Structure</b>	<ul style="list-style-type: none"> <li>The management team is responsible for overseeing and managing environmental tasks</li> <li>The EHS department is responsible for executing environmental management projects, and delivering regular reports on the project progress to the management</li> </ul>
<b>Scope of Management</b>	<ul style="list-style-type: none"> <li>Environmental management including energy management, resource management, and emissions and waste management</li> </ul>
<b>Management System</b>	<ul style="list-style-type: none"> <li>Regulations such as Resource and Energy Management Procedure, Management Regulations for Water, Electricity, Steam, and Gas Metering; Operating Norms for Industrial Waste Management; and Standard Operating Procedures for Industrial Water Supply System</li> </ul>
<b>Management Measures</b>	<ul style="list-style-type: none"> <li>Relevant environmental management systems are revised according to laws and regulations to regulate environmental management procedures</li> <li>Regular identification and assessment are performed over environmental risks at production bases and environmental protection and technical transformation projects are carried out, thereby reducing the environmental impacts of operation and production activities</li> <li>Certification of environmental management systems is performed to actively improve our environmental management capabilities</li> </ul>

1 The Shanghai production base includes Fab 1, Fab 2, and Fab 3.

2 The Wuxi production base includes Fab 7 and Fab 9 (under construction).

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company's EHS Department is responsible for coordinating its environmental management system, including formulation of management regulations, performance analysis and evaluation with respect to energy and resource use, emissions management, etc. It also assists external agencies in the audit and testing of the Company's environmental management system. Furthermore, the Company uses safety management auditing and tracking system to analyze, sort out, and list the nonconforming items against environmental protection regulations found in daily management, then follow up and record subsequent rectifications through the regular reminder function of the system.

In 2023, the Company invested RMB111.96 million in 46 safety, environmental protection, and technical transformation projects, as part of our continuing commitments to improving environmental management facilities. All plant facilities under the Company have passed ISO 14001 system certification. During the Reporting Period, no Company violation against environmental laws and regulations occurred. During the Reporting Period, the Company fully paid relevant taxes with respect to environmental protection. In the meantime, the Company experienced no incident in violation of the relevant law and regulations with respect to environmental protection.

## Certification in Relation to Environmental Management of Hua Hong Semiconductor

Certified Entity	Certification Name	Validity of Certification
Hua Hong Shanghai Production Base	ISO 14001: 2015 Environmental Management System	18 April 2024
Hua Hong Wuxi Production Base	ISO 14001: 2015 Environmental Management System	18 April 2024

### Green Culture

The Company continuously promotes the environmental protection concept, regularly holds environmental management sharing sessions, and organizes each production plant to share excellent environmental management cases and measures at sharing sessions, so as to strengthen employees' awareness of environmental protection and the economical use of office resources and energy.

## Practice in Green Culture

<b>Saving paper around the office</b>	<ul style="list-style-type: none"> <li>Implementing office informatization to reduce paper consumption.</li> <li>Making efforts to promote the use of recycled paper, including for printing business cards of employees, to support recycling.</li> </ul>
<b>Saving electricity</b>	<ul style="list-style-type: none"> <li>Turning off the power supply when leaving work or for a long time absence.</li> <li>Reasonably setting air conditioning temperature above 26°C in summer and below 20°C in winter.</li> </ul>
<b>Saving water</b>	<ul style="list-style-type: none"> <li>Developing employees' awareness of saving water and posting water saving tips.</li> </ul>
<b>Waste disposal</b>	<ul style="list-style-type: none"> <li>Classifying domestic waste in each factory into 4 categories, namely dry, wet, recyclable, and harmful waste and putting up posters for waste classification to raise employees' awareness.</li> </ul>
<b>Commuting</b>	<ul style="list-style-type: none"> <li>Encouraging employees to commute by public transport.</li> <li>Using new energy vehicles as shuttle buses for the Company.</li> </ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.2 Energy Management

Types of energy consumed by the Company are mainly electric power, heat, natural gas, gasoline, and diesel. The production operations of the Company have no significant impact on the environment and natural energy resources. The Company strictly complies with the Energy Conservation Law of the People's Republic of China and other laws, regulations, and relevant provisions; sets energy conservation management goals; and formulates energy management systems. The Company continues to optimize and improve its energy management system, constantly enhancing energy efficiency by carrying out various energy-saving technical transformation projects and by using energy-saving equipment.

### Energy Management System

Philosophy	<ul style="list-style-type: none"><li>Carrying out source control and continuous improvement while satisfying and improving productivity and reducing the impact on the environment while reducing production costs.</li></ul>
Goal	<ul style="list-style-type: none"><li>By 2030, the Company's comprehensive energy consumption per unit product will decrease by 7% compared with 2015.</li></ul>
Policy	<ul style="list-style-type: none"><li>Resource and Energy Management Procedure</li><li>Management Regulations for Water, Electricity, Steam, and Gas Metering</li></ul>
Measures	<ul style="list-style-type: none"><li>Carrying out technical transformation for energy-saving.</li><li>Regularly engaging third-party agencies to conduct energy audits of the Company.</li><li>Organizing energy-saving publicity, implementation activities, and post energy-saving signs.</li></ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To ensure the stable supply of electricity and smooth production, the Company developed the Administrative Rules for Electricity Safety, the Emergency Response Plan for Anomalies in External Power Supply, the On-site Treatment Plan of the Power Department for Power Cut, and the Emergency Plan for Power Circuit Breaker Tripping and carried out emergency plan training and emergency drills in fabs on a regular basis. The power supply is secured through daily inspection, special system investigation, and emergency drills.

In 2023, by continuing to respond to the “One Percent” Energy Conservation and Carbon Reduction Initiative in Shanghai Industrial and Communication Industry, all factories at the Shanghai Production Base executed 15 energy-saving projects and completed preparation of energy audit reports and clean production audit reports, reinforcing the outcomes of the “energy conservation project plan of 3,000 tons of standard coal”.

## Energy Saving Work and Achievements in 2023

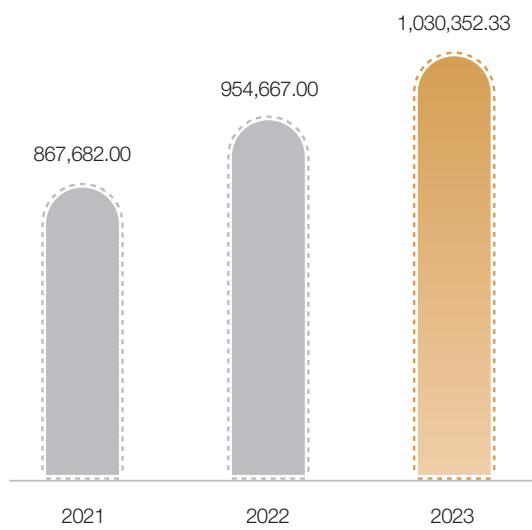
Fabs	Measures	Annual Reduction in Energy Consumption
<b>Fab 1</b>	<ul style="list-style-type: none"> <li>Undertaking high-efficiency refrigeration unit renovation projects, replacing old refrigeration units to improve energy efficiency</li> <li>Utilizing energy-efficient LED lighting</li> <li>Renovating the high-pressure pumps in the pure water system</li> </ul>	<ul style="list-style-type: none"> <li>Saved a total of approximately 800,000 kWh of electricity in 2023</li> <li>Saved a total of approximately 30,000 kWh of electricity in 2023</li> <li>Saved a total of approximately 100,000 kWh of electricity in 2023</li> </ul>
<b>Fab 2</b>	<ul style="list-style-type: none"> <li>Replacing the refrigeration unit for the refrigeration system to improve energy efficiency</li> <li>Completing heat recovery renovations for chilled water in the refrigeration unit</li> </ul>	<ul style="list-style-type: none"> <li>Saved a total of approximately 3.144 million kWh of electricity in 2023</li> <li>Saved a total of approximately 188,000 cubic meters of natural gas in 2023</li> </ul>
<b>Fab 3</b>	<ul style="list-style-type: none"> <li>Undertaking energy-efficient renovations for high-efficiency refrigeration units</li> </ul>	<ul style="list-style-type: none"> <li>Saved a total of approximately 2 million kWh of electricity in 2023</li> </ul>
<b>Fab 7</b>	<ul style="list-style-type: none"> <li>Optimizing the number of operating facilities for organic waste gas treatment</li> <li>Installing new RO concentrate water recycling equipment</li> <li>Reducing water makeup volume by regulating the RO makeup water bypass of the MAU under the summer mode of a MAU</li> </ul>	<ul style="list-style-type: none"> <li>Saved a total of 175,200 kWh of electricity and 474,500 cubic meters of natural gas in 2023</li> <li>Saved a total of 26,000 tons of water in 2023</li> <li>Saved a total of 32,898 tons of water in 2023</li> </ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Company's primary energy consumption was as follows:

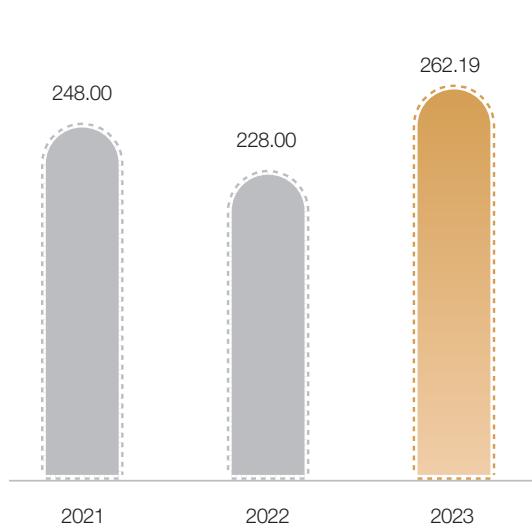
## Total power consumption

Unit: MWh



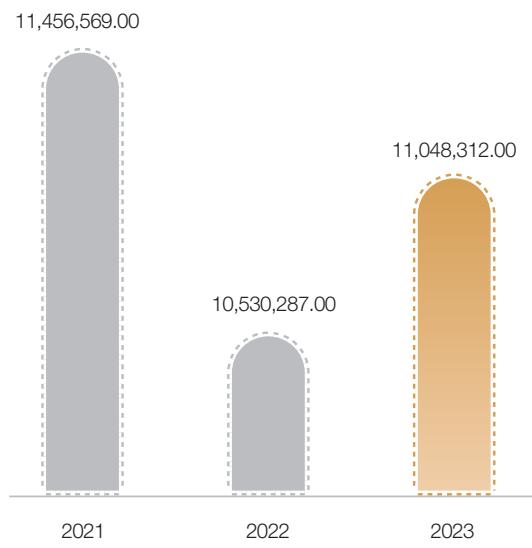
## Power consumption intensity

Unit: kWh per 8-inch wafer



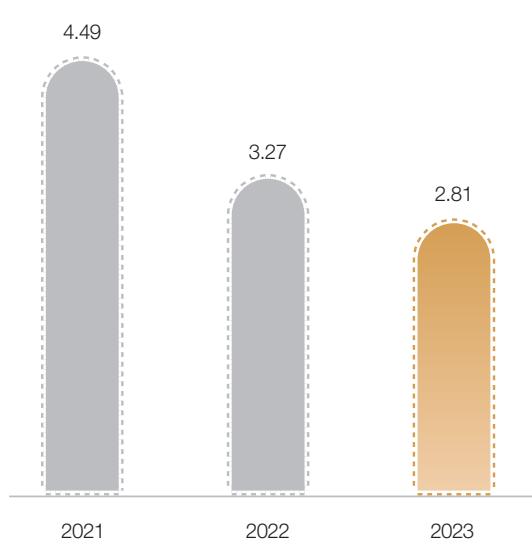
## Total natural gas consumption

Unit: m<sup>3</sup>



## Natural gas consumption intensity

Unit: m<sup>3</sup> per 8-inch wafer



# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.3 Climate Change Mitigation and Adaptation

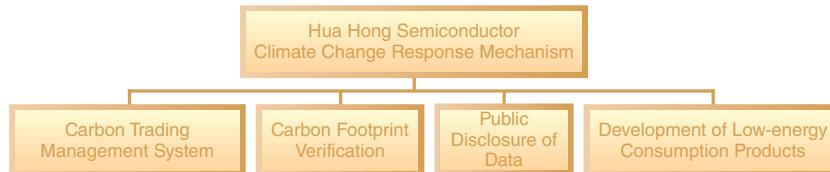
Hua Hong Semiconductor recognizes the importance of mitigating climate change for both the Company and the world. In 2023, the Company improved its management system for addressing climate change with reference to the International Sustainability Standards Board (ISSB)'s Sustainability Disclosure Standards of IFRS 2 – Climate-Related Disclosures (ISSB Climate Standards), regularly identified climate risks and opportunities, and piloted carbon emission verification. While continuing to improve energy use efficiency in production and business operations, the Company disclosed information about energy use and carbon emissions in its ESG Report. In the meantime, the Company actively developed low-energy consumption products, as part of our endeavor to facilitate achievement of China's "30 • 60" carbon peaking and carbon neutrality goals.

### Hua Hong Semiconductor's Climate Change Management System

#### Governance

- A top-down governance framework is established, where the Board takes responsibility for formulating and coordinating climate change response strategies. This includes regular reviews over the progress of climate change management work to ensure the effectiveness of strategies and management measures, as well as reviewing target progress.
- The ESG Working Group takes responsibility for implementing climate change strategies, whereby assessing, managing, and monitoring climate change management work, as well as regularly reporting work progress and related performance to the Board.
- Each business department actively participates in climate change management work, contributing to the Company's efforts to reduce carbon emissions.

#### Strategies



#### Risk management

- Based on the identification results of climate risks and opportunities, the Company develops corresponding management measures to enhance its capability to respond to climate change and capture green product opportunities.

#### Indicators and targets

- Scientific and reasonable climate change management targets are set with related performance and target progress disclosed in the annual ESG report, details of which are available in the section headed "ESG Management Strategy and Targets".

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company regularly undertakes identifications of climate change risks, so that the climate change response mechanism can be constantly improved, as part of our active response to the risks and opportunities brought by climate change.

## Identification and Response to Climate Change Risks and Opportunities

Major Risks and Opportunities of Climate Change as Identified			Potential Financial Impacts	Response Measures
<b>Risks</b>	<b>Transition Risks</b>	<b>Reputation Risks</b>	Decreased Business Revenue	<ul style="list-style-type: none"> <li>– Categorizing climate change mitigation and adaptation into work priorities for all business departments.</li> <li>– Actively participating in the Shanghai Development and Reform Commission's carbon emissions trading work and conducting regular carbon accounting work.</li> </ul>
		<b>Policy and Legal Risks</b>	Increased Operating Costs	<ul style="list-style-type: none"> <li>– Developing a climate change management system in reference to the ISSB Climate Standards.</li> <li>– Communicating with stakeholders about climate change as a substantive issue through channels such as ESG reports.</li> </ul>
		<b>Market Risks</b>	Decreased Business Revenue	<ul style="list-style-type: none"> <li>– Developing low-power consumption products and actively communicating with customers and consumers about the green attributes of said products.</li> </ul>
<b>Physical Risks</b>	<b>Acute Physical Risk</b>		Increased Operating Costs; Reduced Value of Fixed Assets	<ul style="list-style-type: none"> <li>– Formulating emergency response plans for extreme weather events.</li> <li>– Regularly conducting emergency drills and training for natural disaster incidents.</li> </ul>
	<b>Chronic Physical Risks</b>		Increased Operating Costs; Reduced Value of Fixed Assets	

## 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Risks and Opportunities of Climate Change as Identified		Potential Financial Impacts	Response Measures
Opportunities	<b>Resource Use Efficiency</b> Resource use efficiency shall be improved, including the efficiency of energy and water resources, which can help the Company reduce costs during operations.	Reduced Operating Costs	<ul style="list-style-type: none"> <li>– Actively adopting green office and operations measures.</li> <li>– Integrating ecological and environmental concepts into the design stage of new plant premises to reduce the use of various resources during construction and operation.</li> </ul>
	<b>Energy Sources</b> A higher utilization rate of more low-emission/clean energy in operational activities can help reduce the risk of rising energy prices in the future.	Reduced Operating Costs	<ul style="list-style-type: none"> <li>– Continuously increasing investment in green research, development, and innovation.</li> </ul>
	<b>Products and Services</b> Amid the transition to a low-carbon economy, the Company is presented with new market opportunities as demand is increasing for green, low-power consumption products among customers and consumers.	Increased Business Revenue	<ul style="list-style-type: none"> <li>– Continuously improving the environmentally friendly and green attributes of products.</li> <li>– Reducing the generation of hazardous substances with green technologies and materials, minimizing environmental impact.</li> <li>– Developing products with lower power consumption and higher efficiency to help downstream industries improve energy efficiency and reduce carbon emissions.</li> <li>– Providing integrated services in product design, research and development, and production.</li> </ul>

The Company's GHG emissions mainly come from direct GHG emissions, generated from the use of natural gas, small amounts of petroleum and diesel, and indirect GHG emissions from outsourced electricity and thermal power. The Company carries out GHG emission reduction work from the management level and the technical level to reduce carbon emissions generated in its operation activities, thereby lessening the impact on climate change.

The Shanghai Production Base is recognized as a "carbon emission quota management unit" by the Shanghai municipal government and actively responds to government policies by conducting regular carbon investigations. During the Reporting Period, the Company undertook third-party verification of the 2022 carbon emission data for Fab 1, Fab 2, and Fab 3 at the Shanghai Production Base to enhance our carbon emission data management capability.

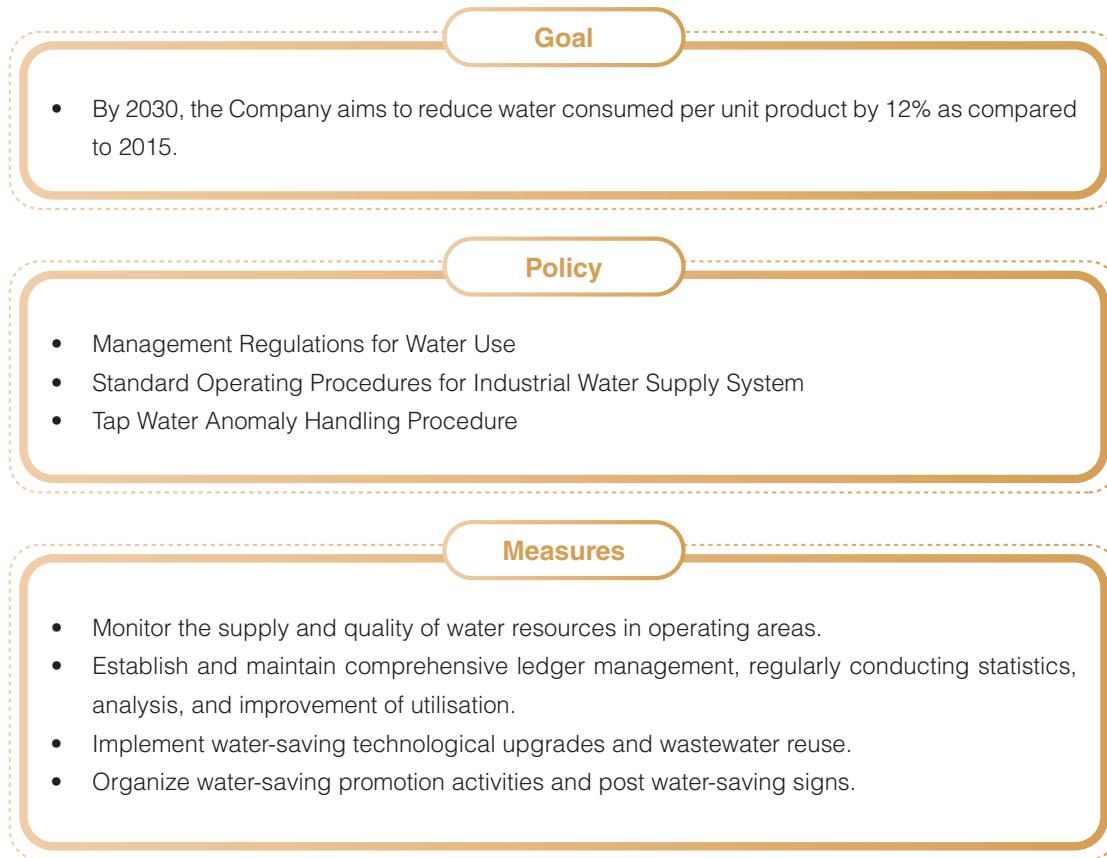
# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.4 Resource Management

### *Sustainable Water Management*

The Company sets water management goals and formulates water management strategies in strict accordance with laws and rules and other relevant regulations, including the Water Law of the People's Republic of China, the Shanghai Administrative Measures for Water Conservation, and the Jiangsu Water Conservation Ordinance. It also introduces higher-efficiency equipment and processes, continuously optimizes water resources management measures, and enhances its water consumption efficiency.

#### Water Resource Management System



Semiconductor manufacturing process necessitates adherence to water quality standards and involves substantial water consumption, resulting in a significant impact on the availability of natural water resources. The Company constantly monitors the risk of water resources in areas where we operate through the "Aqueduct Water Risk Atlas", an external tool from the World Resources Institute (WRI). We analyze the rationality of water consumption for production and the operation of our fabs and the possible impact of the water intake and formulate effective measures to reduce risks and ensure that water resources can support the Company's sustainable development.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

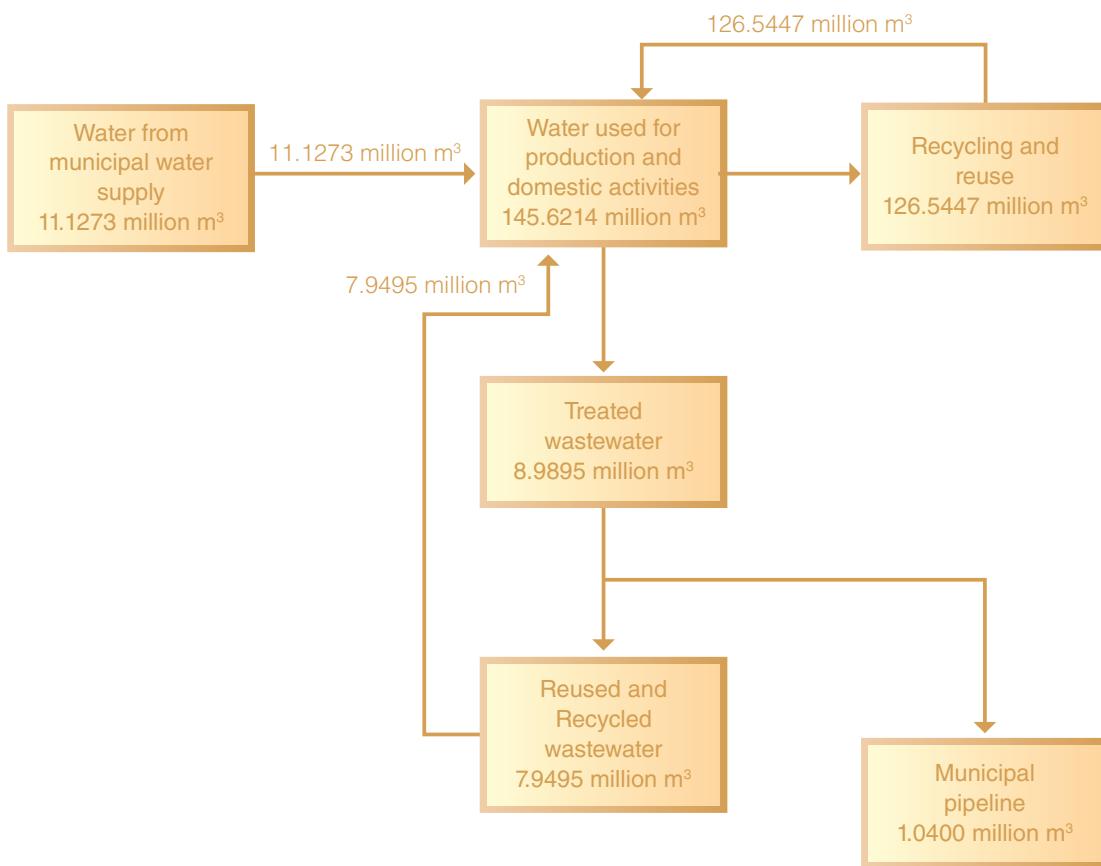
## WRI Risk Monitoring Results and Countermeasures of the Company

<b>Water risk monitoring indicators</b>	<ul style="list-style-type: none"><li>• Type of physical risks: Water consumption risk, drought, decline of groundwater water level, etc..</li><li>• Condition of physical risks: Coastal erosion, untreated water.</li><li>• Laws, regulations and reputation risks: Quality of drinking water, sanitary conditions, etc..</li></ul>
<b>Monitoring results</b>	<ul style="list-style-type: none"><li>• High-risk area: Wuxi Fab and Shanghai Fab.</li></ul>
<b>Countermeasures</b>	<ul style="list-style-type: none"><li>• Relying on water monitoring sites for each fab, the Company has conducted water balance tests on a regular basis to calculate the process water, recycled water, wastewater, and domestic water use of each fab.</li><li>• The Company records the flow, volume, and recycling of water resources, so as to analyze whether there is any abnormal utilization of water resources and predict the reasonable allocation of water resources among water-consuming units.</li><li>• Build green buildings, upgrade or replace equipment with high water consumption, and enhance water consumption efficiency.</li><li>• Expand the sources of water resources, recycle air-conditioning condensate, organic wastewater, etc., and transform recycled water into industrial water.</li><li>• Carry out water-saving awareness publicity activities and post water-saving signs.</li></ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water used by the Company comes to a large extent from the municipal water supply in addition to a smaller amount of recycled water and air conditioning condensate from the pure water manufacturing process.

## Overview of Water Used for Production and Operation of the Company in 2023



During the Reporting Period, the Company undertook several water-saving and wastewater reuse activities. In 2023, it was awarded the medal and certificate of honor titled as “Water Efficiency Leader of Key Water-Using Enterprises in Shanghai” jointly issued by the Shanghai Municipal Commission of Economy and Informatization and the Shanghai Water Authority. In addition, it received the second prize for “Shanghai Industrial Water Reuse Excellent Case” jointly awarded by the Labor Union of Shanghai Water Authority, the Shanghai Office for Water Saving, and the Shanghai Water Supply Management Office.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Water Resources Management Work and Achievements in 2023

Action	Measures	Achievements
• Reclaimed water reuse project	• Additional reclaimed water recycling facilities were installed, and turbidity removal membranes and special RO membranes were used to improve the quality of water output from the system, ensuring the requirements for use in the pure water system are met	In 2023, a total of 275,940 tons of water was saved
• Saving RO makeup water	• Water makeup volume was reduced by regulating the RO makeup water bypass of the MAU without affecting the indoor AMC in the cleanroom	In 2023, a total of 32,898 tons of water was saved
• Recycling of RO concentrated water	• Additional RO concentrated water recycling equipment was installed to increase the treatment amount of recycled water	In 2023, a total of 26,000 tons of water was saved
• Recycling of sampling water from the online instrument	• The sampling water from the online water quality testing instrument was collectively recovered in the intermediate water tank and reused for the spray water system	In 2023, a total of 9,125 tons of water was saved
• Adjusting OAC unit makeup water flow	• Diaphragm valves and flow meters were installed to adjust the makeup water amount according to actual needs, saving water	In 2023, a total of 55,845 tons of water was saved
• RCM product water reuse project	• The organic reclaimed water pipeline was installed to substitute reclaimed water for tap water for washing	In 2023, a total of 14,600 tons of water was saved

### Raw Materials Management

The Company primarily uses raw materials including silicon slices, quartz, target materials, and chemicals. To streamline management, the Company has established management systems, including the Raw Materials Shelf Life Control Policy, the Risk Identification and Response Measures for Key Materials, the Key Materials Risk Analysis Table, and the Materials Management Department's Management Standards for Chemical Storage and Gas-based Operations, to standardize the raw materials management procedures. The Company encourages employees to reduce waste rates by means of technical innovation, constant optimization, and recommendations on optimization, thereby enhancing the efficient utilization of raw materials.

### 2.5 Emissions and Waste Management

In order to meet emission standards and reduce impact on the environment, the Company has standardized the management of air emissions, wastewater, and waste discharge in strict accordance with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes, Law of the People's Republic of China on the Prevention and Control of Soil Pollution, Law of the People's Republic of China on the Prevention and Control of Water Pollution, as well as other laws and regulations and relevant provisions. During the Reporting Period, no incident of excessive or illegal discharge of pollutants by the Company has occurred, nor has any litigation case arising from the above types of incidents occurred.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Air Emission Discharge Management*

The Company strictly complies with national and local discharge requirements, such as the Discharge Standards of Pollutants for Semiconductor Industry (DB31/374-2006) and Jiangsu Discharge Standards for Semiconductor Industry (DB32/3247-2020), and sets a management goal of achieving 100% compliance on discharge. The Company has formulated improved testing plans and management measures for air emissions discharged during production, including sulfuric acid mist ( $H_2SO_4$ ), hydrogen chloride (HCl), nitric oxide (NOx), ammonia ( $NH_3$ ), and volatile organic compounds (VOCs). The Company has further developed testing plans for major air emissions according to the production situation and regularly carried out testing and evaluation to ensure compliance of air emissions.

### **Air Emissions Management**

Type	Treatment Method
<b>Air Emissions</b>	
Acid air emission	Up-to-standard discharge after removing most of the components through pretreatment and centralized treatment of the washing tower.
Alkaline air emission (mainly ammonia gas) Organic air emission	Purification through a washing tower. Purification through activated carbon adsorption, or combustion after concentration.
Air Emissions containing dust (mainly small particulates of silicon dioxide)	Removal through a dust-extraction unit

The Company has standardized the requirements for online monitoring and management of organic waste gas and improved on-site supervision capacity of its fabs. The Company's waste gas treatment facilities are maintained at a high level of treatment efficiency through annual overhaul and other measures. In addition, the Company optimized and improved the treatment technology of its organic waste gas treatment system, constantly enhanced the treatment efficiency of the system, and reduced the emission of organic waste gas.

## *Waste Management*

The Company adheres to the principles of "reduction from the source" and "circular economy". Besides standardizing the identification and strict classification of generated waste, the Company adopts proper management methods to handle waste, aiming to maximize the waste recycling rate.

The Company maintains consistently high standards and strict requirements in the implementation of the waste management system by formulating the Waste Management Procedure, the Code of Practice for Industrial Waste Management, and other management regulations, as well as crafting all-around management procedures for waste management to standardize waste management operations. Through the unified environmental protection management system of the government, waste treatment is recorded and managed to ensure all transportation records are traceable and controllable. In every year since 2017, the Company has carried out work to reduce the discharge of various hazardous wastes to constantly reduce the impact of hazardous waste emissions on the environment.

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## Classification and Treatment Methods of Waste

Categories		Treatment Method
<b>Non-hazardous waste</b>	Domestic waste and kitchen garbage	Entrusting the environmental sanitation departments in the places where we operate for unified disposal on a regular basis
	Raw materials for production and office supplies	Recycling within plant premises
	Such as sludge	Landfilling, and brick manufacturing
<b>Hazardous waste</b>	Such as waste acid, waste isopropanol, waste phosphoric acid, and organic waste liquid	handled by suitable enterprises, or reused in other industries, for a higher reuse rate
	Such as waste glass bottles, 200L chemical barrels, and waste liquid from laboratory	Physical-chemical treatment
	Such as cleaning cloths, plastic bottles, waste activated carbon, waste resin, and arsenic-containing waste	Incineration

### *Wastewater Discharge Management*

The Company strictly complies with the relevant laws and regulations governing wastewater discharge for all of the jurisdictions in which its factories operate and sets a management goal of achieving 100% compliance on discharge. The Shanghai Production Base is in compliance with the Discharge Standard of Water Pollutants for Electronic Industry (GB39731-2020), the Integrated Wastewater Discharge Standard (DB31/199-2018), and the Waste Water Quality Standards for Discharge to Municipal Sewers (GBT 31962-2015) – Grade B Standard. The Wuxi Production Base is in compliance with the Jiangsu Discharge Standards for Semiconductor Industry (DB32/3247-2020), the Integrated Wastewater Discharge Standard (GB8978-1996), and the Waste Water Quality Standards for Discharge to Municipal Sewers (GB/T31962-2015) and formulates the Management System for Drainage and Waste. The Company also reduces the generation of wastewater by continuously optimizing manufacturing processes and wastewater recovery.

In terms of pollution discharge and information disclosure, the Company carried out online monitoring and management of wastewater, with relevant data of the Shanghai Production Base and the Wuxi Production Base disclosed on the environmental information disclosure platform, thus improving transparency of environmental information for the Company.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Wastewater Discharge Management

	Testing Indicators	Treatment Method
<b>Wastewater</b>	pH, COD, ammonia nitrogen, fluorine ion, etc.	Discharged through a pipeline into a designated urban sewage pipe network after treatment and meeting relevant standards

## 2.6 Green Products

Green products refer to safe, environment-friendly, and high-quality products manufactured in the closed-loop process of product design, manufacturing, use, scrapping, and reuse during which the green concept is always considered. Green products are also characterized by low resource and energy consumption, low pollutant emissions, low toxicity and less harm, and easy recycling, treatment, and reuse. Through special technologies, green production, and the use of clean energy, the Company creates green “core” products and continues to improve product efficiency with reduced energy consumption and waste production during manufacturing, thereby minimizing environmental impact.

### Pathway to Green Products

#### Special technologies

The “green” concept is integrated into the technological research and development phase, whereby continuing to develop low-power consumption, high-performance, highly reliable, and highly integrated technology platforms.

#### Green production

Use of green products and energy-saving technological transformation reduce energy consumption and waste generation in product production processes, enhancing the green attributes of products.

#### Clean energy

End-use product energy efficiency is improved by developing energy-efficient products through technological innovation.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Green Product Production

Based on the environmental footprint of the full life-cycle of a product, the Company identifies the potential improvement links for the green attributes during raw materials procurement, product production, and product transportation. By adhering to the philosophy of lean manufacturing management, implementing green procurement principles, improving technological processes, and other measures, the Company continues to reduce the environmental impact of product production and enhance the green attributes of its products.

### Environmental Management for the Full Life Cycle of Products

				
Warehousing of Raw Materials	Product Production	Product Transportation	End-user Products	Disposal
<ul style="list-style-type: none"> <li>Carry out hazardous substance examination and systematic control on raw materials</li> <li>Review the qualification and environmental compliance of suppliers and require suppliers to sign the Environmental Protection Undertaking</li> </ul>	<ul style="list-style-type: none"> <li>Choose production equipment with low energy consumption and high performance</li> <li>Implement water recovery projects to improve the overall recycling rate of water</li> <li>Adhere to the philosophy of lean manufacturing management, minimizing the generation of waste</li> </ul>	<ul style="list-style-type: none"> <li>Recycle and reuse product packaging materials to reduce the consumption of packaging materials and waste generation</li> </ul>	<ul style="list-style-type: none"> <li>By helping customers produce low energy consumption products, reduce the environmental impact of the use of end-user electronic products</li> </ul>	<ul style="list-style-type: none"> <li>The wafers produced by the Company are monitored for harmful substances, which means that the end-user electronic products manufactured by using the wafers have less impact on the environment after disposal</li> <li>Recyclable waste during production is handed over to qualified third parties for recycling</li> </ul>

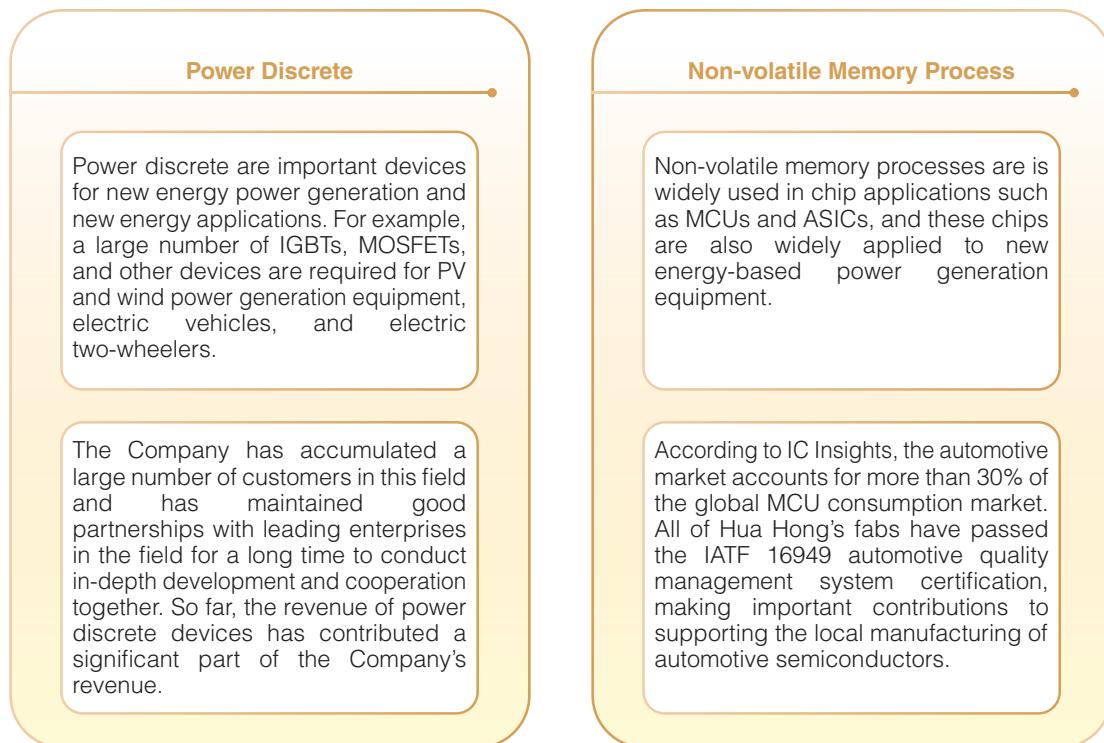
## Seizing the Clean Energy Opportunity

With the accelerated adjustment of the global energy structure, promoting the use of clean energy has become the focus of development for more and more enterprises. Hua Hong Semiconductor has actively seized the opportunity of clean energy and applied its main process platforms in different application fields to facilitate the development of green products in the downstream supply chain.

The Company has accumulated substantial technology and experience in the manufacturing process for upstream components in the new energy application field, such as new energy power generation, etc., which can effectively support its energy transformation and development. The Company's semiconductor components for new energy, which are already at the international advanced level, utilize the technology and reliability of the 8-inch wafer production platform, with gradual transitioning to the 12-inch process platform. Hua Hong Semiconductor focuses on development of the "8-inch + 12-inch" wafer production strategy, vigorously implementing core development of the advanced "Specialty IC + Power Discrete" product mix, and fully supporting the high-quality supply capacity of components for the new energy infrastructure and application fields. Hua Hong Semiconductor's power discrete, non-volatile memory, and analog and power management processes play an important role in supporting the development of end-user products in new energy application fields, such as new energy vehicles, photovoltaic energy storage, energy-saving household appliances, etc.

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## Products for Supporting Clean Energy Development



## New Energy Components involved in Development Projects and Application Areas

Product	Application Area	Proportion of Revenue
Power Discrete	Photovoltaic and wind power generation equipment, electric vehicles, electric bicycles, etc.	39.4%
Non-volatile Memory Process	New energy generation equipment, electric vehicles, etc.	35.9%

In 2023, the Company held the “Core Connectivity, Vehicle Connectivity, and Chain Connectivity” Automotive Chip Ecosystem Cooperation Conference, joining forces with nearly a hundred businesses in the integrated circuit, automotive component, and vehicle assembly sectors, to promote cooperation in the automotive chip ecosystem and foster collaborative industry development under the spirit of “Identifying opportunities in industrial development by amassing the power of technical innovation”. Pursuant to the “8-inch + 12-inch” and forward-looking “Special IC + Power Discrete” strategies, the Company’s automotive electronics business has been expanding, with products continuing to expand in the new energy sector, propelling the low-carbon green development.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Development Progress of Technologies Boosting New Energy Transformation in 2023

Automotive Electronics	Industrial New Energy	High-end Consumer Electronics
<ul style="list-style-type: none"> <li>Collaboration along the supply chain assists customers in accelerating introduction of their products into related module factories and vehicle manufacturing enterprises.</li> <li>Direct collaboration is established with mainstream domestic automotive manufacturers, focusing on mature chip substitution for key and challenging projects. This partnership aims to build a sustainability ecosystem that ensures multi-dimensional cooperation. Recommended mature chip types cover various areas, including the automotive power system, body control, cabin, chassis and safety, remote control and communication, ADAS, and charging stations, thereby achieving mass supply.</li> <li>A company-level automotive electronics database is established and continuously improved.</li> </ul>	<ul style="list-style-type: none"> <li>Key power device products have achieved mass supply, significantly increasing market share. With the government enacting a national strategy and rendering strong support for the dual-carbon economy, the new energy market is poised for promising growth in the future.</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with well-known domestic appliance brands aims to increase the domestic substitution rate and continue the push for expansion of high-end consumer electronics business.</li> <li>Well-known domestic appliance brands, manufacturing products such as IGBT, display touch control chips, fingerprint lock chips, and motor control on the Company's process platform, have gradually expanded into the market for large household appliances, including air conditioners and refrigerators.</li> </ul>

In the future, the Company will further promote the development of silicon-based power devices capable of achieving higher energy efficiency and initiate development of compound semiconductor power devices characterized by high power density and low energy consumption. This will provide continuously optimized solutions for products applied to the clean energy sector, such as variable frequency household appliances, new energy vehicles, and further improve energy efficiency.

### 3 Employee-Related Responsibilities

#### Major Developments in 2023

Measures	Achievements
Safe Production	100% of our employees and contractors signed the Safety Responsibility Letter and the Letter of Commitment on Safety and Environmental Protection, respectively.
Employee training	100% employee training coverage. 135.6 training hours per person.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.1 Rights and Benefits of Employees

### *Rights and Interests of Employees*

Hua Hong Semiconductor strictly complies with laws and regulations including the Labor Law of the PRC and the Law on Employment Contracts of the PRC. We insist on fair employment, implement the principle of equal pay for equal work, and ensure that employees are not discriminated against or treated differently based on non-work factors including age, gender, place of birth, religious belief, marital status, or disability. We prohibit the employment of child labor or forced labor.

The Company has formulated relevant management regulations, including the Employment Procedures and the Management Procedures for Trainees. The Company strictly checks the identity information of employees and never employs adolescents under the age of 16. If such a situation is identified and verified, it will be immediately suspended and investigated for rectification, targeting at the omission of links around the recruitment review process so that such process can be improved. As at the end of the Reporting Period, the Company had 6,863 regular employees. The Company has experienced no illegal or non-compliant incidents in connection with employee recruitment and dismissal, work hours and holidays, job promotion and equal opportunities, anti-discrimination and diversity, the employment of child labor or forced labor, nor had any litigation in connection with the aforesaid matters.

### Overview on Employee Rights and Interests

Recruitment and Dismissal	Remuneration	Working Hours and Vacation System	Democratic Participation
<ul style="list-style-type: none"><li>Recruitment: Adhering to the principle of fairness, equity and openness;</li><li>Dismissal: The Company and employees go through the dismissal procedure according to relevant laws, regulations, and the Dismissal Management Procedure.</li></ul>	<ul style="list-style-type: none"><li>The Company provides competitive salaries for employees, which are higher than the minimum wage in the place of operation.</li></ul>	<ul style="list-style-type: none"><li>A standard working hours system is adopted. A comprehensive or flexible working hours system is adopted for certain positions with the approval of the government labor and personnel authorities;</li><li>Based on holidays and festivals specified by the government, supplementary annual leaves are provided for employees.</li></ul>	<ul style="list-style-type: none"><li>Establishing labor union, employee congress, etc. to ensure the democratic participation of employees in the Company's decision-making.</li></ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Employee Diversity*

The Company attaches great importance to the diversity of employees and believes that a diversified talent pool can enhance dynamics in the team, which will constantly improve the efficiency of research and production, driving business growth of the Company. Through diverse recruitment channels, the Company provides employment opportunities for talent from different cultural backgrounds, educational backgrounds, and technical specialties.

### **Practice of Employee Diversity**

#### **Gender Diversity**

- ▶ Upholding the principle of “gender equality” in recruitment, employment, and promotion, the Company incorporates employee aptitude and performance assessments into the standards of employment and promotion.

#### **Age Diversity**

- ▶ Upholding the principle of “age equality”, the Company provides job and promotion opportunities for employees of different age groups.

#### **Functional Diversity**

- ▶ The Company offers various positions and levels in management, technology, and functional support, allowing employees to choose based on their own development plans.

The Company formulates relevant regulations and procedures and continues to create an open, inclusive, respectful, and diverse employment environment. We respect the lifestyle of all kinds of employees and try to provide them with convenient conditions to meet their living habits. The Company is also committed to creating better office and service facilities for employees and improving their happiness.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Employee Care

The Company persistently cares about the well-being of its employees by integrating employee care into its daily practices, including provision of fringe benefits and caring initiatives in areas such as office environment, diet, accommodation, and transportation, as part of our commitments to creating a warm, loving, and vibrant working environment for them.

### Measures for Employee Care

#### Office

- The ventilation system is installed in all offices and additional air purification devices added to improve office air quality.

#### Diet

- Green space increased in office areas.
- There are staff canteens and coffee shops in factory zones.
- Establishing a food safety supervision team, adopting the mode of centralized purchasing of food materials and qualified supply chain management, and inviting employees and department representatives to carry out supervision.
- Publishing the canteen food cooking guideline to manage balanced nutrition, oil and salt control, for the employees' diet in the canteens.

#### Accommodation

- Construction of dormitory with private bathrooms, 24-hour supply of hot water, and WIFI network, etc.

#### Travel

- The dormitory area has a library, computer room, snooker room, laundry, TV room, HIVE BOX, and other facilities.
- Providing all employees with travel allowance.
- Providing free commuter bus services between the park, subway stations, and the dormitory.
- Creating a commuting route for employees living in the transit-challenged areas and arranging commuter bus services for departments which need to have such services on weekends.

#### Extending solicitude

- Organizing holiday celebrations and activities during festive periods as a gesture of extending our solicitude.

#### Health checkup

- Offering annual health check-ups for all employees, including screenings for multiple types of cancer.

In addition, the Company established the Employee Assistance Mechanism, under which we provide assistance for needy employees at special festivals such as Spring Festival, Labor Day, and Mid-Autumn Festival, in addition to routine expression of sympathy and solicitude to injured or families of diseased employees; and we give timely care and support to employees who suffer a significant misfortune and help them overcome their plight as soon as possible through multiple forms of assistance including donation, support, care, and nursing.

In terms of care for female employees, the Company organizes a special physical examination every year, continuously improving human-based management of lactating employees, and providing relevant service facilities to ensure convenience for pregnant employees and lactating employees at work.

## Employee Communication

An unblocked communication channel is favorable to the establishment of harmonious labor relations. The Company is committed to building and improving employee communication and feedback mechanisms, has formulated the Employee Communication Rules, and encouraged multi-way communication between the Company and employees, between officers and subordinate officers, and among employees.

The Company utilizes various communication channels, including satisfaction surveys, forums for young employees, an OA online platform, and one-on-one departmental communications, to understand the feedback and suggestions of employees. Meanwhile, the Company has established a labor union, and employee representative meetings are regularly convened as part of our active efforts to communicate with employees.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.2 Employee Health and Safety

The Company attaches great importance to occupational health and safety of employees and strictly complies with the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, the Production Safety Law of the People's Republic of China, the Regulation on Work-Related Injury Insurances, as well as other laws, regulations, and provisions. The Company has established a complete occupational health and safety system that meets the safety goal of "zero accident for production safety", defining the occupational health and safety policy, to provide employees with a good working environment and ensure their occupational health. During the Reporting Period, there were zero work-related injuries or deaths, occupational diseases, or fire accidents.

### Occupational Health and Safety Management System

#### Occupational Health and Safety Management Policy

The Company strictly complies with the laws and regulations pertaining to safety, health, and environmental protection; makes efforts for clean production; carries out continuous improvement; creates a safe, healthy, and comfortable working environment for employees; and strenuously pursues the highest goal of "zero accidents" and sustainable operation, becoming a model corporate citizen in the world.

<b>System Construction</b>	<ul style="list-style-type: none"> <li>The Company has established the Safe Production Committee; implemented the Committee's Safe Production Responsibility System; and implemented the Regular Safety Meeting System.</li> <li>All employees at all levels are required to sign the Safety Responsibility Letter, so as to implement the Safe Production Responsibility System for the staff.</li> </ul>	<b>Management Factors</b>	<ul style="list-style-type: none"> <li>Emergency response to hazards/environmental factors.</li> <li>Special equipment and posts.</li> <li>Chemicals management.</li> <li>Occupational health monitoring and Protection.</li> </ul>
<b>Internal Audit, Inspection, and Hazard Identification</b>	<ul style="list-style-type: none"> <li>Safety technology transformation.</li> <li>Establishing a dual prevention work mechanism of hierarchical control of safety risks and management or hazard identification.</li> </ul>	<b>Construction of a Safety Culture</b>	<ul style="list-style-type: none"> <li>Safety awareness and safety training.</li> <li>Emergency drills.</li> </ul>

#### Safe Production

The Company pays great attention to safety assurance of employees in the production process, strictly abides by the Production Safety Law of the People's Republic of China, and formulates the Implementation Measures for the Production Safety Responsibility System of the Production Safety Committee. We also established the safe production committee and the weekly production safety meeting system to continue the optimization of various management procedures and facilitate construction of the corporate safety culture, ensuring stable operation of the Company's safe production system. So far, the Shanghai Production Base and the Wuxi Production Base both have passed certification of the ISO 45001 International Occupational Health and Safety Management System.

Name of production base	ISO 45001 Certification	Term of Validity
Shanghai Production Base and Wuxi Production Base	Certified	18 April 2024

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The Company actively implemented standardization, systematization, and intelligent construction of safety work and optimized the production safety responsibility system of all employees. In accordance with the principle of "one post with one responsibility" and "whoever takes charge and uses shall take the responsibility", the Company has compiled a Safety Responsibility Letter covering all staff by combining the post functions. Meanwhile, contractors of the Company are required to sign the "Letter of Commitment on Safety and Environmental Protection", so as to make every department and every employee take their respective responsibility and optimize the production safety responsibility system of all employees. In 2023, 100% of our employees and contractors signed the Safety Responsibility Letter and the Letter of Commitment on Safety and Environmental Protection, respectively.

In addition, the Company improved systematic procedure management based on its operation experience, established and perfected safety management systems such as safety accident/incident/hidden danger troubleshooting and tracking system, and implemented a special equipment registration system, equipment terminal infrared detection and recording system, etc. Data records are kept to ensure implementation of corrective measures, thereby standardizing implementation of procedures and enhancing the Company's safety management efficiency and safety operation level.

## Safety Risk Prevention Facilities and Measures for Employees

### Fire fighting facilities:

Comprehensive systems are installed, including automatic fire extinguishing system, automatic fire alarm system, smoke control system, fire broadcasting system, evacuation indications, and emergency lighting system.

### Alarming and monitoring system:

Our clean work areas are equipped with toxic, hazardous, and flammable gas alarming systems, liquid leakage detection system, and extremely early smoke detection systems.

### Emergency measures:

An emergency response team (ERT) is established and receives specialized skill training, and emergency response plans are formulated for different disasters. Furthermore, special action drills are regularly organized and identified issues are promptly rectified.

In 2023, Hua Hong Semiconductor advanced the Three-Year Special Rectification Action Plan for Production Safety (2023-2025), covering hazardous chemicals, construction projects, fire safety, gas, electricity, and special equipment, with a total of 397 safety hazards successfully rectified.

### *Chemical Safety Management*

With regard to safety protection of chemicals, the Company has formulated a number of management policies and operation procedures, including the Chemicals Management Procedure, the Chemical Substance Review Procedure, the Special Emergency Plan for Chemical Leakage, the Inspection and Registration System for Chemicals Coming In and Out of the Warehouse, the Safety Management Rules for Hazardous Chemicals, the Management Measures for Chemical Turn-on, etc., to regulate the chemical management procedures as well as to enhance chemical safety compliance.

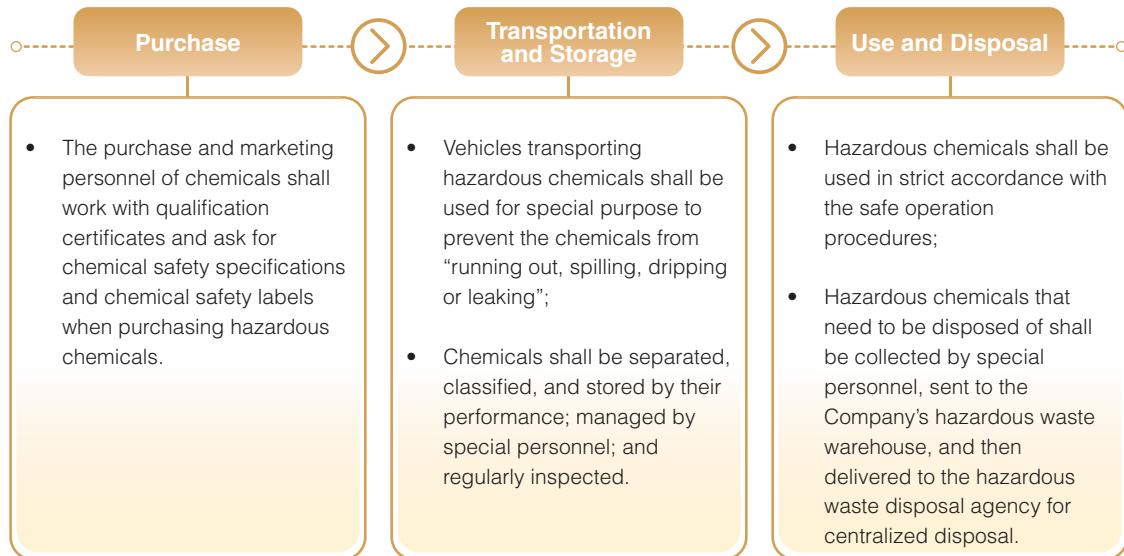
# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Hazardous Chemicals Used in the Manufacturing of Hua Hong Semiconductor Chips

Type	Name
Flammable liquid	Isopropanol, photoresist, and diesel
Oxidants and organic peroxides	Hydrogen peroxide
Toxic chemicals	Phosphine and fluorine
Corrosive chemicals	Sulfuric acid, hydrochloric acid, hydrofluoric acid, phosphoric acid, mixed acid, ammonia water, and sodium hydroxide
Compressed and liquefied gas	Hydrogen, methane, silane, nitrogen, oxygen, argon, helium, ammonia, and chlorine

The Company has established a factory chemical review committee to comprehensively evaluate the environmental protection and safety qualifications as well as the risk prevention and control capabilities of chemical suppliers in advance. The Company employs the chemical substance management system to: manage the handling, storage, and disposal of chemicals; control the maximum storage quantity of chemicals; and dynamically monitor their use and consumption. In addition, the Company endeavors to eliminate on-site hazard sources and reduce safety risks from the source by giving priority to the use of new technologies and by replacing toxic and flammable hazardous chemicals with non-toxic chemicals.

## Hazardous Chemicals Management Procedure



## Protection of Employees' Occupational Hazard Factors

In order to provide occupational health protection for employees, the Company identifies occupational hazard factors of employees and formulates corresponding countermeasures in strict accordance with the Law of the People's Republic of China on Prevention and Control of Occupational Diseases and other laws and regulations. The Company's job positions involving occupational hazard factors mainly include ion implantation, diffusion, etching, chemical mechanical grinding, power gasification, and other positions involving equipment operation.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Identification and Protection of Employees' Occupational Hazard Factors

Job Positions with Occupational Hazards	Occupational Hazard Factors	Countermeasures	Occupational health monitoring
Ion implantation, diffusion, etching, chemical mechanical grinding, power gasification, and other positions involving equipment operation.	Fluorine and its inorganic compounds, hydrofluoric acid, hydrochloric acid, nitric acid, sulfuric acid, phosphoric acid, ammonia water, hydrogen peroxide, arsenic and its compounds, phosphorus and its compounds, isopropanol, etc.	<ul style="list-style-type: none"> <li>The equipment in the clean room is automatically operated in a closed space and is equipped with a closed process exhaust system.</li> <li>Provide employees with personal protective articles and emergency response devices, regularly checking such articles and devices to ensure their effectiveness.</li> </ul>	<ul style="list-style-type: none"> <li>Annual occupational health monitoring and assessment of current occupational hazards.</li> <li>Strict pre-employment, on-the-job, and post-employment medical examinations for employees at positions exposed to occupational disease hazards.</li> </ul>

In addition, the Company engages external organizations to test the occupational hazards in its production environment every year, so as to ensure that the occupational exposure limits for harmful factors are not exceeded in the production environment. The Company informs all employees of the test results. Over the course of research, development, and production, the Company persistently has upheld the green chemistry philosophy, thereby continuously reducing the occupational hazard exposure risk of employees.

The Company provides an annual health check-up for all employees, including multiple cancer screenings and other items, and establishes employee health records to systematically track changes in employees' health status. In 2023, the Company established the "Health Defense Column", while simultaneously carrying out various activities to promote a healthy lifestyle for employees, such as health lectures on the theme of "How to stay away from the risk of "hypertension, hyperlipemia and hyperglycemia", "Guidelines for People Infected with COVID-19 at Home", and "Prevention of facial paralysis in alternate seasons", to encourage the employees to live and work in a healthy way.

### *Construction of Production Safety Culture*

In order to carry out the construction of a production safety culture and strengthen the staff's awareness of the safety culture, the Company organized a series of activities such as "Production Safety Month", "Safety & Health Cup", and "Fire Protection Month" and carried out activities such as production safety publicity, education, and training, as well as safety knowledge and skills competitions. Various safety publicity and demonstration activities have effectively enhanced the safety awareness and safety knowledge reserve of employees and motivated all staff to fulfill their safety commitments and responsibilities.

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## Actions for Construction of Production Safety Culture in 2023

Action Name	Content and Effect
Strengthening safety training	<ul style="list-style-type: none"> <li>131 safety education and training sessions were organized and held on the primary responsibility for production safety, enrolling over 28,000 participants with the participation rate in safety education and training reaching 100% and the certificate holding rate for employees reaching 100%.</li> </ul>
Enhancing emergency response capability	<ul style="list-style-type: none"> <li>Each production base organized and implemented more than 385 comprehensive and special emergency plan drills, enrolling more than 29,770 participants.</li> <li>Complete the expert review and filing of production safety emergency plans, establish and improve the required documents, such as rapid emergency response procedures to abnormal conditions for production base, as well as organize weekly training, quarterly practice, and annual competition.</li> <li>Hold ERT personal skills and ERT firefighting skills competitions and build an emergency management system communication platform by carrying out activities.</li> <li>Organize and carry out the “Fire Protection Month” fire knowledge display board publicity, firefighting skill training, evacuation and escape drills for all staff, and enhance the staff’s safety awareness and emergency response ability.</li> </ul>
Safety Technical Transformation Assessment	<ul style="list-style-type: none"> <li>Conduct annual evaluation of required safety and technical skills, and organize learning and exchange activities.</li> <li>Conduct assessment activities to select typical investigation cases for hidden hazards.</li> </ul>

### 3.3 Employee Development and Training

#### *Employee Training*

The Company has established a sound employee education and training system and formulated the Operating Procedure of Internal Training System Review, the Education and Training Procedure, and department-level training procedures, which are constantly adjusted according to strategic development and employee needs, to meet the all-round and multi-level training needs of employees in different positions.

The Company has established training facilities (with special training rooms and equipment for each plant site), learning and sharing platforms (including an online training registration management platform, training material, and position-specific question bank and multimedia learning courseware, etc.) and where necessary, uses external resources for ensuring employees learning and development.

In 2023, the Company continuously carried out a “Special Training Camp for Newly-hired Recent College Graduates” training program. In addition to the refining and concentration of professional theory and practical training in three major series of courses, namely “new era”, “new revelation” and “new talents”, the Company offered courses regarding corporate culture and political literacy as well as organized visits to bases of Chinese revolution, which helped its new employees quickly integrate into the team and meet the challenges of their future work with full enthusiasm.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Employee System

Trainees	Training Contents	2023 Performance
Grass-roots managers	Role recognition, self-management, management of others, and working management	
Front-line managers	Develop management skills of front – line shift and team leaders, cultivate a front-line management team with high quality and high business ability, and lay a solid foundation for the Company's management	<ul style="list-style-type: none"> <li>Percentage of employees trained: 100%</li> </ul>
Newly-employed university students	Career quality, corporate culture, introduction to special skills, and other courses	
Front-line employees	Courses about theory and practical training of the semiconductor manufacturing module	<ul style="list-style-type: none"> <li>Average training hours per employee: 135.6 hours</li> </ul>

### Career Development

The Company has clear and transparent promotion channels for employees, regularly evaluates employee performance providing employees with feedback on individual performance, and offers personal career development plans for the development of employees. According to industrial practice, the Company has set three professional categories, namely, management, technology, and functional support and has established corresponding job training. Employees may continuously develop their careers in a single professional title category according to their own specialties, potential, and desires. In addition, they are able to shift from technology to management.

In continuing to push forward with high-quality development and improve its high-quality talent pool, the Company focuses on refining its comprehensive capabilities through specialized training, technical exchanges, and lectures, so as to constantly improve the talent cultivation mechanism.

In addition, the Company has formulated the Implementation Measures for Academic Education Subsidy, which encourages employees to improve their professional and technical knowledge and provided 18 employees with on – the-job academic education subsidies in 2023, so as to promote work performance and efficiency improvement, continuously training high-quality talent that meets the current and future needs of the Company, further improving its comprehensive competitiveness.

As of the end of the reporting period, the overall employee turnover rate of the Company<sup>3</sup> was approximately 10.0%. Specifically, the employee turnover rates by gender, age and region are as follows.

## Employee Turnover Rate of Hua Hong Semiconductor in 2023

Category	Turnover rate (%)
Male employees	11.3%
Female employees	7.1%
Employees aged below 30	14.0%
Employees aged 30 to 50	7.5%
Employees aged above 50	1.9%
Employees in mainland China	10.0%
Employees from overseas	9.7%

<sup>3</sup> Employee Turnover Rate= number of resigned employees in the category/total number of employees in the category \* 100%

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4 Products and Services

### Main Progress in 2023

Measures	Achievements
Innovation and R&D	<ul style="list-style-type: none"> <li>672 patent applications</li> <li>12 approved papers</li> </ul>
Product quality	<ul style="list-style-type: none"> <li>Selected as a shortlist for the nomination award of the 5th China Quality Award</li> <li>Awarded 2022 Shanghai Key Product Quality Improvement Achievement Award (Second Prize)</li> </ul>
Customer service	<ul style="list-style-type: none"> <li>Average score of customer satisfaction in the questionnaire of 8.97 (full score: 10 points)</li> </ul>

#### 4.1 Product R&D and Innovation

##### *Construction of an Innovative Technology R&D System*

Continuous innovation and R&D are crucial requirements for the sustained growth of an enterprise and serve as strategic support for promoting high-quality development. The Company abides by the Law of the People's Republic of China on Progress of Science and Technology, the Patent Law of the People's Republic of China, and the requirements of other laws and regulations. Guided by its vision of "Continuous Innovation and Empowering the Future for Global Customers", the Company consistently benchmarks itself against international standards, promotes integrated innovation in processes, devices, design, and products and strives to build industry-leading specialized technological capabilities.

In 2023, the Company embarked on a patent layout for "Automotive-Grade Memory" and continued to promote integrated innovation in processes, devices, design, and products. We concentrated our efforts on key research and development projects, accelerating the development of differentiated advanced technologies. We also made continuous progress in the development of new power discrete devices, leveraging patents as barriers to proactively position itself in industry-leading research areas.

### R&D System of Hua Hong Semiconductor in 2023

R&D Strategy	R&D Achievements
<ul style="list-style-type: none"> <li>"8-inch +12-inch" and advanced "Specialty IC + Power Discrete" strategies.</li> <li>To deepen the high-quality development of diversified specialized process platforms, such as Embedded/ Standalone Non-Volatile Memory, Power Device, and Analog &amp; PM, and Logic &amp;RF.</li> </ul>	<ul style="list-style-type: none"> <li>Completed the development of a number of advanced specialty ICs and high-end power discrete devices, and achieved mass production of over 200,000 wafers of new products.</li> <li>Achieved significant breakthroughs in the indicators and product performance of key devices, such as image sensors and embedded flash memory, enabling the Group to gradually expand in the automotive electronics supply chain.</li> </ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## R&D Innovation Honors of Hua Hong Semiconductor in 2023

- ✓ Successfully listed on the **list of “2022 Excellent Intelligent Manufacturing Scenarios”** jointly announced by the Ministry of Industry and Information Technology, the National Development and Reform Commission, the Ministry of Finance, and the State Administration for Market Regulation.
- ✓ “A new type of mirror floating gate flash memory storage unit and application (一種新型鏡像浮柵閃存存儲單元及應用)” was awarded the **first prize of the Shanghai Science and Technology Award** by the Shanghai Municipal People's Government.
- ✓ The “Development and Industrialization of 12-inch IGBT Complete Manufacturing Process” project won the **“15th China Semiconductor Award for Innovative Products and Technologies”** award by the China Semiconductor Industry Association.
- ✓ Successfully selected as one of the **“100 Intelligent Factories in Shanghai”** by the Shanghai Economic and Information Commission.

### *Intellectual Property Protection*

The Company complies with the Patent Law of the People's Republic of China, the Copyright Law of the People's Republic of China, the Trademark Law of the People's Republic of China, and other laws and regulations and places equal emphasis on both quantity and quality when it comes to promoting intellectual property rights. We have formulated the Management Regulations for Intellectual Property, to regulate the management of our intellectual property rights.

The Company sets annual targets for patent applications and actively maintains its own intellectual property rights. At the same time, the Company promises that it will never infringe upon the intellectual property rights of any enterprise or individual and will keep confidential all technological information regarding products of upstream and downstream partners. To avoid infringement of third-party intellectual property rights, the Company conducts reputational and potential risk audits on customers before accepting product orders and has entered into several technology licensing agreements with major technical companies.

As at the end of 2023, the Company has applied for a total of 8,969 patents in China and overseas and has obtained 4,427 patents.

## **Intellectual Property Achievements and Honors of Hua Hong Semiconductor in 2023**

- ✓ 672 patent applications
- ✓ 270 patents granted
- ✓ Hua Hong Wuxi was listed on the “Wuxi High-Tech Zone Intellectual Property List” for 2023
- ✓ Hua Hong Wuxi ranked 2nd in the “Top 20 New Invention Patents in 2022”
- ✓ Hua Hong Wuxi ranked 6th in the “Top 30 Accumulated Invention Patents in 2022”

## 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 4.2 Product Quality and Safety

#### *Quality Management System*

The Company has been deepening and improving its quality management system to enhance management efficiency of the “R&D – Mass Production – Quality Control” process, especially in the face of challenging market fluctuations. We have formulated the Quality Manual, Quality Management Procedures, Code of Practice for Quality Objective Management, Supplier Management Regulations, and other rules to carry out quality management work. In 2023, the Company carried out evaluation activities with the theme of “Zero Defect of Characteristic Processes and High-quality Development of Hua Hong”, during which a total of 2,578 projects were reviewed and completed. The outcomes have been remarkable in terms of efficiency improvement, supply chain safety, energy conservation and emission reduction, talent development, and safety production.

Certified Subject	Certification	Term of Validity
Hua Hong Shanghai Production Base	ISO 9001 Quality Management System	21 May 2024
	IECQ QC 080000 Hazardous Substances Process Management System	11 December 2026
	IATF 16949 Quality Management System for Automotive Industry	21 May 2024
Hua Hong Wuxi Production Base	ISO 9001 Quality Management System	11 November 2025
	IECQ QC 080000 Hazardous Substances Process Management System	11 December 2026
	IATF 16949 Quality Management System for Automotive Industry	7 May 2026

The Company strictly adheres to the Zero Defects concept, with the quality assurance department responsible for overall planning, execution, and implementation of product quality and safety management, reporting to management and the Board on the relevant work. By organizing regular quality management review meetings, promoting the implementation of product quality monitoring, and strengthening customer communication, the Company aims to ensure that product quality meets expectations and provide high-quality products to the market.

In 2023, the quality assurance department collaborated with the research and development, production, safety and environmental protection, and marketing departments to conduct monitoring and testing over our entire product lifecycle covering “R&D – Production – After-sales”, so as to predict and analyze potential anomalies, take timely corrective actions, and prevent product quality risks.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Achievements in Quality Management in 2023

Quality Management	Achievement
Customer Certifications	<ul style="list-style-type: none"> <li>✓ Successfully passed audits from 14 automotive customers and 25 key customers, completing pre-qualification for leading global automotive electronics manufacturers.</li> <li>✓ Made breakthroughs in the construction of financial IC card security system, passed EMVCO certification audits, and obtained customer recognition in terms of the quality system.</li> </ul>
Reliability Management	<ul style="list-style-type: none"> <li>✓ Established comprehensive process assessment schemes for 40nm and below advanced process nodes, laying the theoretical foundation for subsequent process verification.</li> </ul>
Yield Management	<ul style="list-style-type: none"> <li>✓ Resolved 15 systematic issues in process baselines across various platforms throughout the year, achieving stable yields of 97% or higher for major production platforms.</li> </ul>
New Product Quality Management	<ul style="list-style-type: none"> <li>✓ Introduced over 500 new products throughout the year, with more than 30 products meeting automotive-grade specifications.</li> <li>✓ Completed the transition of 8 products and technologies from R&amp;D to mass production throughout the year.</li> </ul>

In 2023, the Company organized both the theme activity of “Zero Defect of Characteristic Processes and High-quality Development of Hua Hong” and the Quality Month activity. With the goal of “Building the Foundation of Quality, Pursuing the Path of Excellence (築質量之基, 行卓越之路)”, all departments and employees in Shanghai and Wuxi worked together to carry out a series of activities such as executive lectures, quality knowledge training, knowledge competitions, quality-themed essay submissions, and quality-themed debate competitions, to promote the Company’s high-quality development and pursuit of excellence in quality.

To further enhance its quality management level and inspire employee engagement in learning, the Company organized a series of online activities such as “Zero Defects Quality Awareness Training” and “Quality Knowledge Competition” for all employees, so as to instill the concept of “High Quality and Zero Defects” in the minds of every employee and solidify their quality consciousness.

## Quality Management Awards and Honours of Hua Hong Semiconductor in 2023

- ✓ Second Prize for 2022 Shanghai Key Product Quality Improvement Achievement Award
- ✓ Manufacturing Department of Fab 1 received the “Excellent Level” award in the Shanghai On-site Management Innovation Activity
- ✓ Fab 2 was selected as a shortlist for the nomination award of the 5th China Quality Award
- ✓ Fab 3 was awarded the title of Shanghai Intelligent Factory and recognised as a national-level demonstration site

### Product Safety Assurance

In terms of product safety assurance, the Company has established a hazardous substance management system, conducted regular risk assessments of hazardous substances and compliance evaluations with applicable laws and regulations, and formulated the Hazardous Substances Management Procedure and the three-level management system to effectively control the hazardous substances in products.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Hazardous Substance Control System

Process	Measures
Product R&D	The Company incorporates the management of hazardous substances into the product R&D process to reduce the risk of using hazardous substances from the source.
Raw materials testing	Suppliers are required to provide the product test report for hazardous substances, sign the Letter of Commitment on Product and Environmental Protection. We conducted sampling tests on certain raw materials to ensure the safety of raw materials.
Product hazardous substance control certification	A third-party organization is entrusted to carry out testing in accordance with the Directive on Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations ("RoHS") and the Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH") on a yearly basis to ensure that our products meet the requirements of relevant certification standards.

### Management of Nonconforming Products

For nonconforming products, the Company has formulated the policy of Nonconforming Product Control Procedure for management and has established an optimal product recall system. For products that meet the warranty conditions, our customers may return or exchange any nonconforming products within the warranty period. During the reporting period, the failure rate of the Company's products on the end-user side was less than one in a billion.

## 4.3 Customer Relationship Management

### Customer service system

The Company adheres to the concept of "providing customers with more convenient and safe services" and consistently follows the Law of the People's Republic of China on the Protection of Consumer Rights and Interests. It has formulated the Customer Complaint Handling Procedure, listened to customer feedback, and employed various methods, including proactive communication, establishing complaint channels, and conducting satisfaction surveys, to continuously enhance customer service effectiveness.

## Customer Service System



### Customer Communication

- Adopt multiple methods of communication with customers, including customer survey, regular quarterly/annual business reviews, technical seminar and training.



### Customer Complaint

- Establish customer complaint channels and formulate the Customer Complaint Handling Procedure, handle and feed back customer complaints in a timely manner.



### Customer Satisfaction Survey

- Carry out satisfaction surveys on a sampling basis annually and formulate an improvement plan according to the survey results. Satisfaction Survey.

The Company maintains smooth customer complaint channels and has formulated the Customer Complaint Handling Rules to standardize the process and response measures for customer complaint and the implementation of corrective and preventative measures. Customers may make a complaint and give feedback to the Company through e-mail, hotline, letter, and other channels. During the Reporting Period, the Company received 4 complaints from customers, all of which were properly handled and resolved to the satisfaction of the customers.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Customer Complaint Handling Procedure



### Occurrence of a Complaint

Normally, communicate and confirm with the customer within 24 hours after the occurrence of a complaint and give a preliminary reply.



### Investigation into Failure Causes

Complaints requiring product failure analysis will be submitted to relevant departments for handling. Corrective and preventive measures will be proposed according to the investigation results and a reply will be given to customers.



### Prevention and Correction

Supervise the implementation of corrective and preventive measures, and verify the correction results by regularly sorting out and analyzing relevant information fed back by customers.

The Company conducts customer satisfaction surveys on a regular basis. In 2023, the Company carried out a customer satisfaction survey in the form of questionnaire to collect customer opinions. The average score of customer satisfaction in the questionnaire was 8.97 (full score: 10 points), representing an increase of 0.11 points compared to 2022. Overall, customer satisfaction has remained relatively stable. The management of the Company reviews the annual satisfaction survey results, organizes the difference analysis and implements improvement measures, and feeds corresponding improvement measures and results back to customers.

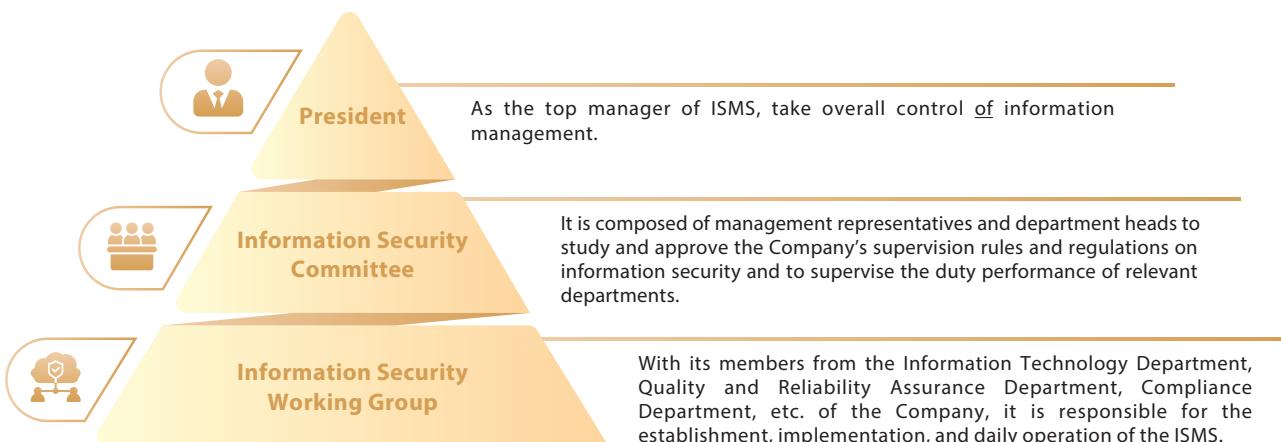
### Information Security and Privacy Protection

The Company strictly complies with the Cyber Security Law of the People's Republic of China, the Cryptography Law of the People's Republic of China, the Regulation on the Administration of Commercial Cipher Codes, and other laws, regulations, and provisions and has developed information security management rules such as the Information Security System Manual and the Statement of Applicability (SOA). Meanwhile, we continuously optimize our organizational structure and management processes. We implement measures such as organizing centralized learning for employees, conducting publicity and warning education, and ensuring the implementation of relevant measures to continuously enhance their awareness and further strengthen the protection and control of data and information, so as to prevent any incidents of unauthorized disclosure.

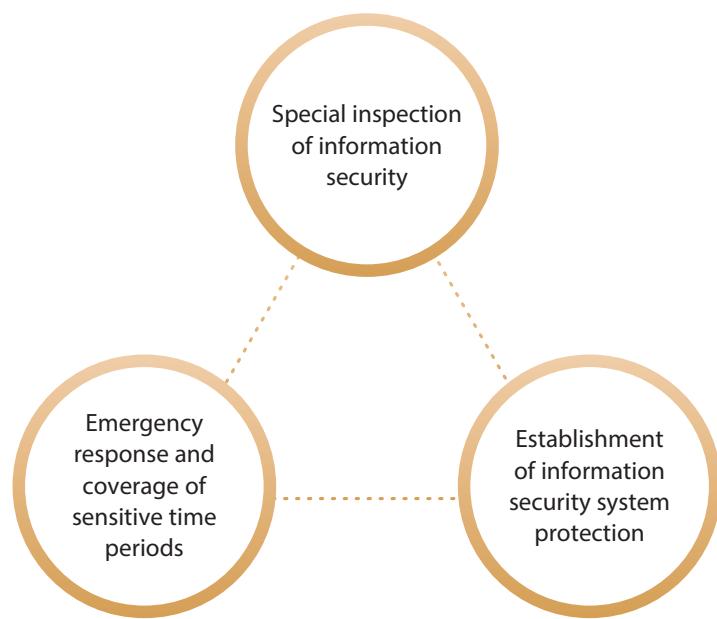
The Company established the Information Security Committee, which is fully responsible for the information security protection work of the Company. The Company has established an Information Security Management System (ISMS), which controls information security risks from information asset management, personnel security, physical control, logic control, and other aspects to ensure information security and is ISO 27001 certified (valid until February 2025). In 2023, the Company did not experience any complaints or incidents related to the infringement of customer privacy or loss of customer data.

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## ISMS Structure



## Hua Hong Semiconductor's Key Initiatives in Information Security in 2023



In 2023, the Company carried out a series of trainings in relation to information security protection in various production and operation bases to enhance employees' knowledge and capabilities in preventing information leaks and strengthen their ability to respond effectively. By doing so, we have built a strong workforce that serves as a solid foundation for ensuring information security.

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## Information Security Protection Training in 2023

Theme	Coverage	Participants
ISMS Training 2023Q1		8,233
ISMS Training 2023Q2		6,554
ISMS Training 2023Q3		6,476
ISMS Training 2023Q4		6,919
Confidentiality and Information Security	Shanghai & Wuxi Production Bases	
Compliance Training		6,802
Enterprise Information Security and Trade Secret Protection Training		1,044

### Responsible Marketing

Integrity, accuracy, and fact-based communication and promotion are the company's responsibilities towards its customers. The Company strictly abides by the Trademark Law of the People's Republic of China, the Advertising Law of the People's Republic of China, and other laws and regulations. We execute product label management in accordance with compliant procedures and establish unified and regulated product labeling standards with our customers. We ensure compliance awareness is integrated throughout the whole process of contract formulation, business development, and both internal and external marketing activities, thereby eliminating the possibility of improper marketing due to subjective factors.

No incidents of violations concerning the use of labels and promotional information occurred within the Company during the Reporting Period.

## 5 Responsible Business Operation

### Main Progress in 2023

Measures	Achievements
Responsible Supply Chain	Through multi-dimensional risk assessment, multi-channel research, scientific planning, and categorization, the Group has made every effort to promote supply chain management. For example, 69 suppliers of raw materials/equipment/components were audited.
Conflict Minerals	A total of 11 suppliers were involved in the due diligence, covering 100% of suppliers that are involved in "conflict minerals". No supplier was found to be involved in "conflict minerals" during the due diligence. The suppliers who do not use conflict minerals account for 100%, as verified by the third-party organization.
Economic Performance	Social contribution per share for 2023 was RMB3.59.

### 5.1 Responsible Value Chain

#### Sustainable Supply Chain Management

The Company primarily relies on suppliers of silicon wafers, chemicals, and gases. The Company is committed to reducing supply chain risks by complying with industry standards of conduct, such as the Code of Conduct of the Responsible Business Alliance (RBA), and formulating supply chain management systems, such as the Supplier Risk Identification, Planning, and Control Management Procedure and the Social Responsibility Requirements for Suppliers. By leveraging the Group's advantages of integration, the Company conducts multi-dimensional supplier risk assessment, multi-channel research, scientific planning, and categorisation.

### Major Suppliers of Hua Hong Semiconductor

Type of Suppliers	Numbers
Silicon wafers	16
Chemicals	54
Gases	33

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Cooperation with suppliers that demonstrate good social responsibility performance is a prerequisite for the Company to achieve stable production and operation. The Company has established a management system applicable to all suppliers and covering supplier selection and access, supplier review and evaluation, support for supplier growth, and supplier elimination.

## Supply Chain Management System

### Supply Chain Management Actions

Supplier selection and access	<ul style="list-style-type: none"><li>The Company formulated the Social Responsibility Requirements for Suppliers in accordance with the RBA and put forward requirements for suppliers in five aspects: labor, health and safety, environmental protection, business ethics, and management system;</li><li>Suppliers with outstanding performance in terms of environment, labor, and ethics will be preferred in supply and procurement;</li><li>In addition to requiring all cooperating suppliers to comply with the Social Responsibility Requirements for Suppliers, the Company also requires its upstream suppliers to recognize and manage in accordance with the Social Responsibility Requirements for Suppliers.</li></ul>
Supplier review and evaluation	<ul style="list-style-type: none"><li>The Company has formulated the Supplier Risk Identification, Planning, and Control Management Procedure to carry out comprehensive evaluation and control on the environmental and social risks of suppliers every year, so as to identify the environmental and social risks of suppliers and formulate corresponding countermeasures;</li><li>Suppliers with major violation records are required to carry out a third-party risk audit in terms of their social responsibilities and provide the certificate of passing the audit, or they may be disqualified as suppliers;</li><li>The Company's anti-corruption policy covers all suppliers, requiring them to comply with anti-corruption requirements and confirming their compliance at the time of annual evaluation.</li></ul>
Support for supplier growth	<ul style="list-style-type: none"><li>The Company carries out regular publicity trainings on the theme of "CSR" and "RBA Code of Conduct" for suppliers every year, including environment, labor, ethics, etc.;</li><li>The supplier training program carried out in 2023 covered suppliers of silicon wafers, chemicals, gas, target materials, and other categories. The Company conducts on-site audits and assessments and collaborates with relevant departments to organize presentations for suppliers, ensuring that they are aware of the Company's product quality requirements and standards, while providing technical support to suppliers to help them improve their product quality.</li></ul>
Supplier elimination	<ul style="list-style-type: none"><li>The Company urges the suppliers with poor performance in terms of environment, labor, and ethics to rectify and confirm that their rectification meets the requirements. Suppliers who fail to meet the rectification requirements will be disqualified.</li></ul>

In addition, the manufacturing process of semiconductor silicon wafers requires a significant amount of water resources and semiconductor manufacturing is associated with high levels of pollution. Failure to address issues such as pollution emissions and wastewater treatment during the production process further threatens water resource sustainability. Therefore, the Company has undertaken actions and performance assessments related to water resource management for its silicon wafer suppliers to mitigate the impact of their production operations on water sources. In 2023, the Company achieved a 100% coverage rate for water resource investigations conducted on its silicon wafer suppliers.

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## Overview of the Social Responsibility Requirements for Suppliers of Hua Hong Semiconductor



### Labor

- Free choice of occupation
- Youth employees
- Working hours
- Salaries and benefits
- Humane treatment
- Non-discrimination
- Free association



### Occupation and Health

- Occupational safety
- Emergency plan
- Occupational injuries and diseases
- Hygiene management
- Physically demanding work
- Machine-related protection
- Public health, canteen, and dormitories
- Communication of health and safety



### Environmental Protection

- Environment-related permits and reports
- Preventing pollution and saving resources
- Hazardous substances
- Solid waste
- Air emissions
- Material restrictions
- Management of water resources
- Energy consumption and greenhouse gas emissions



### Business Integrity

- Operation with integrity
- No illegitimate interests
- Information disclosure
- Intellectual property rights
- Fair trade, advertisement, and competition
- Confidentiality on identities
- Responsible procurement of minerals
- Privacy



### Management System

- Duties and responsibilities of management
- Legal and customer requirements
- Risk assessment and management
- Performance indicators with implementation plans and measures
- Training
- Communication
- Employee feedback, participation, and complaints
- Review and assessment
- Corrective measures

In 2023, the Company further enhanced its automotive electronic supply chain management system, fostering collaborative cooperation among upstream and downstream enterprises within the ecosystem, with an aim to establish a reliable and efficient automotive electronic chip supply chain.

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## Supply Chain Management Initiatives at Hua Hong Semiconductor in 2023

Supplier Access	Supplier Evaluation	Supplier Diversity
<ul style="list-style-type: none"> <li>Introduced 28 new domestic suppliers to strengthen the cooperation with excellent domestic suppliers in width and depth.</li> </ul>	<ul style="list-style-type: none"> <li>Conducted more than 500 investigations on related enterprises, including more than 100 on-site visits, and established contacts with nearly 20 domestic key suppliers.</li> <li>Conducted water resource management assessment on its silicon wafer suppliers with 100% coverage.</li> </ul>	<ul style="list-style-type: none"> <li>Made every effort to promote supply chain diversification, resulting in an increase of 20.2% in the diversification rate of "8-inch + 12-inch" raw material suppliers to 65.4% as compared with that of 2022.</li> <li>Increased the diversification rate of 8-inch raw material suppliers by 20.1% to 72%, of which the diversification rate of target materials and silicon wafers exceeded 90%.</li> <li>Increased the diversification rate of 12-inch raw material suppliers by 20.4% to 55%</li> </ul>

The external environment affects the stability of raw material supply. To mitigate supply chain risks, the Company has implemented various measures to improve the percentage of raw materials purchased from local suppliers through on-site research and increased sourcing efforts. In addition, the Company has established an effective emergency response system. To ensure sustained, safe, and stable operations, the Company has taken various measures, including improving equipment self-maintenance capabilities, cultivating more sources of income while reducing expenditure, cutting costs while increasing efficiency, closely monitoring market demand, continuously optimizing its product portfolio, and further enhancing the production flexibility of its advanced manufacturing platforms.

### *Responsible Minerals Management*

"Conflict Minerals" are obtained by local armed militias by way of long-time forced labor, child labor, and damaging the environment and ecology. Such metals are also the main capital source of illegal armed organizations. According to the Dodd-Frank Wall Street Reform and Consumer Protection Act and research reports of certain international nongovernmental organizations, such minerals are likely to be used for electronic and electrical products, such as mobile phones and computers, in ICT industries.

Metal mineral resources such as gold (Au), tantalum (Ta), tungsten (W), tin (Sn) and cobalt (Co) will be involved in the Company's production and operation process. The Company has formulated the Conflict Minerals Management Policy in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, to avoid the procurement and financing of minerals that have significant negative social and environmental impacts.

In addition to self-management, the Company carries out traceability and due diligence on its suppliers in accordance with internationally recognized investigation frameworks such as the Responsible Minerals Initiative (RMI) and the Organization for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and requires all suppliers to promise not to purchase "conflict minerals" in conflict-affected and high-risk areas, so as to ensure the safety of minerals in the supply chain.

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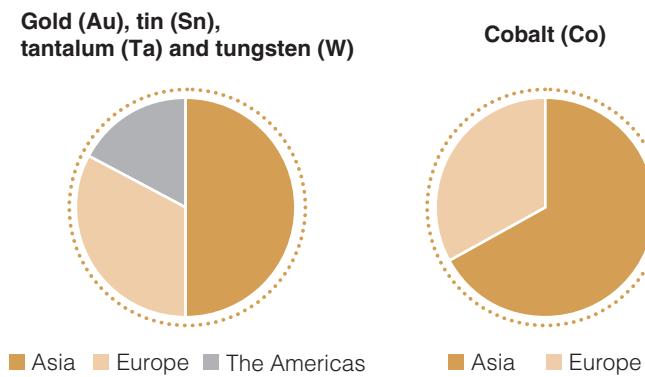
## Conflict Minerals Management Policy of Hua Hong Semiconductor

The Company takes global social and environmental responsibility as its goal and follows green procurement principles and has promised to undertake the following social and environmental responsibilities in its metal supply chain:

1. Suppliers whose raw materials contain gold (Au), tantalum (Ta), tungsten (W), and tin (Sn) are required to purchase materials according to the Responsible Minerals Policy, while suppliers whose raw materials contain cobalt (Co) are required to disclose the smelters of cobalt.
2. We undertake to cause our suppliers to provide the declaration that they do not use gold (Au), tantalum (Ta), tungsten (W), tin (Sn), and cobalt (Co) from “conflict minerals” and to issue the Conflict Minerals Reporting Template (CMRT) and the Extended Minerals Reporting Template (EMRT) to suppliers as part of our conflict minerals investigation questionnaire.

More than 50% of gold, tin, tantalum and tungsten used by the Company in its production process are from Asia, with over 33% from Europe, and the remaining portion from the Americas. Two-thirds of the cobalt used comes from Asia, while one third is from Europe. During the Reporting Period, none of the gold (Au), tantalum (Ta), tungsten (W), or tin (Sn) used by the Company was from the regions with armed conflict.

### Types and Sources of Minerals Used



In 2023, the Company conducted conflict minerals questionnaire surveys on 11 suppliers involving minerals, achieving a 100% response rate and coverage. The Company requires its suppliers to trace the origin of minerals and provide information about smelters. If it is determined that the conflict minerals used by a supplier originate from illegal sources in conflict-affected and high-risk areas, the Company discontinues the procurement of non-compliant materials from that supplier and requires that supplier to rectify within a specified timeframe, ensuring that both the supplier and its upstream raw materials comply with the Company's conflict minerals management requirements.

In 2023, no major issues concerning child labor, human rights violations, forced labor, ecological damage, etc. were found during the supply chain due diligence. 100% of the Company's suppliers do not use conflict minerals, as verified by the third-party organization.

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### 5.2 Anti-Corruption and Bribery

The Company is committed to fostering a corporate culture of integrity, honesty, fairness, and transparency. It strictly complies with the laws and regulations, such as the Anti-Unfair Competition Law of the People's Republic of China and the Interim Provisions on Prohibition of Commercial Bribery, as well as relevant provisions, and has formulated the Undertaking System on Anti-Corruption and Business Ethics, the Anti-Corruption and Anti-Bribery Policy, and other internal management regulations, specifying that all partners and suppliers shall sign the Undertaking Against Commercial Bribery and that all employees shall sign the Undertaking on Business Ethics.

All employees (including part-time employees), senior management, and Board members are required to abide by relevant laws and regulations and practice and behave with integrity, diligence, and self-discipline. Corruption and bribery in all forms are prohibited, including:

#### Anti-Corruption and Anti-bribery Policy of Hua Hong Semiconductor

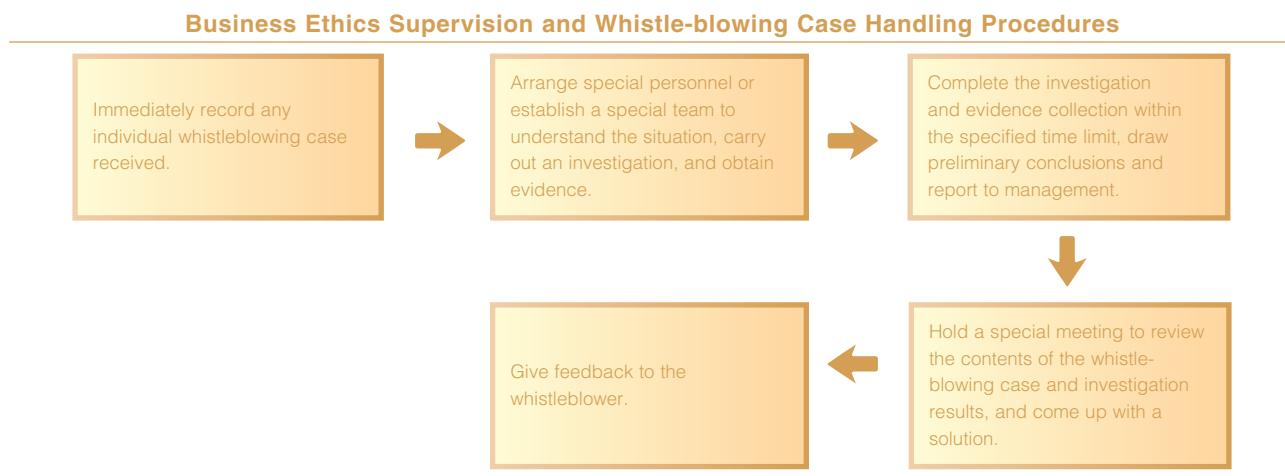


The Company is committed to creating a sound business ethics environment by regularly introducing warning articles and cases in internal publications and providing training activities on anti-corruption and business ethics. The Company focuses on creating a strong foundation for an ethical culture, nurturing the values of integrity and ethics among its employees. In May 2023, Signing Ceremonies for the "Undertaking on Business Ethics" were held in Shanghai and Wuxi, targeting the department heads and above, to further reinforce the commitment to ethical conduct and create a positive and transparent atmosphere within the Company.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company supports employee self-supervision and reporting to maintain a clean and ethical working environment. It provides defined whistle-blowing channels, including E-mail, hotline, and mailbox, to allow employees to make real-name or anonymous complaints and whistle-blowing. The Company comprehensively handles whistle-blowing calls and letters at any time to achieve early detection, resolution, and control, as well as appropriate treatment.

The Company has established comprehensive business ethics supervision and whistle-blowing case handling procedures. Whistle-blowing is thoroughly investigated and evidence is collected, and after review, feedback is provided to the whistleblower regarding the course of action taken. In terms of whistleblower protection, all information related to whistleblowers will be kept strictly confidential. The Company protects the employees or external personnel from unfair treatment such as dismissal, demotion, suspension, intimidation, harassment, or any other form of retaliation for whistle-blowing through legal channels.



During the Reporting Period, no corruption, bribery, extortion, fraud, or money-laundering event has occurred to the Company, nor has any litigation case arising from the above matters occurred.

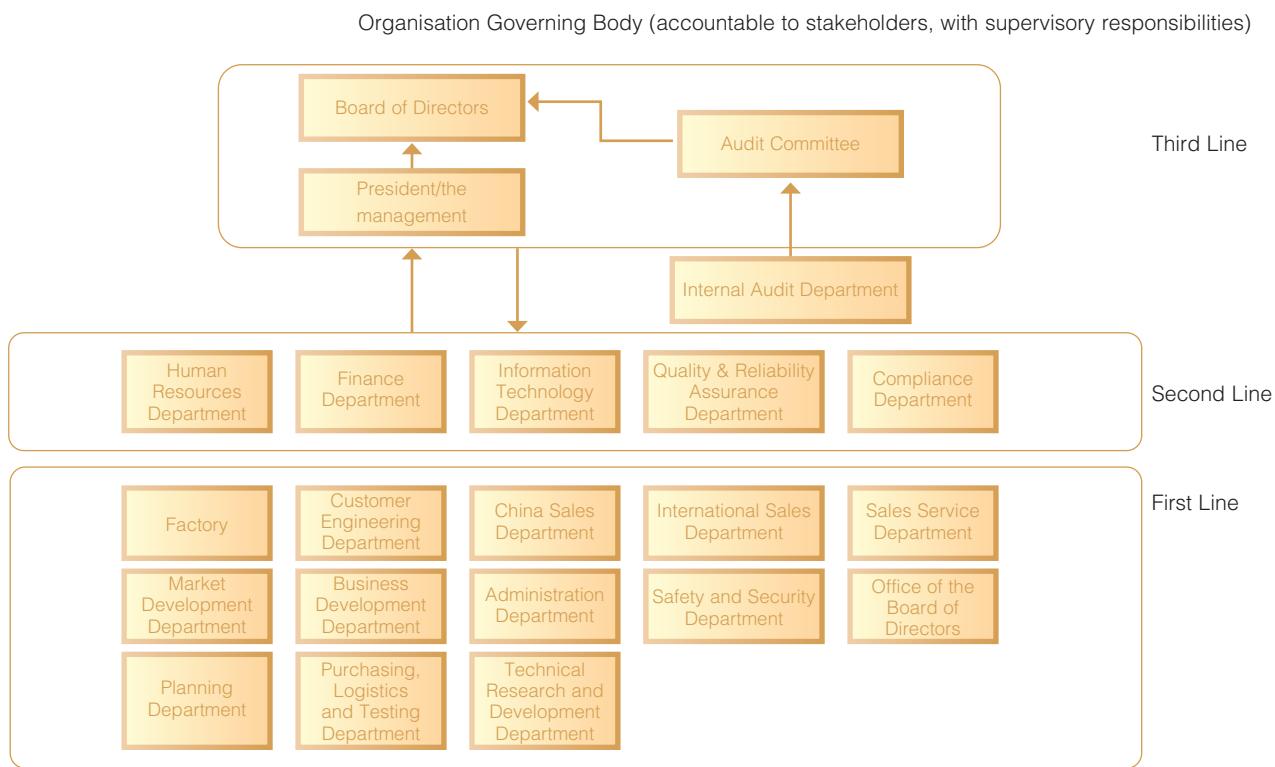
## 5.3 Risk Management

The Company has established the Rules about Comprehensive Control of Risks that covers all business processes, and conducted regular identification, analysis, and assessment of risk lists to form a long-term mechanism. The Company employs a layered and business line-based approach to prevent its major risks in various areas and implements the control and management of major risks in a targeted manner.

At the organizational level, under the authorization of the Audit Committee and management, the Company has established a risk management organizational structure that aligns with the latest “Three-Line Model” of risk management by the Institute of Internal Auditors (IIA). This structure incorporates the Company's specific characteristics and clearly defines the division of responsibilities for addressing major risks, including the responsible leaders, leading departments, and their respective roles. The internal audit department reports annually to the Audit Committee on key aspects of internal controls, risk management priorities, risk assessments, and corresponding control measures, to ensure a closed-loop approach to addressing major risks.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Hua Hong Semiconductor's Three Lines of Defence for Risk Management in the Economic Sector



Functions of the First Line:

to provide products/services to customers and manage risks;

Functions of the Second Line:

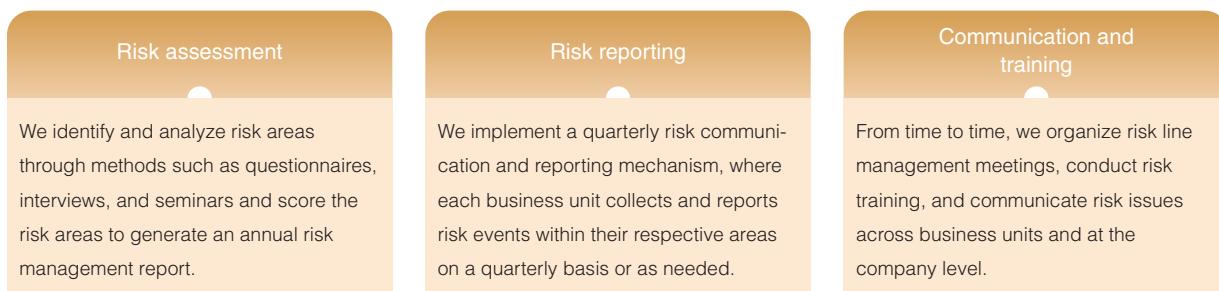
to provide expertise, support, monitoring, and challenge on risk-related matters;

Functions of the Third Line:

to provide independent and objective confirmation and advice on all matters related to the achievement of objectives.

Based on the “three-line model” of risk management and taking into account the principle of comprehensiveness and importance, the Company continuously optimizes its risk map by consolidating certain similar risk factors, resulting in the identification of 59 key risk factors. The Company also comprehensively prevents and supervises its internal and external risks. In 2023, the Company conducted annual risk assessments at its Shanghai and Wuxi bases. Through methods such as questionnaires, interviews, seminars, on-site inspections, and data analysis, the Company identified and analysed risk areas, with focuses on R&D, product quality, supply chain management, and talent reserves and development, to generate an annual risk management report.

## Risk Management System of Hua Hong Semiconductor



# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Risk Response Mechanism of Hua Hong Semiconductor

Risk Category	Risk Factor	Countermeasures
Strategy	Strategic planning	The Company formulated strategic objectives from top to bottom and appropriately deconstructed and implemented such objectives in specific business models of corporate operation, to ensure the accomplishment of strategic objectives.
Operation	Research and development	The Company continuously improves the R&D project management system, conducts comprehensive monitoring on R&D project initiation, implementation, and post-evaluation, constantly enhances the ability of project managers, and develops new technologies and products with commercial value in a timely manner.
	Product quality	Relying on the production quality system, we comprehensively implement excellent performance management, strictly adhere to the Zero Defects concept and ensure the delivery of green and high-quality products in a timely manner to ensure the quality stability of all products, especially automotive-grade products, and continuously improve customer satisfaction.
Talent reserve and development		We set up the talent resume database, carried out a talent inventory, continuously explored recruitment channels, optimized the salary structure, and improved the supporting welfare policies to comprehensively enhance the Company's attraction and employee satisfaction.
Supply chain		The Company enhances its right to speak in the industry supply chain through its technological advantages, signs medium- and long-term strategic agreements with suppliers, sets a safe inventory level for each production material, regularly reviews the rationality of the safe inventory level, makes timely adjustments according to market changes, and continuously evaluates suppliers' capacity and product quality to ensure stability of the supply chain.
Information security		The Company has established its information security framework and management policy; implements the risk evaluation procedure for information security every year; and continuously monitors all kinds of key information through the data protection system (DLP), so as to maintain the optimal interests of the Company, its shareholders, its customers, its suppliers, and its employees.
Environment and Safety	Environment	We design management procedures based on our observation, assessment, and control of environmental factors and list major environmental factors.
Environment and Safety	Safety check	Safety checks focusing on troubleshooting and fault diagnosis are carried out continuously and regularly.
	Occupational health	We have developed the goals, indicators, and program management forms for our environmental and occupational health and safety programs, in accordance with the Company's established goals, indicators, and program management procedures for health, safety, and environment ("HSE").

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5.4 Compliance in Business Operation

The Company respects and complies with applicable local laws and regulations. For details of specific laws, regulations, and related policies, please refer to the "List of Laws, Regulations, and Relevant Policies Observed by the Company" in the Appendix. The Company closely monitors the promulgation and amendment of laws and regulations, identifies regulations relevant to its operations and production, and promptly improves internal policies and management systems to ensure that its operations are in compliance with laws and regulations. The Company has established an internal audit department, which conducts regular audits of the supply chain procurement, business ethics, anti-corruption, and other areas to ensure the compliance of business activities.

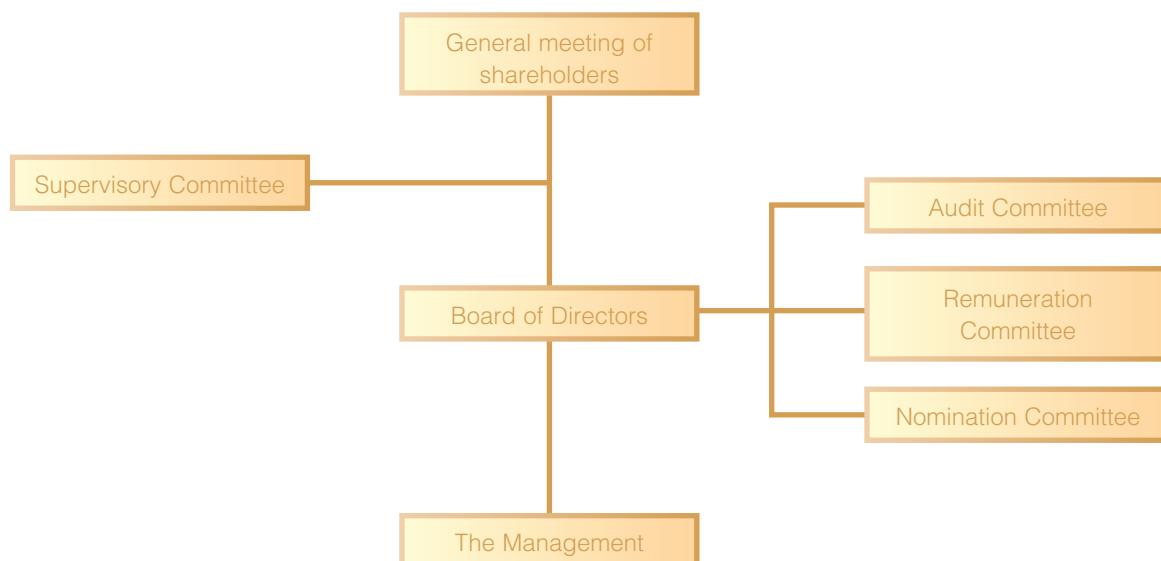
## 5.5 Corporate Governance

### *Corporate Governance*

The Company has established various regulations and systems, including the Articles of Association, Rules of Procedure for Shareholders' General Meeting, and Rules of Procedure for the Board of Directors, in accordance with laws and regulations, such as the Company Law of the People's Republic of China and the Securities Law of the People's Republic of China. In 2023, the Company was listed on the STAR Market of the Shanghai Stock Exchange. To comply with legal requirements, such as the Guidelines for Corporate Governance of Listed Companies and the Administrative Measures for the Disclosure of Information of Listed Companies, the Company updated the Articles of Association and other corporate governance rules, ensuring standardized operations within the Company.

The Company has established a well-structured governance structure consisting of the general meeting of shareholders, the Board, their respective specialized committees (including the Audit Committee, Remuneration Committee, and Nomination Committee), and the management personnel, leading to a governance mechanism of checks and balances where powers and responsibilities of the organs of control, decision-making, and execution are clearly defined and well-coordinated with each other.

**Corporate Governance Structure**



# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Composition of the Board of Directors and Supervisory Committee and data of related meetings held

Composition of the Board and Supervisory Committee	Data of related meetings held
7 Directors on the Board	5 general meetings held A total of 18 proposals considered
Among them, 3 are independent Directors	10 meetings of the Board held A total of 31 proposals considered

In terms of the regulation of information disclosure, the Company has formulated the Information Disclosure Management System and other management documents to ensure the truthful, accurate, timely, fair, and complete disclosure of relevant information, thereby ensuring that stakeholders have access to the necessary information. During the Reporting Period, the Company promptly reported relevant matters and ensured the quality of information disclosure in accordance with the requirements of information disclosure standards.

### *Protection of Investors' Rights and Interests*

As a listed company on the Main Board of the Stock Exchange of Hong Kong Limited and the STAR Market of the Shanghai Stock Exchange, the Company strictly complies with the requirements of the Companies Ordinance of Hong Kong, the Main Board Listing Rules of the Hong Kong Stock Exchange, the Administrative Measures for the Disclosure of Information of Listed Companies of the China Securities Regulatory Commission (CSRC), the Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange, and other laws, regulations, and relevant policy requirements. The Company has established an investor relations management team to maintain communication and interaction with various stakeholders, ensuring that investors' reasonable demands are addressed.

The Company communicates with the capital market through multiple channels about the Company's business operation and management status, financial position, product technology, major issues, and other information, based on the principle of "equal treatment of all investors", the requirement on "compliance information disclosure", and the standard of "honest and trustworthy operation and interactive communication". The Company also proactively discloses information related to the Company of concern by investors and fully protects the legitimate rights and interests of investors.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



To ensure the protection of shareholders' rights and interests, the Company has formulated reasonable profit distribution policies and dividend plan to proactively return to shareholders and provide sustainable and steady returns to investors.

In 2023, the Company held one annual general meeting and four special general meetings of shareholders, at which 18 resolutions were passed by voting. All shareholders of the Company were invited to participate in the above meetings, including all small and medium-sized investors, ensuring the participation rights of small and medium-sized investors. Furthermore, the Company held four performance exchange meetings during the Reporting Period.

## 6 Industry and Community

### Main Progress in 2023

Measures	Achievements
Industry Development	<ul style="list-style-type: none"> <li>Held the “Core Connectivity, Vehicle Connectivity, and Chain Connectivity” Automotive Chip Ecosystem Cooperation Conference to promote the cooperation and high-quality development of the automotive chip ecosystem</li> </ul>
Volunteer Service and Charity	<ul style="list-style-type: none"> <li>Conducted welfare visits to nursing homes for 18 consecutive years</li> <li>Organized four sessions of integrated circuit-themed science popularization activities</li> </ul>

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 6.1 Industry Development

The Company actively participated in the industry co-development activities to facilitate high-quality development of the IC industry and actively attended the industry summit to jointly promote high-quality development of the industry.

In 2023, the Company held the “Core Connectivity, Vehicle Connectivity, and Chain Connectivity” Automotive Chip Ecosystem Cooperation Conference, joining forces with nearly a hundred businesses in the integrated circuit, automotive components, and assembled vehicles sectors to promote cooperation of the automotive chip ecosystem and foster collaborative industry development under the spirit of “identifying opportunities in industrial development by amassing the power of technical innovation”.

## 6.2 Volunteer Service and Charity

In order to enhance safety awareness of community residents, for six years the Company has provided the “First Aid Course for Accidents” in the community where the headquarters operates, including First Aid knowledge and cardiopulmonary resuscitation.

The Company is enthusiastic in public welfare undertaking and has organized employees to regularly visit the elderly in the community nursing home every year, to chitchat, make wontons, and carry out activities, so as to entertain and care for the elderly. The Company has been visiting the Meixin Nursing Home for 18 consecutive years, demonstrating its commitment to volunteer service. Furthermore, the Company encourages employees to utilize their mornings by volunteering at community kindergartens, to actively embody the “Hua Hong 520 Spirit” through practical actions.

The Company is dedicated to youth education. During the Zhangjing Science Hall Science Festival themed “Enlightening with Light, Exploring with Children (以光育光, 探索‘童’行)”, the Company organized four sessions of integrated circuit-themed science popularization activities. Through informative lectures and educational courses, over 130 children were introduced to the process of chip manufacturing and the everyday applications of chips in daily life. The Company also donated school bags and sporting goods to Lada Primary School in Temuli Town, Butuo County, Liangshan Yi Autonomous Prefecture, Sichuan Province \*(四川省涼山彝族自治州布拖縣特木里鎮拉達小學), and the students. In 2023, the Company launched a paired-up assistance in poverty alleviation program and donated RMB50,000 to Youqiao Village, Chongming District, Shanghai.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7 Appendix

### 7.1 Quantitative Performance

#### Environment

Performance Indicators	Unit	2021	2022	2023
<b>Emissions</b>				
Total air emissions	10,000 m <sup>3</sup>	2,319,307	2,391,024	2,747,929
Nitrogen oxide (NOx) emissions	Kg	36,857	32,650	33,719
Sulfur dioxide (SO <sub>2</sub> ) emissions	Kg	2,239	3,546.12	5,251.56
Total wastewater discharge	10,000 m <sup>3</sup>	704	832	898
Total hazardous waste <sup>1</sup>	Ton	17,363	20,385	20,797
Hazardous waste produced per unit output	Kg/8-inch wafers	4.96	4.88	5.29
Total non-hazardous waste <sup>2</sup>	Ton	8,981	9,864	9,269
Non-hazardous waste produced per unit output	Kg/8-inch wafers	2.57	2.36	2.36
<b>Use of Energy and Resources</b>				
Total electricity consumed <sup>1</sup>	MWh	867,682	954,667	1,030,352
Natural gas consumed <sup>1</sup>	m <sup>3</sup>	11,456,569	10,530,287	11,048,312
Gasoline consumed <sup>1</sup>	L	/	/	43,949
Diesel consumed <sup>1</sup>	L	/	/	15,911
Heat purchased <sup>1</sup>	GJ	/	/	134,940
Hydrogen <sup>1</sup>	m <sup>3</sup>	/	/	1,149,860
Integrated energy consumption <sup>3</sup>	MWh	991,663	1,065,002	1,168,170
Integrated energy consumed per unit output	MWh/8-inch wafers	0.28	0.25	0.30
Total water consumed <sup>4</sup>	m <sup>3</sup>	15,707,212	18,010,226	19,076,734
Of which: Water from municipal water supply	m <sup>3</sup>	8,928,040	10,284,063	11,127,266
Wastewater reused	m <sup>3</sup>	6,788,287	7,726,163	7,949,468
Water consumed per unit product <sup>5</sup>	m <sup>3</sup> /8-inch wafers	2.55	2.46	2.83
Recycled/reused water	m <sup>3</sup>	86,119,337	107,163,560	126,544,660
Total packaging materials used for the shipment of finished products	Ton	253.5	313.32	336.92
Packaging materials used for the shipment of per unit finished product	Kg/8-inch wafers	0.07	0.07	0.09
Recycled packaging materials used for the shipment of finished products	Ton	48.5	54.9	66.33
<b>GHG Emission</b>				
GHG emissions <sup>6</sup>	Ton of CO <sub>2</sub> equivalent	713,649	497,938	537,070
Of which: Direct GHG emissions	Ton of CO <sub>2</sub> equivalent	24,803	24,877	22,881
Indirect GHG emissions <sup>7</sup>	Ton of CO <sub>2</sub> equivalent	697,899	473,060	514,189
GHG emissions per unit output	Ton of CO <sub>2</sub> equivalent/8-inch wafers	0.21	0.12	0.14

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Notes:

- 1 In 2023, the expansion project of the Wuxi Production Base was put into operation, resulting in an increase in energy consumption, waste gas, waste water, hazardous and non-hazardous waste generation.
- 2 Non-hazardous waste include sludge produced in wastewater treatment and general waste.
- 3 Integrated energy consumption included electricity purchased, natural gas, gasoline, diesel, heat purchased, and hydrogen.
- 4 Total water consumption = water consumption from municipal water supply + wastewater reuse.
- 5 In calculation, water consumed per unit product only includes water from the municipal water supply.
- 6 GHG emissions are calculated in accordance with the GB/T 32150 General Guideline for Calculation and Reporting of GHG Emissions from Industrial Enterprises and the GB/T 32151 Requirements on Calculation and Reporting of GHG Emissions published by the Standardization Administration of China.
- 7 In 2022 and 2023, the indirect GHG emissions in Shanghai and Wuxi plants were calculated according to the Guidelines for Accounting and Reporting of Greenhouse Gas Emissions in Shanghai (Trial) (Hu Fa Gai Huan Zi [2012] No. 180) and the Notice on the 2023-2025 Corporate Greenhouse Gas Emission Reporting Management in Power Generation Industry, respectively, among which, Shanghai plant uses a default value of electricity emission factor of 4.2tCO<sub>2</sub>/10<sup>4</sup>kWh, and Wuxi plant uses the national average grid emission factor of 0.5703tCO<sub>2</sub>/MWh when calculating.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Employment and Labor Practice*

Performance Indicators	Unit	2021	2022	2023
<b>Employment</b>				
Total number of full-time employees	Person	6,084	6,760	6,863
Including: Number of male employees	Person	4,426	4,932	5,039
Number of female employees	Person	1,658	1,828	1,824
Number of employees working under a labor contract with the employer	Person	6,084	6,760	6,863
Number of employees working under a labor contract with a labor dispatch company	Person	85	81	53
Part-time employees	Person	0	0	0
Number of employees aged under 30	Person	2,676	2,983	2,894
Number of employees aged between 30 and 50	Person	3,271	3,624	3,811
Number of employees aged above 50	Person	137	153	158
Number of employees from Mainland China	Person	6,075	6,751	6,855
Number of foreign employees	Person	9	9	8
<b>Health and Safety</b>				
Occupational disease incidence	%	0	0	0
Number of work-related fatalities	Person	0	0	0
Percentage of work-related fatalities	%	0	0	0
Lost days due to work injury	Day	367	83	61
<b>Employee Training</b>				
Average training hours completed per employee	Hour	119.9	122.2	133.7
Including: Average training hours completed per non-management employee	Hour	121.5	123.7	135.6
Average training hours completed per management member	Hour	23.5	26.5	31.6
Average training hours completed per female employee	Hour	123.8	124.3	125.1
Average training hours completed per male employee	Hour	118.5	121.4	136.8
Percentage of employees trained	%	100	100	100
Including: The percentage of non-management employees trained	%	100	100	100
Percentage of management members trained	%	100	100	100
Percentage of female employees trained	%	100	100	100
Percentage of male employees trained	%	100	100	100

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Product Responsibility and Customer Service

Performance Indicators	Unit	2021	2022	2023
<b>Product Responsibility and Customer Service</b>				
Product return rate	%	0.05	0.11	0.087
Percentage of products sold subject to recalls for safety and health reasons	%	0	0	0
<b>Customer Service</b>				
Number of complaints received in relation to products and services	Case	0	0	4
Performance for percentage of customer complaints resolved	%	/	/	100%

## Supply Chain Management

Performance Indicators	Unit	2021	2022	2023
Total number of suppliers <sup>1</sup>	Supplier	545	551	561
Total number of local suppliers	Supplier	410	413	420
Total number of foreign suppliers	Supplier	136	138	141
Number of suppliers assessed <sup>2</sup>	Supplier	115	112	114
Number of suppliers subject to rectification	Supplier	0	0	0
Percentage of raw and auxiliary material suppliers signing the Environmental Protection Undertaking	%	100	100	100
Percentage of raw materials purchased from local suppliers <sup>3</sup>	%	29	31	32

### Notes:

- 1 The reviewed data for the last three years for the relevant performance indicators for the total number of suppliers is based on the data disclosed in the table of the annual report.
- 2 The number of suppliers which were assessed by the Company in terms of labor, health and safety, environment, and business ethics.
- 3 Raw materials purchased include silicon slices, quartz, target materials, gases, chemicals, and other raw materials for production.

## Anti-corruption

Performance Indicators	Unit	2021	2022	2023
Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period	Case	0	0	0
Total hours of anti-corruption training received by employees	Hour	/	/	2,542

## Community Investment

Performance Indicators	Unit	2021	2022	2023
Number of employees participating in volunteer services	Person	1,324	4,189	1,108
Total hours of volunteer activities	Hour	1,986	6,283	1,364
Community investment	RMB	/	/	50,000

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Economic Performance

Performance Indicators	Unit	2021	2022	2023
Social contribution per share <sup>1</sup>	RMB	3.31	5.46	3.59

### Note:

1 Social contribution per share = (net profit of the Company + tax paid to the state during the year + salaries paid to employees + interest on borrowings paid to banks and other creditors + value created for other stakeholders, e.g. donations – other social costs due to environmental pollution)/total number of shares of the Company.

## 7.2 List of Laws, Regulations and Relevant Policies Observed by the Company

Fields	Names of Laws and Regulations
<b>Environmental Responsibility</b>	
Environmental Protection	Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution, Urban and Rural Planning Law of the People's Republic of China, Marine Environment Protection Law of the People's Republic of China, Energy Conservation Law of the People's Republic of China, etc.
<b>Product Responsibility</b>	
Product and Service	Accounting Law of the People's Republic of China, Company Law of the People's Republic of China, Constitution of the People's Republic of China, Law of the People's Republic of China on Product Quality, Customs Law of the People's Republic of China, Metrology Law of the People's Republic of China, Foreign Trade Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China, Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals ("REACH"), Waste Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances ("RoHS"), etc.
Information Security and Privacy Protection	Cyber Security Law of the People's Republic of China, Cryptography Law of the People's Republic of China, Regulation on the Administration of Commercial Cipher Codes, Personal Information Protection Law of the People's Republic of China
Intellectual Property Protection	Patent Law of the People's Republic of China, Copyright Law of the People's Republic of China, Trademark Law of the People's Republic of China, etc.
<b>Responsibility for Employees</b>	
Employee Employment	Law of the People's Republic of China on Employment Contracts, Law of the People's Republic of China on Protection of Women's Rights and Interests, Employment Promotion Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Civil Code of the People's Republic of China, Labor Law of the People's Republic of China, Criminal Law of the People's Republic of China, Measures for the Administration of Health Insurance, Measures for Application for and Payment of Unemployment Insurance Money, etc.
Occupational Health and Safety	Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Production Safety Law of the People's Republic of China, Regulation on Work-Related Injury Insurances, etc.
<b>Corporate Governance</b>	
Corporate Governance	Company Law of the People's Republic of China, Securities Law of the People's Republic of China, etc.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7.3 Benchmarking Index

The Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide (effective from 31 December 2023)

### Part B: Mandatory Disclosure Requirements

Mandatory Disclosure Items	Section in the Report
Governance Structure	1. ESG Management System
Reporting Principles	7.5 Reporting Principles
Reporting Boundary	7.4 Preparation of the Report

### Part C: "Comply or explain" Provisions

Aspects, General Disclosures and KPIs	Disclosure Section
<b>Subject Area A. Environmental</b>	
<b>Aspect A1. Emissions</b>	
General Disclosure A1	2.5 Emissions and Waste Management
KPI A1.1	7.1 Quantitative Performance
KPI A1.2	2.5 Emissions and Waste Management
	2.3 Climate Change Mitigation and Adaptation
	7.1 Quantitative Performance
KPI A1.3	7.1 Quantitative Performance
KPI A1.4	7.1 Quantitative Performance
KPI A1.5	2.5 Emissions and Waste Management
	1.2 ESG management strategies and targets
KPI A1.6	2.5 Emissions and Waste Management
	1.2 ESG management strategies and targets
<b>Aspect A2. Use of Resources</b>	
General Disclosure A2	2.2 Energy Management
	2.4 Water Resources Management
KPI A2.1	7.1 Quantitative Performance
KPI A2.2	7.1 Quantitative Performance
KPI A2.3	2.2 Energy Management
	1.2 ESG management strategies and targets
KPI A2.4	2.4 Water Resources Management
	1.2 ESG management strategies and targets
KPI A2.5	7.1 Quantitative Performance
<b>Aspect A3. Environment and Natural Resources</b>	
General Disclosure A3	2.2 Energy Management
	2.4 Water Resources Management
KPI A3.1	2.2 Energy Management
	2.4 Water Resources Management
<b>Aspect A4. Coping with Climate Change</b>	
General Disclosure A4	2.3 Climate Change Mitigation and Adaptation
KPI A4.1	2.3 Climate Change Mitigation and Adaptation

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Disclosure Section
<b>Subject Area B. Social Employment and Labour Practices</b>	
<b>Aspect B1. Employment</b>	
General Disclosure B1	3.1 Employee Interests and Benefits
KPI B1.1	7.1 Quantitative Performance
KPI B1.2	3.3 Employee Development and Training
<b>Aspect B2. Health and Safety</b>	
General Disclosure B2	3.2 Employee Health and Safety
KPI B2.1	7.1 Quantitative Performance
KPI B2.2	7.1 Quantitative Performance
KPI B2.3	3.2 Employee Health and Safety
<b>Aspect B3. Development and Training</b>	
General Disclosure B3	3.3 Employee Development and Training
KPI B3.1	7.1 Quantitative Performance
KPI B3.2	7.1 Quantitative Performance
<b>Aspect B4. Labor Standards</b>	
General Disclosure B4	3.1 Employee Interests and Benefits
KPI B4.1	3.1 Employee Interests and Benefits
KPI B4.2	3.1 Employee Interests and Benefits
<b>Subject Area B. Social Operating Practices</b>	
<b>Aspect B5. Supply Chain Management</b>	
General Disclosure B5	5.1 Responsible Value Chain
KPI B5.1	7.1 Quantitative Performance
KPI B5.2	5.1 Responsible Value Chain
KPI B5.3	5.1 Responsible Value Chain
KPI B5.4	5.1 Responsible Value Chain
<b>Aspect B6. Product Responsibility</b>	
General Disclosure B6	4.2 Product Quality and Safety
	4.3 Customer Relationship Management
KPI B6.1	7.1 Quantitative Performance
KPI B6.2	4.3 Customer Relationship Management
	7.1 Quantitative Performance
KPI B6.3	4.3 Customer Relationship Management
KPI B6.4	4.3 Customer Relationship Management
KPI B6.5	4.3 Customer Relationship Management

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Disclosure Section
<b>Aspect B7. Anti-corruption</b>	
General Disclosure B7	5.2 Anti-corruption and Bribery
KPI B7.1	7.1 Quantitative Performance
KPI B7.2	5.2 Anti-corruption and Bribery
KPI B7.3	5.2 Anti-corruption and Bribery
<b>Aspect B8. Community Investment</b>	
General Disclosure B8	6.2 Voluntary Service and Public Charity
KPI B8.1	6.2 Voluntary Service and Public Charity
KPI B8.2	7.1 Quantitative Performance

Rules Governing the Listing of Stocks on the STAR Market of Shanghai Stock Exchange (revised in August 2023)

Disclosure requirement	Report Section
4.4.1 General	1 ESG Management System
4.4.2 Environmental protection responsibilities	2 Environmental Responsibilities
4.4.2(1) Complying with environmental laws, regulations and industry standards	2.1 Environmental Management System
4.4.2(2) Formulating and implementing its environmental plan	2.1 Environmental Management System
4.4.2(3) Efficiently use natural resources such as energy, water and raw materials	2.4 Resource Management
4.4.2(4) Dispose of pollutants in accordance with law	2.5 Emissions and Waste Management
4.4.2(5) Building and operating effective pollution control facilities	2.1 Environmental Management System
4.4.2(6) Fully paying environmental taxes	2.5 Emissions and Waste Management
4.4.2(7) Ensuring the environmental security of the supply chain	2.1 Environmental Management System
4.4.2(8) Other due environmental responsibilities	5.1 Responsible Value Chain
4.4.3 Production and product safety responsibilities	2.1 Environmental Management System
4.4.3(1) Complying with product safety laws and regulations and industry standards	4 Products and Services
4.4.3(2) Establishing a safe and reliable production environment and process	4.2 Product Quality and Safety
4.4.3(3) Establishing product quality and safety protection mechanism and product safety emergency plan	4.2 Product Quality and Safety
4.4.3(4) Other due production and product safety responsibilities	4.1 Product R&D and Innovation
4.4.4 Protection of the rights and interests of employees	4.2 Product Quality and Safety
4.4.4(1) Establishing management system on employee employment and dismissal, salary and benefits, social insurance, working hours and punishment on violations	4.3 Customer Relationship Management
4.4.4(2) Creating a working environment and supporting safety measures to prevent occupational hazards	3 Employee-Related Responsibilities
4.4.4(3) Carrying out necessary expertise and vocational skills training on employee	3.1 Rights and Benefits of Employees
4.4.4(4) Other due responsibilities to protect the rights and interests of employees	3.2 Employee Health and Safety
4.4.5 Scientific ethics	3.3 Employee Development and Training
	3.1 Rights and Benefits of Employees
	4.1 Product R&D and Innovation

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Guidelines for the Application of Self-regulatory Rules for Companies Listed on the STAR Market of the Shanghai Stock Exchange No.2 –Voluntary Disclosure of Information (2022 Revision)

Terms and Disclosure		Report Section
(VI)-1	Basic Information on Research and Development	4.1 Product R&D and Innovation, 6.1 Industry Development
(VI)-2	Research and Development Feasibility	2.6 Green Products, 4.1 Product R&D and Innovation
(VI)-3	Necessary Risk Warning	5.3 Risk Management
(VI)-4	Impact of Research and Development on the Company	2.6 Green Products, 4.1 Product R&D and Innovation
(XIV)-1	Environmental Responsibility	2.1 Environmental Management System, 2.2 Energy Management, 2.3 Climate Change Mitigation and Adaptation, 2.4 Resource Management, 2.5 Emissions and Waste Management
(XIV)-2	Employee Protection and Development	3.1 Employee Interests and Benefits, 3.2 Employee Health and Safety, 3.3 Employee Development and Training
(XIV)-3	Product Safety, Compliance, Public Welfare Activities	4.1 Product Quality and Safety, 5.4 Compliance in Business Operation, 5.5 Corporate Governance, 6.2 Voluntary Service and Public Charity
(XIV)-4	Corporate Governance and investor protection	5.5 Corporate Governance

## 7.4 Preparation of the Report

This report represents the 8th Environmental, Social and Governance Report of Hua Hong Semiconductor Limited, which disclose the Company's principles, management approaches, initiatives, and achievements regarding ESG issues in its business operations to investors and other stakeholders.

### *Scope of the Report*

The report covers Hua Hong Semiconductor Limited ("Hua Hong Semiconductor" and the "Company") and its subsidiaries, and unless otherwise specified, is consistent with the scope of the annual consolidated financial statements of Hua Hong Semiconductor (stock code: 01347.HK/688347.SH) for the same period.

### *Reporting Period*

The reporting period is from 1 January 2023 to 31 December 2023. Unless otherwise stated, the data presented in this report are data for that period.

# 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Basis for preparation*

This Report is prepared in accordance with Appendix C2 "Environmental, Social and Governance Reporting Guide" (effective from 31 December 2023) of the Listing Rules published by the Hong Kong Stock Exchange with reference to the Rules Governing the Listing of Stocks on the STAR Market of Shanghai Stock Exchange (revised in August 2023) and the "Guidelines for the Application of Self-regulatory Rules for Companies Listed on the STAR Market of the Shanghai Stock Exchange No.2 –Voluntary Disclosure of Information (2022 Revision)".

## *Data Declaration*

The data and cases presented in the report are based on the official records of the Company's actual operations.

All financial data in the report are denominated in RMB. In case of any discrepancies between the financial data in this report and the Company's annual financial report, the latter shall prevail.

## *Access to the Report*

This report is released in electronic form on such platforms as the Company's official website (<https://www.huahonggrace.com>).

## *Contact Us*

For any inquiries on the Report, please contact us through the following methods:

Address: 288 Halei Road, Zhangjiang Hi-Tech Park, Shanghai, PRC

Email: [IR@hhgrace.com](mailto:IR@hhgrace.com)

## **7.5 Reporting Principles**

- **Materiality**  
The Company identifies the substantive issues in relation to business operation concerned by investors and other stakeholders as the focus of this Report. The reporting on substantive issues in this Report also focuses on the industry characteristics and regional characteristics involved in the Company's operation. The details of analysis process and results of material issues are set out in the section headed "ESG Management System" of this Report. In the meantime, this Report highlights the ESG matters that may have significant influence on investors and other stakeholders.
- **Accuracy**  
Best efforts have been made to ensure the accuracy of the information contained in the report. Among them, data caliber, calculation basis, and assumptions have been explained in the calculation of quantitative information, to ensure that the calculation error range will not cause misleading of information users. For quantitative information and notes, please refer to the relevant sections in the report.

The Board guarantees that there are no misrepresentations or misleading statements contained in or material omissions from the report.

## 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Balance  
The Report reflects the objective facts and discloses both positive and negative information related to the Company impartially. The Company has searched the objects within the scope of this Report through Shanghai Qingyue Credit Database (data.epmap.org), and did not find any negative events that should be disclosed but not disclosed during the Reporting Period.
- Clarity  
This report is published in simplified Chinese. This report contains tables and model diagrams as an aid to understanding the textual content of this report. To facilitate quicker access to information for stakeholders, this report provides a table of contents and benchmarking index tables for ESG standards.
- Quantitative and consistency  
This Report discloses key quantitative performance indicators and historical data as much as possible. The statistical and disclosure methods of the same indicator in this Report are consistent in different reporting periods; Any change, where possible, in the statistical and disclosure methods shall be fully explained in the notes to the Report, so that the stakeholders can conduct meaningful analysis and evaluate the development trend of the Company's ESG performance level. For details, see the section headed "Quantitative Performance" of the Report.
- Integrity  
The scope of disclosures in this report is consistent with the scope of the Company's consolidated financial statements.
- Timeliness  
This is an annual report covering the period from 1 January 2023 to 31 December 2023. The Company strives to publish the report as soon as possible after the end of the reporting year to provide timely information for stakeholders' decision-making.
- Verifiability  
The cases and data in this report are derived from the original records or financial reports of the actual operations of the Company. The Company adopts the HiESG Performance Management System to manage quantitative ESG performance over the years. The source of the disclosed data and the calculation process are traceable and can be used to support the inspection by external assurance works.