華虹半導體有限公司
Hua Hong Semiconductor Limited

(Incorporated in Hong Kong with limited liability)

Stock Code：1347

GLOBAL OFFERING

Sole Sponsor, Sole Global Coordinator,
Sole Bookrunner and Joint Lead Manager

Goldman Sachs

Joint Lead Managers

BNP PARIBAS

Daiwa Capital Markets

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Hua Hong Semiconductor Limited
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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**: 228,696,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**: 22,870,000 Shares (subject to adjustment)**
Number of International Offer Shares	**: 205,826,000 Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	**: HK$12.20 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**: No nominal value**
Stock code	**: 1347**

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Joint Lead Manager

Goldman Sachs

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Daiwa Capital Markets

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company on or about Thursday, October 9, 2014 and, in any event, not later than Sunday, October 12, 2014. The Offer Price will be not more than HK$12.20 per Offer Share and is currently expected to be not less than HK$11.15 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$12.20 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK$12.20 per Offer Share.

The Sole Global Coordinator (on behalf of the Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Sunday, October 12, 2014 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Please also see the section headed "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

October 3, 2014

Latest time for completing electronic applications under **HK eIPO White Form** service through the designated website **www.hkeipo.hk**	11:30 a.m. on Wednesday, October 8, 2014
Application lists open	11:45 a.m. on Wednesday, October 8, 2014
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Wednesday, October 8, 2014
Latest time for completing payment of **HK eIPO WHITE FORM** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, October 8, 2014
Latest time for giving **electronic application instructions** to HKSCC	12:00 noon on Wednesday, October 8, 2014
Application lists close	12:00 noon on Wednesday, October 8, 2014
Expected Price Determination Date	Thursday, October 9, 2014
(1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Tuesday, October 14, 2014
(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus	Tuesday, October 14, 2014
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.huahonggrace.com** from	Tuesday, October 14 2014
Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** with a "search by ID" function from	Tuesday, October 14, 2014

Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before	Tuesday, October 14, 2014
Dispatch of refund cheques and e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before	Tuesday, October 14, 2014
Dealings in the Shares on the Stock Exchange expected to commence on	Wednesday, October 15, 2014

The above expected timetable is a summary only. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, October 8, 2014, the application lists will not open and close on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists".

You should refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk Factors" on page 36 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

Our Business Model

We are a global, leading pure-play 200mm foundry. According to IBS, based on total 2013 revenue, we ranked second globally amongst pure-play 200mm foundries, and sixth amongst all the pure-play foundries worldwide, with a 1.4% global market share of the total foundry market by revenue. Please see "Industry Overview — The Foundry Industry" on page 75 of this prospectus for more details. We primarily focus on manufacturing semiconductors on 200mm wafers for specialty applications. Our manufacturing expertise comes from many years of research and development of advanced and differentiated technologies for 200mm wafer manufacturing, in particular eNVM and power discretes. Our portfolio also includes several other advanced process technologies such as RFCMOS, analog and mixed signal, CMOS image sensors, PMIC and MEMS. We incurred approximately US$30.8 million, US$30.2 million, US$30.3 million, US$14.6 million and US$17.7 million in 2011, 2012, and 2013 and the six months ended June 30, 2013 and 2014, respectively, on research and development expenses, which represented 5.1%, 5.3%, 5.2%, 5.2% and 5.5%, respectively, of our revenue for these periods. Using our own proprietary processes and techniques, we manufacture semiconductors to the design specifications of our diverse customers, which include (i) IDMs and (ii) systems and fabless companies. We also offer design enablement services facilitating the timely completion of complex designs that are optimized in terms of performance, cost and manufacturing yield on our processes.

We have a long operating track record through HHNEC and Grace Shanghai, which began operations in 1999 and 2003, respectively, and merged into HHGrace in 2013.

Our Industry

We compete internationally and in China with pure-play foundry service providers, as well as with IDMs that allocate a portion of their fabrication capacity to foundry operations. According to IBS, the size of the worldwide foundry market in terms of revenue increased from US$21.5 billion in 2008 to US$42.0 billion in 2013, representing a CAGR of 14.3%. The worldwide foundry market in terms of revenue is expected to reach US$69.3 billion by 2020, representing a CAGR of 7.4% from 2013 to 2020. Semiconductor companies across the industry choose to manufacture their products on either 150mm, 200mm, or 300mm wafers based on their assessment of many factors, which may include, amongst others, design geometry, design complexity, power requirements, mask costs, cost of foundry services, expected manufacturing yield, and expected production volume per product. Although certain products could be manufactured on both 200mm and 300mm wafers, we believe the 200mm manufacturing solutions would typically be more cost effective, especially for products that have lower production volumes.

Some of our equipment for manufacturing 200mm wafers is no longer manufactured and almost fully depreciated. Therefore, we must source certain pre-owned or factory refurbished equipment to meet our expansion needs, which is the normal practice within the 200mm foundry industry. As the technologies keep evolving, and as the cost of manufacturing on 300mm wafers improves over time, particularly with the decline in depreciation expenses and mask costs, the cost advantage of manufacturing on 200mm wafers may diminish in the near future. Nonetheless, as manufacturing technologies progress from 150mm to 200mm to 300mm wafers, foundries manufacturing on smaller size wafers have been able to stay competitive by enhancing their product mix to focus on specific products. As a result, IBS believes that 200mm foundries will still be able to capture market opportunities and remain profitable in the near future. While we believe that we will still be able to capture market opportunities as a dedicated 200mm foundry in the near future despite the expected erosion of our cost advantages over 300mm foundries, we cannot assure you that we will be able to compete effectively in the near future or that the market for products manufactured on our differentiated technologies will grow or even remain constant in the future. Please see "Risk Factors — Risks Relating to Our Industry — Our business plan is premised on the continued demand for foundry services on 200mm wafers of the specialty applications that we target. Our business may not be successful if this demand does not continue to develop in the manner we expect" on page 45 of this prospectus.

Manufacturing Technologies

We develop and offer our customers a portfolio of advanced, differentiated wafer process technologies across the 1.0μm to 90nm technology nodes. In particular, we are a specialist in the design and manufacture of semiconductors that require eNVM process technologies. We believe our eNVM solutions deliver superior performance on smaller die size relative to those of our competitors, making us the foundry of choice for a variety of fast growing eNVM applications such as smart cards and MCUs. We also have strong capabilities in power discrete technologies and have a dedicated fab for manufacturing power discrete products. Through our flexible and customizable manufacturing platform, we are able to support a variety of customer-specific requirements. We also rely on licensed technologies such as SONOS-based eNVM from Cypress and SuperFlash-based eNVM from SST, and patent licenses from third parties. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, sales of products which applied or incorporated technologies we licensed from third parties accounted for approximately 39%, 42%, 46% and 50% of our revenue, respectively. We cannot assure you that we will be able to obtain any or all of the necessary licenses in the future on terms we consider reasonable, or at all. Please see "Risk Factors — Risks Relating to Our Business — Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position" on page 41 of this prospectus.

Revenue by technology platform

The following table sets out a breakdown of our revenue by technology platform, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
eNVM[(1)]	202,410	33.2	175,378	30.7	203,468	34.8	91,717	32.5	130,007	40.1
Logic & RF[(2)]	99,522	16.3	111,155	19.5	119,628	20.5	56,317	20.0	53,801	16.6
Discrete[(3)]	121,468	19.9	125,945	22.0	114,118	19.5	56,424	20.0	64,825	20.0
Analog & PM[(4)]	54,597	9.0	56,930	10.0	72,360	12.4	35,367	12.5	41,832	12.9
Standalone NVM[(5)]	106,774	17.5	83,360	14.6	67,051	11.5	37,095	13.2	31,447	9.7
Others[(6)]	25,073	4.1	18,712	3.2	8,094	1.3	4,917	1.8	2,543	0.7
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Note:

(1). eNVM products include MCUs used in remote controllers, home appliances, smart meters and etc., and smart cards (such as SIM cards, social security cards, national ID cards, USB keys and bank IC cards).

(2). Logic products include consumer audio products, memory card (SD) controllers; RF products include Bluetooth devices used in wireless keyboard or mouse, Electronic Toll Collection (ETC) and etc.

(3). Discrete products include MOSFET, SJNFET and IGBT silicon chips which can be used across a large variety of different market segments, such as consumer products (home appliances), computers, industrial products (such as welding machines) and automotive products (such as steering controls).

(4). Analog & PM products include audio amplifier ICs for mobile products, battery management ICs, AC-DC converter ICs for home appliances, computers and power adapters, and controller ICs for LED lighting bulbs.

(5). Standalone NVM products include NOR Flash memory and EEPROM, which are used across a large variety of different market segments, such as consumer products (home appliances), computers, communication products (such as mobile phones) and automotive products (such as infotainment systems).

(6). Includes high voltage.

The following table sets out a breakdown of our sales volume by technology platform, each expressed as an absolute quantity and as a percentage of our total sales volume for the periods indicated.

	Year Ended December 31,						Six Months ended June 30,			
	2011		2012		2013		2013		2014	
	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%
eNVM	267.2	22.2	232.3	19.9	268.1	21.9	121.7	20.4	168.6	24.5
Logic & RF	158.6	13.2	190.4	16.3	204.4	16.7	98.4	16.5	98.1	14.3
Discrete	467.0	38.8	469.6	40.1	455.4	37.2	224.9	37.7	266.0	38.7
Analog & PM	121.0	10.1	126.3	10.8	183.9	15.0	89.4	15.0	103.9	15.1
Standalone NVM	141.9	11.8	117.2	10.0	97.7	8.0	54.4	9.1	46.0	6.7
Others	46.7	3.9	34.4	2.9	13.2	1.2	8.0	1.3	4.1	0.7
Total Sales Volume	1,202.4	100.0	1,170.2	100.0	1,222.7	100.0	596.8	100.0	686.7	100.0

Revenue by process technology node

We offer a broad portfolio of customizable processes across different technology nodes. The following table sets out a breakdown of our revenue by process technology node, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
							(unaudited)			
0.13μm and below(1)	136,465	22.4	158,464	27.7	183,936	31.5	76,713	27.2	123,551	38.1
0.15μm and 0.18μm	149,448	24.5	134,657	23.6	150,942	25.8	76,810	27.3	71,917	22.2
0.25μm	56,734	9.3	20,268	3.5	14,073	2.4	10,109	3.6	2,280	0.7
0.35μm and above	267,197	43.8	258,091	45.2	235,768	40.3	118,205	41.9	126,707	39.0
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Note:

(1) Includes 0.13μm and 0.11μm.

The following table sets out a breakdown of our sales volume by technology node, each expressed as an absolute quantity and as a percentage of our total sales volume, for the periods indicated.

	Year Ended December 31,						Six Months ended June 30,			
	2011		2012		2013		2013		2014	
	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%
0.13μm and below[(1)]	185.1	15.4	208.9	17.9	248.4	20.3	104.9	17.6	164.9	24.0
0.15μm and 0.18μm	220.0	18.3	217.3	18.6	240.6	19.7	123.2	20.6	119.4	17.4
0.25μm	71.3	5.9	28.8	2.5	20.9	1.7	15.0	2.5	4.1	0.6
0.35μm and above	726.0	60.4	715.2	61.0	712.8	58.3	353.7	59.3	398.3	58.0
Total Sales Volume	1,202.4	100.0	1,170.2	100.0	1,222.7	100.0	596.8	100.0	686.7	100.0

Note:

(1) Includes 0.13μm and 0.11μm.

Manufacturing Facilities

We currently have one of the largest 200mm wafer processing capacities in China through our three fabs in Shanghai, with an approximate total 200mm wafer processing capacity of 124,000 wafers per month as of June 30, 2014.

The table below sets forth the estimated monthly capacity, actual average monthly output and capacity utilization for the Track Record Period for our fabs.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in thousands of 200mm wafers per month, except percentages)			
Estimated monthly capacity				
Fab 1	50	50	50	50
Fab 2	32	34	34	34
Fab 3	37	38	40	40
Total estimated monthly capacity	119	122	124	124
Average monthly output (actual) for the period then ended	99	99	104	114
Capacity utilization[(1)]	83%	81%	84%	92%

Note:

(1) The capacity utilization is calculated based on average monthly output divided by total estimated monthly capacity.

We intend to strategically and profitably expand our 200mm wafer processing capacity to approximately 164,000 wafers per month by the end of 2016 to address the growing demand from our customers.

Our Customers

We serve a diversified customer base that includes some of the world's leading semiconductor companies, such as Cypress, Microchip and ON Semiconductor, who were among our top 15 customers for each year ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014, respectively. Our customers fall into two main categories: (i) IDMs and (ii) systems and fabless companies. During the Track Record Period, we served over 600 customers across 20 countries globally, including 11 of the top 30 semiconductor companies by 2013 estimated revenue, according to IBS.

The following table sets out a breakdown of our revenue by geography, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
China[1]	295,381	48.4	277,157	48.5	291,414	49.8	137,668	48.8	176,986	54.5
United States	218,747	35.9	178,576	31.2	146,458	25.0	77,205	27.4	66,412	20.5
Japan[2]	39,239	6.4	32,305	5.7	53,154	9.1	22,223	7.9	20,020	6.2
Asia[3]	46,657	7.7	62,028	10.9	51,500	8.9	29,288	10.4	32,471	10.0
Europe	9,820	1.6	21,414	3.7	42,193	7.2	15,453	5.5	28,566	8.8
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Notes:

(1) Includes Hong Kong.

(2) Incudes a major customer in Japan that was acquired by a U.S. headquartered company during the Track Record Period.

(3) Excludes China and Japan.

During the Track Record Period, China was our largest market. We derived approximately 50% of our revenue in 2013 from China-based semiconductor companies, such as Huada, Nationz and TMC. We intend to continue working closely with our global customers and to leverage our scale and technology leadership to further address opportunities in China's fast growing semiconductor industry.

Our Suppliers

We source substantially all of our equipment from the United States, Japan, Europe, South Korea and Taiwan. As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had 51, 50, 49 and 49 equipment suppliers, respectively. Most of our principal equipment suppliers have cooperated with us for over nine years. We work closely with equipment manufacturers to source equipment customized to our needs, for certain advanced technologies. We have not experienced any shortage of equipment or quality issues with our equipment that materially affected our operations during the Track Record Period.

We maintain multiple sources for most raw materials so that a quality or delivery problem with any one vendor will not have a significant adverse impact on our operations. As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had 109, 109, 80 and 82 raw material suppliers, respectively. Most of our principal raw material suppliers have cooperated with us for over nine years. We have not experienced any shortage of raw materials that had a material effect on our operations, and supplies of raw materials we use currently are adequate.

Products and Applications

The semiconductors we manufacture are incorporated into a wide range of products in diverse markets, including consumer electronics, communications, computing, and industrial and automotive. The table below sets forth the breakdown of our revenue by end market segment for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
							(unaudited)			
End Market Segment										
Consumer Electronics	226,965	37.2	235,189	41.2	265,887	45.5	126,953	45.0	162,182	50.0
Communications	174,055	28.5	177,008	31.0	173,970	29.8	78,885	28.0	91,377	28.2
Computing	143,618	23.5	111,879	19.6	87,093	14.9	47,035	16.7	29,237	9.0
Industrial and Automotive	65,206	10.8	47,404	8.2	57,769	9.8	28,964	10.3	41,659	12.8
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Government Grants

We received a significant amount of government grants during the Track Record Period. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, we received government grants of US$69.4 million, US$48.4 million, US$28.9 million, US$14.9 million and US$0.8 million, respectively. During the same periods, US$46.1 million, US$40.7 million, US$15.3 million, US$7.8 million and US$12.1 million, respectively, of government grants were released to the statement of profit or loss, which represented 48.2%, 68.2%, 24.6%, 25.7% and 27.1%, respectively, of our consolidated profit after taxation for those periods. For additional information, see the section headed "Financial Information — Factors Affecting our Business, Financial Condition and Results of Operations — Government grants" on page 196 of this prospectus.

OUR COMPETITIVE STRENGTHS

Our competitive strengths include the following:

- Leading pure-play 200mm foundry focused on advanced, differentiated technologies;
- Diverse global customer base with long-standing relationships;
- Established player in China's large and fast growing semiconductor market;
- Flexible and customizable manufacturing platform;
- Competitive cost structure and focus on shareholder value; and
- Talented workforce led by experienced senior management.

OUR BUSINESS STRATEGIES

We intend to implement the following principal strategies to grow our business and create value for our shareholders:

- Continue to improve product mix and capture high-margin and high-growth opportunities;
- Continue to engage in R&D of differentiated advanced technologies, one of our key competitive advantages;
- Continue to realize merger synergies;
- Pursue capacity expansion strategically and profitably; and
- Strengthen collaboration with key customers and continue to provide high quality service.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the periods indicated, extracted from the Accountants' Report set out in Appendix I to this prospectus.

Consolidated Statements of Profit or Loss

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Revenue	609,844	571,480	584,719	281,837	324,455
Cost of sales[(1)]	(459,172)	(453,559)	(459,270)	(215,870)	(231,937)
Gross profit	**150,672**	**117,921**	**125,449**	**65,967**	**92,518**
Other income and gains[(2)]	50,998	26,492	30,605	14,026	10,446
Fair value gains on investment property	1,322	944	2,095	1,585	412
Selling and distribution expenses	(10,290)	(8,831)	(8,052)	(3,868)	(3,373)
Administrative expenses[(1)]	(61,327)	(55,097)	(69,043)	(35,089)	(38,358)
Other expenses	(5,618)	(448)	(199)	(190)	(1,827)
Finance costs	(19,168)	(16,928)	(16,479)	(8,159)	(6,539)
Share of profits of an associate	—	3,619	6,437	—	4,503
Profit before tax	**106,589**	**67,672**	**70,813**	**34,272**	**57,782**
Income tax expense	(10,966)	(7,993)	(8,964)	(3,884)	(13,085)
Profit for the year/period	**95,623**	**59,679**	**61,849**	**30,388**	**44,697**

Notes:

(1) Cost of sales and administrative expenses include government grants recognized as an offset item to the respective cost of sales and administrative expenses. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, we recognized government grants of US$23.2 million, US$20.3 million, US$10.7 million, US$5.4 million and US$8.3 million, respectively, as an offset item to the cost of sales, and we recognized government grants of US$22.9 million, US$20.4 million, US$4.6 million, US$2.4 million and US$3.8 million, respectively, as an offset item to R&D expenses within administrative expenses.

(2) Includes government subsidies of US$7.9 million, US$1.2 million, US$0.55 million, US$0.06 million and nil for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, respectively.

Extracts of Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Total current assets	614,530	526,434	603,786	582,066
Total current liabilities	392,464	314,283	323,859	323,859
Net current assets	**222,066**	**212,151**	**279,927**	**258,207**
Total non-current assets	1,057,632	1,081,540	1,043,831	1,084,920
Total non-current liabilities	377,425	329,934	267,539	251,779
Net assets	**902,273**	**963,757**	**1,056,219**	**1,091,348**

Extracts of Consolidated Statements of Cash Flows

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Net cash generated from operating activities	232,379	168,932	184,234	74,233	67,884
Net cash used in investing activities	(97,623)	(149,560)	(16,754)	(27,088)	(59,061)
Net cash (used in)/generated from financing activities	(106,730)	(130,644)	(72,059)	17,330	(26,131)
Net increase/(decrease) in cash and cash equivalents	28,026	(111,272)	95,421	64,475	(17,308)
Cash and cash equivalents at beginning of the year/period	309,851	329,738	218,170	218,170	317,045
Effect of foreign exchange rate changes, net	(8,139)	(296)	3,454	2,633	(1,601)
Cash and cash equivalents at end of the year/period	**329,738**	**218,170**	**317,045**	**285,278**	**298,136**

KEY FINANCIAL RATIOS

The following table sets forth key financial ratios as of and for the period ended the dates indicated:

Financial Ratios	Formulae	As of/for the year ended December 31, 2011	2012	2013	As of/for the six months ended June 30, 2014
Profitability ratios:					
1. Growth					
a. Revenue growth	a. Period-on-period growth	—	(6.3)%	2.3%	15.2%
b. Net profit growth	b. Period-on-period growth	—	(37.6)%	3.6%	47.1%
2. Profit margins					
a. Gross margin	a. Gross profit/Revenue x 100.0%	24.7%	20.6%	21.5%	28.5%
b. Net profit margin	b. Profit for the period/ Revenue x 100.0%	15.7%	10.4%	10.6%	13.8%
3. Return on equity					
a. Return on equity	a. Profit for the period/ Average total equity x 100.0%	11.7%	6.4%	6.1%	4.2%
b. Return on total assets	b. Profit for the period/ Average total assets x 100.0%	5.8%	3.6%	3.8%	2.7%
Liquidity ratios:					
1. Liquidity ratios					
a. Current ratio	a. Current assets/Current liabilities	1.6	1.7	1.9	1.8
b. Quick ratio	b. (Current assets — Inventories)/Current liabilities	1.3	1.4	1.6	1.5
2. Turnover ratios					
a. Inventory turnover days	a. Average inventories/Cost of sales x 365 days or 183 days	82	82	78	71
b. Receivables turnover days (average collection period)	b. Average trade receivables/Revenue x 365 days or 183 days	62	63	66	65
c. Payables turnover days (average payment period)	c. Average trade payables/Cost of sales x 365 days or 183 days	48	45	47	48
Capital adequacy ratios:					
1. Gearing ratio	(Total bank borrowings and other borrowing — cash and cash equivalents and pledged and time deposits)/ Total equity x 100.0%	18.3%	20.6%	4.5%	3.0%
2. Interest coverage	Profit before finance cost and income tax expense/Finance cost	6.6	5.0	5.3	9.8

For further details of our key financial ratios, see the section “Financial Information — Major Financial Ratios” on page 247 of this prospectus.

OUR SHAREHOLDING STRUCTURE

The Controlling Shareholders

Immediately after completion of the Global Offering (without taking into account the Shares that may be issued pursuant to the exercise of the Over-allotment Option), Huahong Group and SAIL will respectively be interested in approximately 33.89% and 20.16% of the issued share capital of our Company. In addition, SAIL controls 51.83% of the voting rights of Huahong Group, by virtue of its 47.08% equity interest in Huahong Group and an additional 4.75% of the voting rights pursuant to a voting bloc from INESA to SAIL. Immediately after completion of the Global Offering, Huahong Group, SAIL and INESA will each be considered a Controlling Shareholder of the Company.

RECENT DEVELOPMENT

Since June 30, 2014, our revenue, gross profit and cost structure remained stable, and our business has grown in line with the historical trends and our expectations. Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since June 30, 2014 and up to the date of this prospectus, and there is no event since June 30, 2014 and up to the date of this prospectus which would materially affect the information shown in the Accountants' Report in Appendix I.

OFFERING STATISTICS(1)

Offer size:	Initially 22.1% of the enlarged issued share capital of our Company
Offering structure:	Initially 10% for the Hong Kong Public Offering (subject to adjustment) and 90% for the International Offering (subject to adjustment and the Over-allotment Option)
Over-allotment Option:	Up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price per Share:	HK$11.15 to HK$12.20 per Offer Share

	Based on an Offer Price of HK$11.15 per Offer Share	Based on an Offer Price of HK$12.20 per Offer Share
Our Company's capitalization upon completion of the Global Offering(2)	HK$11,528 million	HK$12,613 million
Unaudited pro forma adjusted net tangible asset per Share(3)	HK$10.31	HK$10.54

Notes:

(1) All statistics in the table are based on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalization is based on 228,696,000 Shares expected to be issued immediately upon completion of Global Offering.

(3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II "Unaudited Pro Forma Financial Information" in this prospectus and on the basis of 1,033,871,656 Shares in issue immediately following the completion of the Global Offering, at the respective Offer Price of HK$11.15 and HK$12.20.

FUTURE PLANS AND USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the Global Offering that we will receive after deduction of underwriting fees and commissions (assuming full payment of the discretionary incentive fee) and estimated expenses payable by us in connection with the Global Offering:

	Assuming the Over-allotment Option is not exercised (in US$)	**Over-allotment Option is exercised in full (in US$)**
Assuming an Offer Price of HK$11.68 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	323,880,324	373,511,794
Assuming an Offer Price of HK$12.20 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	338,611,297	390,452,387
Assuming an Offer Price of HK$11.15 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	308,866,062	356,245,419

We intend to use the net proceeds of the Global Offering for the following purposes assuming the Offer Price is fixed at HK$11.68 per Offer Share (being the mid-point of the Offer Price ranged stated in this prospectus) and the Over-allotment Option is not exercised:

(i) approximately 75%, or US$242.9 million, of the net proceeds will be used for the expansion of our manufacturing capacity, specifically in investments in equipment, tools and facilities. For details, see "Business — Manufacturing Facilities and Technologies — Capacity and Utilization — Technology Upgrade and Capacity Expansion Plans".

(ii) approximately 20%, or US$64.8 million, of the net proceeds will be used for research and development, technology and intellectual property investments.

(iii) the remaining amount of approximately 5%, or US$16.2 million, of the net proceeds will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

Please see the section headed "Future Plans and Use of Proceeds" on page 255 of this prospectus for further details. See also, "Business — Our Business Strategies" starting on page 115 of this prospectus.

DIVIDEND POLICY

We did not declare any dividend during the Track Record Period, and currently we have no intention to pay dividends in 2014. After completion of the Global Offering, we may distribute dividends by way of cash or by other means that we consider appropriate. Please see the section headed "Financial Information — Dividend Policy" on page 251 of this prospectus.

RISK FACTORS

There are certain risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorized into: (i) risks relating to our business, (ii) risks relating to our industry, (iii) risks relating to doing business in China and (iv) risks relating to the Global Offering and our Shares. We believe the most significant risks we face include:

- if we are unable to remain a technological leader in specialty applications that we target or if we are unable to timely respond to fast-changing semiconductor market dynamics, we may become less competitive;

- if we are unable to manage our capacity and optimize our production facilities effectively, our competitiveness may be weakened; and

- our profit margin may substantially decline if we are unable to continuously maintain high capacity utilization, optimize the product mix of our wafer production and maintain our manufacturing yield.

A detailed discussion of all the risk factors involved are set out in the section headed "Risk Factors" on page 36 of this prospectus. You should read the whole section carefully before you decide to invest in the Offer Shares.

LISTING EXPENSE INCURRED AND TO BE INCURRED

For the three years ended December 31, 2011, 2012 and 2013, we did not incur any listing expenses. For the six months ended June 30, 2014, we incurred listing expenses of approximately US$2.7 million. We expect to incur total listing expenses (excluding underwriting commission) of approximately US$7.0 million for the year ending December 31, 2014, of which US$5.4 million is expected to be recognized as administrative expenses and US$1.6 million is expected to be recognized as a deduction in equity directly. Our Directors do not expect such expenses to have a material and adverse impact on our financial results for the year ending December 31, 2014. The underwriting commission (assuming full payment of the discretionary incentive fee) at the mid-point of the Offer Price range stated in this prospectus and assuming the over-allotment option is not exercised is US$13.8 million, and this amount will be entirely deducted from the equity of the Company by offsetting the gross proceeds.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or, where the context so requires, any of them
"Article(s)" or "Articles of Association"	the articles of association of our Company (as amended from time to time), adopted on September 20, 2014, a summary of which is set out in Appendix IV to this prospectus
"Board" or "Board of Directors"	the board of directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
"CAGR"	compound annual growth rate
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CEC"	China Electronics Corporation (中國電子信息產業集團有限公司), a company incorporated in the PRC in May 1989 and a substantial shareholder of Huahong Group
"China" or "the PRC"	the People's Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to "China" and the "PRC" do not apply to Taiwan, the Macau Special Administrative Region and Hong Kong

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company" or "our Company"	Hua Hong Semiconductor Limited, a company incorporated in Hong Kong with limited liability on January 21, 2005, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
"Controlling Shareholders", and each, a "Controlling Shareholder"	Huahong Group, SAIL and INESA
"Cornerstone Investors"	the cornerstone investors as described in the section headed "Cornerstone Investors" in this prospectus
"Cypress"	Cypress Semiconductor Corporation, a company incorporated in California in December 1982 which was reincorporated in Delaware in February 1987, and an independent third party
"Deed of Indemnity"	the deed of indemnity dated September 23, 2014 entered into between our Controlling Shareholders and our Company as referred to in the paragraph headed "E. Other Information — 5. Tax and other indemnities" in Appendix V of this prospectus
"Deed of Non-competition"	the deed of non-competition dated September 23, 2014 entered into by our Controlling Shareholders and our Company in favor of us, details of which are disclosed in the section headed "Relationship with Controlling Shareholders" in this prospectus
"Deed of Right of First Refusal"	the deed of right of first refusal dated June 10, 2014 entered into between our Company, Huahong Group and SAIL in favor of us, details of which are disclosed in the section headed "Relationship with Controlling Shareholders" in this prospectus
"Director(s)"	the director(s) of our Company

"Dongbu HiTek"	Dongbu HiTek Co., Ltd., a company incorporated in South Korea in 1997 and an independent third party
"EIT"	enterprise income tax
"Executive Director(s)"	the executive director(s) of our Company
"former Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as in force before the commencement date of the Companies Ordinance
"GLOBALFOUNDRIES"	GLOBALFOUNDRIES Inc., a privately-held company created in March 2009 from the spin-off of the manufacturing arm of Advanced Micro Devices, Inc. and an independent third party
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Grace Cayman"	Grace Semiconductor Manufacturing Corporation, an exempted company with limited liability incorporated in the Cayman Islands on October 5, 1999 and a wholly-owned subsidiary of our Company
"Grace Germany"	Grace Semiconductor Germany GmbH, a company incorporated on February 21, 2008 under the laws of Germany, and a wholly-owned subsidiary of our Company which was liquidated in 2012
"Grace Japan" or "HHGrace Japan"	HHGrace Semiconductor Japan Co., Ltd. (previously known as Grace Semiconductor Japan Co., Ltd.), a company incorporated in Japan on May 2, 2006 and our wholly-owned subsidiary
"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 December 20, 2000 and a wholly-owned subsidiary of our Company
"Grace USA" or "HHGrace USA"	HHGrace Semiconductor USA, Inc. (previously known as Grace Semiconductor USA, Inc.), a company incorporated in California, U.S. on October 20, 2005 and our wholly-owned subsidiary
"Green Application Form(s)"	the application form(s) to be completed by the HK eIPO White Form Service Provider

"Group", "our Group", "we", "our" or "us"	our Company and our subsidiaries or, where the context so requires, in respect of 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 WFOE incorporated in the PRC on January 24, 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 July 17, 1997 and a wholly-owned subsidiary of our Company
"HK eIPO White Form"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of HK eIPO White Form **www.hkeipo.hk**
"HK eIPO White Form Service Provider"	the HK eIPO White Form service provider designated by us, as specified on the designated website **www.hkeipo.hk**
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Honeywell"	Honeywell International Inc., a company incorporated in Delaware in 1985 and an independent third party
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	the 22,870,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong

"Hong Kong Underwriter"	the underwriter of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriter" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated Tuesday, September 30, 2014, relating to the Hong Kong Public Offering and entered into by the Sole Global Coordinator, the Hong Kong Underwriter and our Company
"Huada"	CEC Huada Electronic Design Co., Ltd. (北京中電華大電子設計有限責任公司), a company incorporated in the PRC in June 2002 and a subsidiary of CEC, which is a substantial shareholder of Huahong Group
"Huahong Group"	Shanghai Huahong (Group) Co., Ltd. (上海華虹(集團)有限公司), a company incorporated in the PRC on April 9, 1996 as Shanghai Hua Hong Microelectronics Co., Ltd. and renamed as Shanghai Huahong (Group) Co., Ltd. in 1998, and a Controlling Shareholder
"Huahong Technology Development"	Shanghai Huahong Technology Development Co., Limited (上海華虹科技發展有限公司), a company incorporated in the PRC on May 10, 2010, a company 50% held by and consolidated with Huahong Group and 50% held by HHNEC, and a connected person
"Hua Hong International"	Shanghai Hua Hong International, Inc., an exempted company incorporated in the Cayman Islands with limited liability on December 28, 2001 and a wholly-owned subsidiary of Huahong Group, our Controlling Shareholder
"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 October 28, 2011 and a wholly-owned subsidiary of Huahong Technology Development
"IBM"	International Business Machines Corporation, a company incorporated in the State of New York on June 16, 1911 and an independent third party
"IBS"	International Business Strategies, Inc., an independent industry consultant
"Intel"	Intel Corporation, a company incorporated in California in 1968 and reincorporated in Delaware in 1989, and an independent third party

"Independent Non-Executive Director(s)"	the independent non-executive director(s) of our Company
"independent third party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons as defined under the Listing Rules
"INESA"	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
"International Offer Shares"	the 205,826,000 Shares being initially offered in the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to reallocation
"International Offering"	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act
"International Underwriter"	the underwriter that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering, which is expected to be entered into by the Sole Global Coordinator, the International Underwriter and our Company on or about Thursday, October 9, 2014
"Joint Lead Managers"	Goldman Sachs (Asia) L.L.C., BNP Paribas Securities (Asia) Limited and Daiwa Capital Markets Hong Kong Limited
"KLA-Tencor"	KLA-Tencor Corporation, a company formed in April 1997 through the merger of KLA Instruments Corporation and Tencor Instruments, Inc. and an independent third party

"Latest Practicable Date"	Wednesday, September 24, 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"Listing Date"	the date, expected to be on or about Wednesday, October 15, 2014, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
"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
"Merger"	the offshore merger of Grace Cayman and Merger Subsidiary in December 2011. See the section headed "Our History and Development — History of HHNEC and Grace Shanghai prior to the Merger" for details
"Merger Agreement"	a merger agreement dated September 13, 2011 between the Company, Grace Cayman and Merger Subsidiary
"Merger Subsidiary"	Hua Hong Semiconductor (Cayman) Inc., an exempted company established by the Company in Cayman Islands for the purpose of the Merger
"Microchip"	Microchip Technology Incorporated, a company incorporated in Delaware in 1989 and the parent company of SST, a shareholder of our Company
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
"Nationz"	Nationz Technologies Inc. (國民技術股份有限公司), a company incorporated in the PRC in 2000 and an independent third party
"NDRC"	National Development and Reform Commission (中華人民共和國國家發展和改革委員會)

"NEC"	NEC Corporation, a company incorporated in Japan and founded in 1899 as Nippon Electric Company, Limited and our substantial shareholder
"Nikon"	Nikon Corporation, a company incorporated in Japan in 1917 and an independent third party
"Non-Executive Director(s)"	the non-executive director(s) of our Company
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
"ON Semiconductor"	ON Semiconductor Corporation, a company incorporated in Delaware and spun off from Motorola Inc. in August 1999 and the parent company of one of our shareholders, System Solutions Co., Ltd., formerly known as Sanyo Semiconductor Co., Ltd., a company incorporated in Japan on July 3, 2006
"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriter, exercisable by the Sole Global Coordinator (on behalf of the International Underwriter), pursuant to which our Company may be required to allot and issue up to an aggregate of 34,304,000 Shares at the Offer Price as further described in the section headed "Structure of the Global Offering" in this prospectus
"PBOC"	People's Bank of China (中國人民銀行)
"PRC Government" or "State"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
"PRC Legal Advisor" or "our PRC Legal Advisor"	King & Wood Mallesons
"Price Determination Date"	the date, expected to be on or about Thursday, October 9, 2014, on which the Offer Price will be determined and, in any event, not later than Sunday, October 12, 2014
"QIB"	a qualified institutional buyer within the meaning of Rule 144A

"QST"	QST Corporation (上海矽睿科技有限公司), a company incorporated in the PRC on September 13, 2012 and a connected person
"R&D"	research and development
"Regulation S"	Regulation S under the U.S. Securities Act
"Restructuring"	restructuring of subsidiaries acquired through the Merger, which included among other changes, the consolidation and integration of HHNEC and Grace Shanghai into HHGrace. See the section headed "Our History and Development — History of HHNEC and Grace Shanghai prior to the Merger" for details
"RMB"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIL"	Shanghai Alliance Investment Ltd (上海聯和投資有限公司), a company incorporated in the PRC on September 26, 1994, and a Controlling Shareholder
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shanghai Huajie"	Shanghai Huajie IC Technology Services Co., Ltd (上海華傑芯片技術服務有限公司), a company incorporated in the PRC on April 8, 2002 and a wholly-owned subsidiary of HHNEC
"Shanghai Huali"	Shanghai Huali Microelectronics Co., Ltd (上海華力微電子有限公司), a company incorporated in the PRC on January 18, 2010 and a connected person
"Share Registrar"	Tricor Investor Services Limited
"Shareholder(s)"	holder(s) of Shares
"Shares"	ordinary shares in the capital of our Company with no nominal value

"SMIC"	Semiconductor Manufacturing International Corporation (中芯國際集成電路製造有限公司), a company incorporated in the Cayman Islands in 2000 and an independent third party
"Sole Global Coordinator", "Sole Bookrunner" or "Sole Sponsor"	Goldman Sachs (Asia) L.L.C.
"Samsung"	Samsung Electronics Co., Ltd, a company incorporated in South Korea in 1969 and an independent third party
"SST"	Silicon Storage Technology, Inc., a company incorporated in California in 1989 and subsequently acquired by Microchip in 2010, and a shareholder of our Company
"Stabilizing Manager"	Goldman Sachs (Asia) L.L.C.
"State Council"	the PRC State Council (中華人民共和國國務院)
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between Hua Hong International and an affiliate of the Stabilizing Manager on or around the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TMC"	Beijing Tongfang Microelectronics Co., Ltd. (北京同方微電子有限公司), a company incorporated in the PRC in 2001 and an independent third party
"TowerJazz"	Tower Semiconductor Ltd., a company incorporated in Israel in 1993 and merged with Jazz Technologies, Inc. in 2008 and an independent third party
"Track Record Period"	the three financial years of our Company ended December 31, 2011, December 31, 2012 and December 31, 2013 and the six months ended June 30, 2014
"TSMC"	Taiwan Semiconductor Manufacturing Company Limited, a company incorporated in Taiwan in 1987 and an independent third party
"UMC"	United Microelectronics Corporation, a company incorporated in Taiwan in 1980 and an independent third party

"Underwriters"	the Hong Kong Underwriter and the International Underwriter
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"U.S." or "United States"	the United States of America
"U.S. Securities Act"	the United States Securities Act of 1933, as amended from time to time
"Vanguard"	Vanguard International Semiconductor Corporation, a company incorporated in Taiwan in 1994 and an independent third party
"WFOE"	wholly foreign owned enterprise
"WIN"	WIN Semiconductors Corp., a company incorporated in Taiwan in 1999 and an independent third party
"X-FAB"	X-FAB Semiconductor Foundries AG, a company incorporated in Germany in 1989 and an independent third party

In this prospectus, the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purposes only.

This glossary contains explanations of certain terms used in this prospectus in connection with our business and the semiconductor industry. The terms and their meanings as set forth below may not correspond to standard industry meanings or usage of such terms.

"12th Five Year Plan"	The Outline of the Twelfth Five-Year Plan for National Economic and Social Development as adopted at the 4th Session of the 11th National People's Congress of the PRC, approved and announced in March, 2011
"analog"	a set of circuits with a continuously variable signal
"ASIC"	Application Specific Integrated Circuit. A proprietary integrated circuit designed and manufactured to meet a customer's specific functional requirements
"BCD"	Bipolar-CMOS-DMOS is a key process technology for power ICs. It is a family of silicon processes, each of which combines the strengths of three different process technologies onto a single chip: Bipolar for precise analog functions, CMOS for digital design and DMOS (Double Diffused Metal Oxide Semiconductor) for power and high-voltage elements
"BiCMOS"	Bipolar CMOS
"bipolar"	a bipolar transistor functions on the contact of two types of semiconductor — negative channel (electrons) and positive channel (holes) — in a single transistor for analog functions and can be used as an amplifier and switch, or in oscillators
"Bluetooth"	Bluetooth is a wireless technology standard for exchanging data over short distances
"BSI"	British Standards Institution, a multinational business services provider whose principal activity is the production of standards and the supply of standards-related services
"CIS"	CMOS image sensor
"CMOS"	Complementary Metal Oxide Semiconductor. An integrated circuit that incorporates negative channel (n-channel) and positive channel (p-channel) transistors within the same circuit design

"CVD"	Chemical Vapor Deposition. A process in which gaseous chemicals react on a heated wafer surface to form solid film
"DC-to-DC converter"	An electronic circuit that converts a source of direct current (DC) from one voltage level to another. It is a class of power converter
"DRAM"	Dynamic Random Access Memory. This is a type of random-access memory that requires constant availability of power to retain its contents through refreshing. Because of this refresh requirement, it is a "dynamic", or volatile, memory, as opposed to a non-volatile, or "static", memory that keeps its contents when the power is turned off
"eEEPROM"	Embedded EEPROM
"EEPROM"	Electrically Erasable Programmable Read-Only Memory. A non-volatile memory that can be electrically erased and programmed in circuit with user-defined information
"eFlash"	Embedded flash memory is a type of eNVM. See also "Flash"
"EMS"	Electronic manufacturing services. Electronic manufacturing services (EMS) is a term used for companies that design, test, manufacture, distribute, and provide return/repair services for electronic components and assemblies for original equipment manufacturers (OEMs)
"eNVM"	Embedded non-volatile memory
"ESF2"	ESF2 is a second generation SuperFlash technology that uses self-aligned cells. It can be used in embedded functions especially for automotive applications
"fab"	fabrication facility
"fabless"	a semiconductor company that does not operate a wafer fabrication plant, but only focuses on design, development and marketing of semiconductor products. Production of designs is outsourced

"Flash"	Flash memory. A type of non-volatile memory where data is erased by large arrays of bits. The name "flash" is derived from the rapid block erase operation. Technically flash memories are also EEPROMs, but the term "flash" is reserved for faster memories with the capacity for many cycles of read/erase/write
"foundry"	a foundry is a semiconductor company that manufactures wafers containing semiconductor products designed by other companies that are used in end-market products not belonging to the foundry; pure-play foundries do not offer their own end-market products and hence do not compete with their customers, whereas IDMs that offer foundry service do have their own products that may or may not compete with those of the foundry customers
"HBT"	heterojunction bipolar transistor
"IDM"	Integrated Device Manufacturer. A company that designs, manufactures and sells its own semiconductor products, hence the adjective "integrated". IDMs have their own wafer fabrication facilities
"IGBT"	Insulated-Gate Bipolar Transistor. A power semiconductor device primarily used as an electronic switch
"image sensor"	a device that converts an optical image into an electronic signal. It is used mostly in digital cameras, camera modules and other imaging devices
"Incoterms"	International Commercial Terms
"integrated circuit" or "IC"	an electronic circuit where all the elements of the circuit are integrated together on a single semiconductor chip
"ISO"	International Organization for Standardization
"ISO 14001"	an ISO certification aiming to the development of an environmental management system
"ISO 14064"	a standard for green house gas emissions
"ISO 9001"	a quality management systems model published by ISO for quality assurance in design, development, production, installation and servicing

"ISO/TS 16949"	an ISO technical specification aiming to the development of a quality management system that provides for continual improvement, emphasizing defect prevention and the reduction of variation. It is based on the ISO 9001
"LDMOS"	laterally diffused MOS
"LED"	a light-emitting diode (LED) is a two-lead semiconductor light source. LEDs have many advantages over incandescent light sources including lower energy consumption, longer lifetime, improved physical robustness, smaller size, and faster switching
"logic"	a set of circuit elements called gates (usually MOSFET) that can perform all Boolean logic algorithms and mathematics — and hence highly complex operations — and includes multiplexers, registers, ALUs and high-end microprocessors, which may contain more than 100 million gates
"MCU" or "microcontroller"	a microcontroller unit is a small computer on a single integrated circuit containing a processor core, memory, and programmable input/output peripherals
"memory"	a device that can store information for later retrieval
"MEMS"	microelectromechanical systems, a technology that combines computers with tiny mechanical devices
"mixed signal"	ICs that contain both digital and analog circuits on the same die
"mm"	Millimeter (10^{-3} meters)
"MOS"	metal oxide semiconductor
"MOSFET"	Metal Oxide Semiconductor Field Effect Transistor. It is used for amplifying or switching electronic signals
"multiple project wafer"	a wafer containing a number of different chips used primarily for the verification of process technologies and/or chip designs
"NAND Flash"	a type of non-volatile flash memory, which is primarily used in main memory, memory cards, USB flash drives, solid-state drives, and similar products, for general storage and transfer of data

"N-doped" or "N-type"	semiconductor materials embedded with negative charges
"NFC"	Near Field Communication. Near field communication (NFC) is a set of standards for smartphones and similar devices to establish radio communication with each other by touching them together or bringing them into proximity, usually no more than a few inches
"nm"	nanometer (10^{-9} meters)
"NOR Flash"	a type of non-volatile flash memory, which may emulate ROM primarily at the machine code level
"NPT IGBT"	Non Punch-Through Insulated-Gate Bipolar Transistor is a power semiconductor device primarily used as an electronic switch and has characteristics of both MOSFET and bipolar junction transistors
"NVM"	Non-volatile memory is memory that keeps its content even when the power is lost
"ODM"	Original Design Manufacturer. An original design manufacturer (ODM) is a company which designs and manufactures a product specified and eventually branded by another firm for sale
"P-doped" or "P-type"	semiconductor materials embedded with positive charges
"PDBI"	Property damage and business interruption
"PM"	power management
"PMIC"	power management integrated circuits
"PN"	a type of semiconductor structure, consisting of a layer of N-doped semiconductor and a layer of P-doped semiconductor
"PNP"	a type of semiconductor structure, consisting of one layer of N-doped semiconductor between two layers of P-doped semiconductor
"power discretes"	includes MOSFETs, insulated-gate bipolar transistors (IGBTs), bipolar junction transistor (BJTs), thyristors and rectifiers / diodes

"pure-play foundry"	a foundry that offers no end products of its own and hence does not compete with its customers
"QC 080000 IECQ HSPM"	the IECQ HSPM Hazardous Substance Process Management Requirements. A certification system designed to evaluate equipment manufacturers' and related organizations' processes for compliance
"RF"	radio-frequency
"RF LDMOS"	RF Laterally Diffused MOS, which was widely used in RF power amplifiers for base-stations requiring high output power
"RFCMOS"	Radio-frequency CMOS
"Silicon IP"	cores or designs purchased or licensed from a third-party as sub-components of larger ICs
"smart grids"	a smart grid is a modernized electrical grid that uses analog or digital information and communications technology to gather and act on information, such as information about the behaviors of suppliers and consumers, in an automated fashion to improve the efficiency, reliability, economics, and sustainability of the production and distribution of electricity
"SJNFET"	Super Junction MOSFET. The "super junction" technology enables higher power conversion switching performance
"SOI"	silicon-on-insulator refers to wafers with a silicon-insulator-silicon substrate as opposed to the conventional silicon-only substrates
"SONOS"	Silicon-Oxide-Nitride-Oxide-Silicon, a type of non-volatile memory technology
"SuperFlash"	a proprietary type of NOR Flash memory technology developed by SST, and is used in various flash memory components and flash mass storage products. This technology utilizes a split-gate cell architecture which uses a robust thick-oxide process that requires fewer mask steps, resulting in a lower-cost nonvolatile memory solution with excellent data retention and higher reliability
"Standalone NVM"	Standalone non-volatile memory

"technology node"	a semiconductor process generation, which normally refers to the feature size of semiconductor process, historically the length of the silicon channel between the source and drain terminals in FETs. The smaller the node, the more circuit elements can be implemented on a certain area
"wafer"	a thin slice of semiconductor material, such as a silicon crystal, on which arrays of integrated circuits or discrete devices are fabricated during the manufacturing process
"Wi-Fi"	Wi-Fi is a technology that allows electronic devices to exchange data or connect to the Internet wirelessly
"ZigBee"	ZigBee is a specification for a suite of high level communication protocols used to create personal area networks built from small, low-power digital radios
"μm"	micrometer (10^{-6} meters), or commonly known as "micron"

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and an economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

Investing in the Shares involves certain risks. You should carefully consider each of the risks described below and all of the other information contained in this prospectus before deciding to purchase the Shares.

If any of the following risks materialize, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of the Shares could decline, and you may lose all or part of your investment.

Additional risks not currently known to us or that we now deem immaterial would also harm us and affect your investment.

RISKS RELATING TO OUR BUSINESS

If we are unable to remain a technological leader in specialty applications that we target or if we are unable to timely respond to fast-changing semiconductor market dynamics, we may become less competitive.

We compete by continuing to enhance our portfolio of advanced, differentiated process technologies and developing new derivative technologies. Despite having been able to develop advanced technologies for new applications for 200mm wafer manufacturing, we cannot assure you that we will continue to be a technology leader in these specialty applications. Additionally, the semiconductor industry and its technologies are constantly changing. If we do not anticipate these changes in a timely manner and rapidly develop enhanced, new and innovative technologies, or obtain access to advanced technologies or processes that meet the demands of our customers, or if our competitors gain sudden access to additional technologies, we may not be able to provide foundry services on competitive terms. Our customers have also significantly decreased the time in which their products or services are launched into the market. If we are unable to meet these shorter time-to-market requirements, we risk losing these customers.

If we are unable to manage our capacity and optimize our production facilities effectively, our competitiveness may be weakened.

We perform regular long-term market demand forecasts to estimate market and general economic conditions for our services, and work with our customers on future demand scenarios. Based upon these inputs we allocate our overall capacity among different manufacturing corridors and technology platforms. Because customer demand may vary significantly and unexpectedly, we may not be able to adjust our allocation quickly enough to address unexpected changes in customer demand and thereby avoid a negative business impact.

Based on current forecasts, we intend to maintain our strategy of expanding manufacturing capacity for 200mm wafers and improving our manufacturing process technologies to meet both the fabrication and the technological demands of our customers. More specifically, we plan to focus on adding manufacturing capacity to manufacture semiconductors for eNVM applications using the 0.13μm and below process technology nodes. Expansion and modification of our production facilities will, among other factors, increase our costs. For example, we will need to purchase additional equipment, and hire and train additional personnel. If we do not increase our sales accordingly, in order to offset these higher costs, our financial performance may be adversely affected.

Our profit margin may substantially decline if we are unable to continuously maintain high capacity utilization, optimize the product mix of our wafer production and maintain our manufacturing yields.

Our ability to maintain our profitability depends, in part, on our ability to:

- maintain our high capacity utilization, defined as the output divided by the estimated capacity;
- optimize the product mix of our manufacturing corridors to support higher-margin products and products with consistent long-term demand; and
- maintain or improve our high manufacturing yields, defined as the percentage of usable dies from the total amount of dies on finished wafers.

Our capacity utilization affects our operating results because a large percentage of our costs of sales are fixed. Higher capacity utilization allows us to spread our fixed costs over a larger number of wafers, resulting in a higher margin. Our product mix affects utilization of our equipment and process technologies, as well as the average selling price, both of which can affect our margins. Our manufacturing yields directly affect our ability to attract and retain customers, as well as the price of our services. If we are unable to continuously maintain our high capacity utilization, optimize our product mix or maintain our high manufacturing yields, our profit margin may substantially decline.

We may be unable to obtain the tools and equipment necessary for our business operations in a timely manner and at a reasonable cost.

In implementing our capacity management and technology advancement plans, we expect to make significant purchases of equipment required for semiconductor manufacturing. Equipment suppliers no longer manufacture certain new equipment for 200mm wafers since all new fabs are designed to manufacture on 300mm wafers. Therefore, we must source certain pre-owned or factory refurbished equipment to meet our expansion needs. We cannot assure you that we will always be able to obtain equipment to fulfill our needs in a timely manner and at a reasonable cost. Specifically, certain pre-owned equipment that we prefer, in particular the Nikon scanner 207, may be in limited supply. In the event we cannot secure our preferred equipment model, we may need to retrofit alternate models or procure other brands of equipment, both of which may increase costs and adversely impact our production timetable.

Furthermore, some of the equipment that is necessary for our business operations is available only from a small number of vendors. For example, the market for wafer-defect review systems is dominated by KLA-Tencor, a supplier from the U.S. We have limited ability to negotiate price with such vendors.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, purchases from our five largest equipment suppliers together accounted for approximately 31.3%, 37.0%, 41.0% and 41.8% of our total equipment purchase, respectively, while purchases from our largest equipment supplier for the same periods accounted for approximately 7.8%, 11.2%, 20.2% and 10.2% of our total equipment purchase. We cannot assure you that we will be able to find substitute suppliers if our major suppliers cease to cooperate with us. If we are unable to obtain equipment in a timely manner to fulfill our customers' orders at a reasonable cost, our financial condition and results of operations could be materially and adversely affected.

We may become dependent upon a small number of customers and any decrease in sales to any of them could adversely affect our results of operations.

For the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014, sales to our largest customer accounted for 11.9%, 10.4%, 7.9% and 7.9% of our revenue, respectively, while sales to our five largest customers accounted for 40.8%, 37.2%, 30.7% and 29.2% of our revenue, respectively. Although currently we are not dependent upon a small number of customers for a significant portion of our sales, our customer base may become increasingly concentrated through industry consolidation or other forces. This increasing concentration may expose our business, financial condition and operating results to a number of risks. Specifically, any of the following events, among others, may cause material fluctuations or declines in our turnover and have a material and adverse effect on our financial condition, results of operations and prospects: reduction of the amount or in the price of products purchased from us by one or more of our significant customers; the decision by one or more of our significant customers to select one or more of our competitors to supply products similar to the ones we offer; the loss of one or more of our significant customers; or the failure or inability of any of our significant customers to make timely payment for our products. These factors may result in a lack of certainty and predictability about our sales, which may fluctuate unpredictably depending on customer demand and orders.

Expiration of, or changes to, certain government incentives, government grants and preferential tax treatments which we are entitled to could adversely affect our financial condition and results of operations.

Government grants accounted for a significant portion of our net profit during the Track Record Period. The PRC Government has provided various incentives to integrated circuit enterprises incorporated in the PRC, including HHGrace, in order to encourage the development of the semiconductor industry. We have received government incentives in the form of reduced tax rates, exemptions from certain taxes, research grants and other measures. In addition, we received government grants paid in lump sums of US$69.4 million, US$48.4 million, US$28.9 million, US$14.9 million and US$0.8 million in 2011, 2012, 2013 and the six months ended June 30, 2013 and 2014, respectively. During the same periods, US$46.1 million, US$40.7 million, US$15.3 million, US$7.8 million and US$12.1 million, respectively, of government grants were released to the statement of profit or loss, which represented 48.2%, 68.2%, 24.6%, 25.7% and 27.1%, respectively, of our consolidated profit after taxation for those periods.

HHGrace has been recognized as an integrated circuit production enterprise encouraged by the government since 2013 as a newly consolidated enterprise, and is also eligible for a preferential enterprise income tax rate of 15% from 2013 to 2017. We cannot assure you that we will be able to maintain the government incentives and our current effective tax rate or obtain more preferential treatment in the future, or at all. If HHGrace fails to maintain its qualification status or renew its qualifications when the relevant term expires, its applicable enterprise income tax rate may increase to 25%, which could have a material adverse effect on our financial condition and results of operations. The government grants may also be reduced or eliminated by governmental authorities in the future. If the government authorities, including PRC tax authorities, decide to terminate or reduce the amount of our government incentives and/or government grants at any time in the future, it could also materially affect our financial condition and results of operations.

If we cannot compete successfully in our industry, our results of operations and financial condition will be adversely affected.

The semiconductor foundry industry is highly competitive. We compete with more than ten pure-play foundries, the majority of which are located in the Asia-Pacific region, including foundries based in Taiwan, Mainland China, Korea, Singapore and Malaysia, as well as IDMs that may allocate a portion of their manufacturing capacity to foundry operations. The foundries with which we compete benefit from their close geographic proximity to companies involved in the design and manufacture of semiconductors, much like we do.

In addition, some of these companies may have access to leading-edge process technologies beyond 90nm and have access to 300mm production capacity. These smaller geometry process technologies may provide customers with performance and integration features that may be comparable to, or exceed, features offered by us. They may also be more cost-effective on 300mm wafers at higher production volumes for certain applications. Although we have a strategic investment in Shanghai Huali, a 300mm fab, we ourselves do not provide, and do not currently plan to provide manufacturing solutions at these smaller geometries or on 300mm wafers. If our potential or existing customers choose to design their products using these advanced processes or on 300mm wafers, our business may be negatively impacted.

Many of our competitors may also have greater financial and other resources than us, such as the possibility of receiving direct or indirect government bailout/economic stimulus funds or other incentives that may be unavailable to us. In addition, our competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or more technology nodes. Increases in these competitive activities may decrease our customer base, or our average selling price, or both. In addition, various other factors such as import and export controls, foreign exchange controls, exchange rate fluctuations, interest rate fluctuations and political developments may affect our ability to compete successfully. If we cannot compete successfully in our industry and are unable to maintain our position as a leading 200mm foundry in China, our results of operations and financial condition will be adversely affected.

Furthermore, IDMs that use foundry services also continue to manufacture semiconductors in their own fabrication facilities. There is a possibility that in certain periods or under certain circumstances such as low demand, they will choose to manufacture their products in their facilities instead of manufacturing products at external foundries. If our IDM customers choose to allocate more of their manufacturing internally rather than to our facilities, our business may be negatively impacted. In addition our IDM customers could change their foundry strategy as a result of acquiring additional capacity, and this may negatively impact our business as well.

We may have difficulty in ramping up production, which could cause delays in product deliveries and loss of customers or otherwise adversely affect our business and operating results.

We may experience difficulty in ramping up production at new or existing facilities. This could be due to a variety of factors, including the need to hire and train new personnel, implement new fabrication processes, recalibrate and re-qualify existing processes and the inability to achieve required yield levels.

We may face construction delays or interruptions, infrastructure failure, or delays in upgrading or expanding existing facilities or changing our process technologies, which may adversely affect our ability to ramp up production in accordance with our plans. Our failure to ramp up our production on a timely basis could cause delays in product deliveries, which may result in the loss of customers and sales. It could also prevent us from recouping our investments in a timely manner or at all, or otherwise adversely affect our business and operating results.

We may not be able to implement our planned growth or development if we are unable to obtain sufficient financial resources to meet our future capital requirements.

Capital requirements are difficult to plan in the highly dynamic, cyclical and rapidly changing semiconductor industry. From time to time and increasingly so for the next few years, we will continue to need significant capital to fund our operations and manage our capacity in accordance with market demand. Our continued ability to obtain sufficient external financing is subject to a variety of uncertainties, including but not limited to, our future financial condition, results of operations and cash flow, general market conditions for financing activities, market conditions for financing activities of semiconductor companies, and social, economic, financial, political and other conditions in the PRC and elsewhere. Sufficient external financing may not be available to us on a timely basis, on reasonable market terms, or at all. As a result, we may be forced to curtail our expansion and modification plans or delay the deployment of new or expanded services until we obtain such financing.

Our revenue and profitability may decline if we are unable to obtain adequate supplies of raw materials in a timely manner and at reasonable prices.

Our operations require that we obtain adequate supplies of raw materials, such as silicon wafers, gases, photomasks and photoresists. In the past, shortages in the supply of some materials, whether by specific vendors or by the semiconductor industry generally, have resulted in occasional industry-wide price adjustments and delivery delays. Also, since we procure some of our raw materials from sole-source suppliers, there is a risk that our need for such raw materials may not be met when needed or that back-up supplies may not be readily available. Therefore, we may not be able to obtain adequate supplies of raw materials in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials is substantially reduced or disrupted, or if there are significant increases in their prices; or if the lead times for the supply of raw materials are extended, we may incur additional costs to acquire sufficient quantities of these materials to maintain our production schedules and commitments to customers. Our revenue and earnings could decline if we are unable to obtain adequate supplies of the necessary raw materials in a timely manner or if there are significant increases in the costs of raw materials that we cannot pass on to our customers.

Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position.

Our ability to compete successfully and to achieve future growth will depend in part on the continued strength of our intellectual property portfolio. While we actively enforce and protect our intellectual property rights, there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of our proprietary technologies, trade secrets, patents, software or know-how. Also, we cannot assure you that the technologies, trade secrets, patents, software or know-how that we have developed or may develop in the future do not infringe the intellectual property rights of others. We also rely on licensed technologies such as SONOS-based eNVM from Cypress and SuperFlash-based eNVM from SST, and patent licenses from third parties. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, sales of products which applied or incorporated technologies we licensed from third parties accounted for approximately 39%, 42%, 46% and 50% of our revenue, respectively. To the extent that we rely on licenses from third parties, there can be no assurance that we will be able to obtain any or all of the necessary licenses in the future on terms we consider reasonable, or at all. If for any reason we are unable to license necessary technology on acceptable terms, it may become necessary for us to develop an alternative technology internally, which could be costly and delay the marketing and delivery of key products, and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all.

The lack of necessary licenses could expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have contractually agreed to indemnify our customers against damages resulting from infringement claims.

We have from time to time received communications from third parties asserting patents that allegedly cover certain of our technologies and alleging infringement of certain intellectual property rights of others. We expect that we will receive similar communications in the future. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and devote significant management resources to the defense of these claims, which could seriously harm our Company.

We may not be able to implement our planned growth and development or maintain our leading position if we are unable to recruit and retain qualified executives, managers and skilled technical and service personnel.

Our success depends on the continued service of our key executive officers, and in particular, Mr. Yu Wang, our president; Mr. Wei Xu, our executive vice president of operations; Mr. Daniel Yu-Cheng Wang, our executive vice president of finance; Dr. Cheng Fu, our executive vice president in charge of strategy, legal and compliance, science and technology projects; Dr. Weiran Kong, our executive vice president in charge of research, technology development and design services, and Mr. Kai Gong, our executive vice president in charge of general office, government relations, general administrative, security, environmental safety and health. Our business could suffer if we lose, for whatever reasons, the services and contributions of some of these personnel and we cannot adequately and timely replace them. In addition, we may be required to increase or reduce the number of employees in connection with any business expansion or contraction, in accordance with market demand for our services. Since there is intense competition for the recruitment of these personnel, we cannot ensure that we will be able to fulfill our personnel requirements in order to support our growth plans.

If we are unable to manage fluctuations in cash flow, our business and financial condition may be adversely affected.

Our working capital requirements and cash flows are subject to changes due to certain factors, including:

- fluctuations in the revenue from our operating activities;
- fluctuations in the collection of receivables;
- timing and the size of payables;
- timing and size of capital expenditures; and
- the repayment schedules of our debt obligations.

If we are unable to manage fluctuations in cash flow, we may not be able to fulfill our obligations under our debt facility agreements or foundry agreements, and our operating results and financial condition may be materially adversely affected.

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and other disruptions, which could significantly increase our costs and delay product shipments to our customers.

The process technology for the manufacture of semiconductor wafers is highly complex, requires advanced and costly equipment and is constantly being modified in an effort to improve device yields, product performance and delivery times. Dust and other impurities, difficulties in the fabrication process or defects with respect to the equipment or tools or facilities used can lower yields, because quality control problems interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. As a result, we may experience production difficulties, which could significantly increase our costs and delay product shipments to our customers.

We are subject to the risk of loss due to explosion and fire because some of the materials we use in our manufacturing processes are highly combustible.

We and many of our suppliers use highly combustible and toxic materials in our manufacturing processes and are therefore subject to the risk of loss arising from explosion, fire, or environmental influences which cannot be completely eliminated. In addition, our risk management and insurance coverage may not be sufficient to cover all of our potential losses. If any of our fabs or vendor facilities were to be damaged, or cease operations as a result of an explosion, fire, or environmental influences, it could reduce our manufacturing capacity and may cause us to lose important customers, thereby having a potentially adverse and material impact on our financial performance.

Our production may be interrupted, limited or delayed if we cannot maintain sufficient sources of fresh water and electricity, which could adversely affect our business and operating results.

The semiconductor fabrication process requires extensive amounts of fresh water and a stable source of electricity. As our production capabilities increase and our business grows, our requirements for these resources will grow substantially. However, we may not have access to sufficient supplies of water and electricity to accommodate our planned growth. Droughts, pipeline interruptions, power interruptions, electricity shortages or government intervention, particularly in the form of rationing, are factors that could restrict our access to these utilities in the areas in which our fabs are located. If there is an insufficient supply of fresh water or electricity to satisfy our requirements, we may need to limit or delay our production, which could adversely affect our business and operating results. In addition, a power outage, even of very limited duration, could result in a loss of wafers in production and deterioration in yield. We have experienced limited power outages in the past, and we cannot assure you that there will be no major power interruptions that our backup systems cannot handle, or where our insurance coverage will not be sufficient, or which will not cause a significant increase in our insurance premiums.

Our operations may be delayed or interrupted and our business could suffer if we fail, or are alleged to have failed, to comply with any existing or new environmental, occupational or safety regulations or to rectify non-compliance.

We are subject to a variety of Chinese environmental, occupational or safety regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in our production processes. Any failure or any claim that we have failed to comply with these regulations could cause delays in our production and capacity expansion and affect our Company's public image, either of which could harm our business. In addition, any failure to comply with these regulations could subject us to substantial fines or other liabilities or require us to suspend or adversely modify our operations.

We may become subject to legislation, regulation, or treaty obligations designed to address global climate change, air quality in the PRC, and other environmental concerns. Compliance with any new rules could be costly, causing us to incur additional energy and environmental costs, as well as costs for defending and resolving legal claims.

Further details about relevant environmental regulations and our compliance record are set forth in "Business — Environmental Matters".

Security breaches and other disruptions could compromise our confidential and proprietary information, which could cause our business and reputation to suffer.

We store sensitive data, including intellectual property and proprietary business information belonging to our Company, our customers, our suppliers and our business partners. The secure maintenance of this information is critical. Despite our security measures, our information technology and infrastructure may be vulnerable to breaches by hackers, employee error, malfeasance or other disruptions such as natural disasters, power losses or telecommunication failures. Any such breach could compromise our networks and the information stored therein, possibly resulting in legal and regulatory actions, disruption of operations and customer services, and otherwise harming our business, reputation and future operations.

RISKS RELATING TO OUR INDUSTRY

Our business plan is premised on the continued demand for foundry services on 200mm wafers of the specialty applications that we target. Our business may not be successful if this demand does not continue to develop in the manner we expect.

According to IBS, aggregate revenue for the 200mm foundry market worldwide in general will decline slightly from 2013 to 2020, with wafer volumes being relatively flat and a small decline in wafer prices. In order to achieve above-market revenue growth, we focus on manufacturing semiconductors for specialty applications on 200mm wafers. Our business model assumes that demand for these specialty applications will continue to grow and manufacturing of such specialty applications on 200mm wafers will remain cost-effective. However, as the cost of manufacturing on 300mm wafers improves over time, particularly with the decline in depreciation expenses and mask costs, the cost advantage of manufacturing on 200mm wafers may diminish in the near future. Customers may migrate to 300mm wafers with advanced process technologies beyond 90nm due to the cost benefits from smaller die sizes, a higher degree of integration and speed and/or lower power consumption. Nevertheless, as manufacturing technologies progress from 150mm to 200mm to 300mm wafers, foundries manufacturing on smaller size wafers have been able to stay competitive by enhancing their product mix to focus on specific products. If the manufacturing of semiconductors for the specialty applications that we offer now and in the future were to migrate significantly to 300mm wafers or require advanced process technologies beyond 90nm, the demand for our services would decline and our business, results of operations and cash flow would be adversely affected. While we believe that we will still be able to capture market opportunities as a dedicated 200mm foundry in the near future despite the expected erosion of our cost advantages over 300mm foundries, we cannot assure you that we will be able to compete effectively in the near future or that the market for products manufactured on our differentiated technologies will grow or even remain constant in the future.

Decreases in demand and average selling prices for end products that contain semiconductors may adversely affect demand for our services and may result in a decrease in our revenue and earnings.

The vast majority of our revenue is derived from customers who use the semiconductors we manufacture in a wide range of products in the fields of consumer electronics, communications, computing, and industrial and automotive. Any decrease in the demand for any one of these end products may decrease the demand for overall global semiconductor foundry services, including our services, and may adversely affect our revenue. In addition, products that contain semiconductors generally exhibit a decline in average selling price over time, absent value-added innovation. Our blended average selling price per wafer was US$488, US$474, US$464, US$459 and US$458 for 2011, 2012, 2013 and the six months ended June 30, 2013 and 2014, respectively. Our blended average selling price per wafer for the two months ended August 31, 2014 was US$452. This price decline in products containing semiconductors places downward pressure on the prices of the semiconductors that go into such products. If the average selling price of end-use products continues decreasing, the pricing pressure on the semiconductors we produce may lead to a reduction of our revenue, margin and earnings.

Since we are dependent on the highly cyclical semiconductor industry, which has experienced significant and sometimes prolonged periods of downturns and overcapacity, our revenue, earnings and margins may fluctuate significantly.

The semiconductor market has historically been cyclical and subject to significant and often rapid increases and decreases in product demand. Our semiconductor foundry business is affected by market conditions in the semiconductor industry as well as other highly cyclical industries which rely on semiconductors, such as electronics. Most of our customers operate in these industries. Variations in order levels from our customers may result in volatility in our revenue and earnings. From time to time, the semiconductor industry has experienced significant and sometimes prolonged periods of downturns and overcapacity. Any systemic economic, political, or financial crisis, such as the one that occurred in 2008 to 2009, could create significant volatility and uncertainty within the semiconductor industry that may disrupt traditional notions of cyclicality within this industry. As such, the nature, extent and scope of such periods of downturns and overcapacity may vary drastically in accordance with the degree of volatility of market demand. Because we are, and will continue to be, dependent on the requirements of electronics and semiconductor companies for our services, periods of downturns and the resulting excess capacity in the electronics and semiconductor industries will lead to downturns and excess capacity in the foundry service business, including our business. If we cannot take appropriate actions such as reducing our costs to sufficiently offset declines in demand, our margin and earnings will suffer during periods of downturns and excess capacity. Furthermore, in a sharp economic downturn we may need to provide higher accounting provisions for potential impairment of trade receivables that may adversely affect the results of our operations.

Excess capacity in the semiconductor industry may reduce our revenue, earnings and margins.

The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of semiconductors and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is beyond of our control. In periods of excess capacity, if we are unable to offset the resulting adverse effects through, among other things, our technology and product mix, we may have to lower the prices we charge our customers for our services and/or we may have to operate at significantly less than full capacity. Such actions could reduce our margin and weaken our financial condition and results of operations. We cannot give any assurance that an increase in the demand for foundry services will not lead to excess capacity over time, which could materially adversely affect our revenue, earnings and margins.

Changes in export control laws and regulations in foreign jurisdictions where we conduct business could adversely affect our operations.

We are dependent on certain manufacturing equipment imported from the United States and Japan that is subject to export licenses from these two countries. In addition, a small but meaningful percentage of our production is destined for the US market as well as being designed in the United States. Certain of these US origin designs are also subject to US export licenses. We have an export/import internal compliance program ("**ICP**") to ensure compliance with the export control laws of the United States, Japan and other countries, as well as the import regulations of China. The third party and internal audits and the United States government's review of the ICP have not shown any material problems with the ICP or its standard operating procedures. Nevertheless, if we fail to comply with the export controls of the United States and Japan and/or the import regulations of China, it is possible that we would not receive necessary parts and maintenance support for the production equipment imported from the United States and/or Japan, thereby materially reducing our production output. Further, enforcement action for non-compliance with export regulations could limit the semiconductor device designs that can be exported to us.

Any global systemic political, economic and financial crisis or catastrophic natural disaster (as well as the indirect effects flowing therefrom) could negatively affect our business, results of operations, and financial condition.

Recently, several major systemic economic and financial crises and natural disasters negatively affected global business, banking and financial sectors, including the semiconductor industry and markets. These types of crises cause turmoil in global markets that often result in declines in electronic products sales from which we generate our income through our goods and services. In addition, these crises may cause a number of indirect effects such as undermining the ability of our customers to remain competitive due to the financial and economic challenges created by insolvent countries and companies still struggling to survive in the wake of these crises. For example, there could be future knock-on effects from these types of crises on our business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of our products; customer insolvencies; and counterparty failures negatively impacting our treasury operations. Any future systemic political, economic or financial crisis or catastrophic natural disaster (as well as the indirect effects flowing from these crises or disasters) could cause revenue for the semiconductor industry as a whole to decline dramatically, and if the economic conditions or financial condition of our customers were to deteriorate, additional accounting related allowances may be required in the future and such additional allowances could increase our operating expenses and therefore reduce our operating income and net income. Thus, any future global economic crisis or catastrophic natural disaster (and their indirect effects) could materially and adversely affect our results of operations.

RISKS RELATING TO DOING BUSINESS IN THE PRC

The economic, political and social conditions in China, as well as government policies, laws and regulations, could affect our business.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, 48.4%, 48.5%, 49.8%, 48.8% and 54.5% of our revenue was generated from China, respectively, and substantially all of our assets are located in China. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in China. The economy of China differs from the economies of most other developed countries in many respects, including the extent of government involvement, the level of development, the growth rate and governmental control over foreign exchange. China's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasizing market forces for economic reform, the reduction of State ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in China is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating and supporting industrial development. It also exercises influence over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in China and, in turn, our business.

While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven across both geographic regions and the various sectors of the economy. The PRC Government has implemented various measures to influence growth rates and to guide the allocation of resources. Some of these measures benefit the overall economy of China but may have a negative effect on us. For example, our results of operations and financial condition could be materially and adversely affected by governmental monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the development of the semiconductor industry.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investments in China. We conduct substantially all of our business through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves a degree, sometimes a significant degree, of uncertainties and inconsistency, which may limit the legal protections available to us. Some of the laws and regulations are still in developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. Furthermore, intellectual property rights and confidentiality protections in China may be different from those in the United States or other countries.

We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. In addition, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties could limit the legal protections available to us and other foreign investors, including you, and could materially and adversely affect our business and operations. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our WFOE.

In utilizing the proceeds from the Global Offering or any further offerings, as an offshore holding company of our operating WFOE, we may make loans to the WFOE, or we may make additional capital contributions to the WFOE. Any foreign loans procured by a WFOE must be registered with the SAFE or its local counterpart, and the WFOE may not procure foreign loans which exceed the difference between its registered capital and its total investment amount as approved by the MOFCOM or its local counterpart. Any medium or long term loan to be provided by us to the WFOE must be approved by the NDRC and the SAFE or their local counterparts. In addition, capital contributions to the WFOE must be approved by the MOFCOM or its local counterpart and registered with other governmental authorities in China. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, or at all, with respect to future loans or capital contributions by us to the WFOE or any of its respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of the Global Offering and to capitalize our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We conduct substantially all of our business through HHGrace incorporated in China. We rely on dividends paid by HHGrace for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is also required to set aside a certain percentage of its after-tax profit based on PRC accounting standards each year to their respective statutory reserve funds in accordance with the requirements of relevant PRC laws and regulations as well as provisions in their respective articles of association. Our statutory reserves are not distributable as loans, advances or cash dividends. We anticipate that in the foreseeable future our PRC subsidiaries will need to continue to set aside a certain percentage of their respective after-tax profits to their statutory reserves. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

Under the Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》), or the Double Taxation Arrangement (Hong Kong), which became effective on December 8, 2006, and the Notice of the State Administration of Taxation ("**SAT**") Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties (《國家税務總局關於如何理解和認定税收協定中"受益所有人"的通知》, 國税函[2009]601號), which became effective on October 27, 2009, dividends from our PRC subsidiaries paid to us may be subject to a withholding tax at a rate of 10%, or at a rate of 5% if we are considered as a "beneficial owner" that is generally engaged in substantial business activities and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Pursuant to the Circular of the SAT on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment under Taxation Treaties <國家税務總局關於印發《非居民享受税收協定待遇管理辦法(試行)》的通知>,國税發[2009]124號), the 5% tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the relevant taxation treaties. We are actively monitoring the withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

We may be classified as a "*resident enterprise*" for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, a circular issued by the SAT on April 22, 2009 sets out certain standards used to determine whether certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises established outside of China are considered as "resident enterprises". See "Regulatory Overview — Taxation — Income Tax". This circular also subjects such "resident enterprises" to various reporting requirements with the PRC tax authorities. As a "resident enterprise", dividends and other income paid by such enterprises to non-PRC enterprise shareholders will be considered to be PRC-sourced income, subject to PRC withholding income tax, currently at a rate of 10%.

We do not currently consider our Company to be a PRC resident enterprise. However, if the PRC tax authorities disagree with our assessment and determine that we are a "resident enterprise", we may be subject to enterprise income tax at a rate of 25% on our worldwide income and dividends paid by us to our non-PRC shareholders as well as capital gains recognized by them with respect to the sale of our Shares may be subject to a PRC withholding tax. This will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC shareholders.

It may be difficult to effect service of process upon, or to enforce against, us or our Directors or members of our senior management who reside in the PRC in connection with judgments obtained from non-PRC courts.

Most of our Directors and the majority of our members of senior management reside within China, and almost all our assets and substantially all of the assets of those persons are located within China. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside China or to enforce against them in China any judgments obtained from non-PRC courts.

On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of Mainland And Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》), or the Arrangement, pursuant to which, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. A choice of court agreement in writing is defined as any agreement in writing entered into between the parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets, Directors or members of senior management in China in order to seek recognition and enforcement of Hong Kong judgments in China.

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of most other jurisdictions including the United States, Japan, the United Kingdom, and most other European countries. Therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to binding arbitration provisions may be difficult or impossible.

SAFE regulations may prevent us from using proceeds we receive from the Global Offering effectively and may make it more difficult for us to pursue growth through acquisitions.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operational Issues Concerning the Administration Improvement of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》, 匯綜發[2008]142號), or SAFE Circular 142. SAFE Circular 142 regulates the conversion by a foreign-invested company of foreign currency-denominated capital contribution into RMB by restricting how the converted RMB capital may be used. SAFE Circular 142 requires that any RMB capital converted from the foreign currency-denominated capital contribution to a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority, and such RMB capital may not be used for equity investments within the PRC, nor, except in the case of foreign-invested real estate enterprises, can such RMB capital be used for acquisition of property in the PRC not for self-use purposes unless otherwise provided by laws and regulations. In addition, SAFE strengthened its oversight of the flow and use of RMB funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such RMB capital may not be changed without approval from SAFE, and may not in any case be used to repay RMB loans if the proceeds of such loans have not yet been used. As a result, we are required to apply RMB funds converted from the net proceeds we expect to receive from the Global Offering within the business scope of our PRC subsidiaries. SAFE Circular 142 may significantly limit the flexibility to use the net proceeds from the Global Offering or any other offering of additional equity securities by us.

Furthermore, the SAFE promulgated the Circular on Issues Concerning Strengthening Administration of Foreign Exchange Services (《國家外匯管理局關於加强外匯業務管理有關問題的通知》, 匯發[2010]59號) on November 9, 2010, or SAFE Circular 59, which tightens the regulation over settlement of net proceeds from offshore offerings. In particular, it is specifically required that any net proceeds settled from offshore offerings shall be applied in the manner described in the offering documents. The SAFE also promulgated the Circular on Issues concerning Further Clarifying and Regulating the Foreign Exchange Administration under Some Capital Accounts (《國家外匯管理局關於進一步明確和規範部份資本項目外匯業務管理有關問題的通知》, 匯發[2011]45號) on November 9, 2011, or SAFE Circular 45, which, among other things, restricts a foreign-invested enterprise from using RMB funds converted from its registered capital to provide entrusted loans, repay loans between non-financial enterprises or repay bank loans which have been on-lended to any third parties.

Violations of these circulars could result in severe monetary or other penalties. SAFE Circulars 142, 59 and 45 may significantly limit our ability to convert, transfer and use the net proceeds from this offering and any offering of additional equity securities in China, which may adversely affect our business, financial condition and results of operations.

Changes in foreign exchange regulations and fluctuations in the value of currencies we use may adversely affect our business and results of operations and our ability to remit dividends.

While more than half of our revenue is denominated in US dollars, the majority of our costs of sales are denominated in RMB. In addition, we may enter into new credit facilities that are denominated in or permit conversion into currencies other than US dollars. Furthermore, the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rates between the RMB and the Hong Kong dollar or US dollar will affect the relative purchasing power in RMB terms. Fluctuations in the exchange rates may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the RMB relative to the Hong Kong dollar or US dollar would affect our financial results in Hong Kong dollar or US dollar terms without giving effect to any underlying change in our business or results of operations.

Movements in RMB exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. The PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve certain exchange rate targets and policy goals. The RMB may appreciate or depreciate significantly in value against the Hong Kong dollar or the US dollar in the medium to long term if and when the PBOC changes its current intervention policy.

In addition, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. The RMB still cannot be freely converted into any other foreign currency. Pursuant to China's current foreign exchange control system, it cannot be guaranteed that under a certain exchange rate, there shall be sufficient foreign exchange to meet the foreign exchange requirement of an enterprise. Under China's current foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the right to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, must be approved or registered in advance by the SAFE. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or satisfy any other foreign exchange requirement. If we fail to obtain the approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, results of operations and financial condition, may be materially adversely affected.

If we are unable to offset increased labor costs, our business could be materially and adversely affected.

Currently, most of our employees are located in China. The average wages paid for manufacturing labor in China have increased recently and may continue to increase as a result of macroeconomic and other policies of the PRC Government. If we are unable to offset the increase in our labor costs or pass along these increased labor costs to customers, our business, results of operations and financial condition could be materially and adversely affected.

On June 29, 2007, the PRC Government promulgated a new labor law, namely the Labor Contract Law of the PRC (《勞動合同法》), or the Labor Contract Law, which became effective on January 1, 2008 as amended on December 28, 2012. The Labor Contract Law imposes stricter requirements in terms of signing labor contracts, paying remuneration, stipulating probation and penalties and dissolving labor contracts. It also requires the terms of employment contracts to be placed in writing within one month of the commencement of an employment relationship, which may make hiring temporary workers more difficult. These enacted labor laws and regulations impose greater liabilities on employers and may significantly increase the costs to an employer if it decides to reduce its workforce. In the event we decide to significantly change or decrease the workforce of our PRC subsidiaries, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to the business of our PRC subsidiaries or in a timely and cost-effective manner, which may materially and adversely affect our results of operations and financial condition.

We face risks of health epidemics and other natural disasters that could severely disrupt our business operations.

Our business could be materially and adversely affected by the outbreak of H1N1, or the swine flu, avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. Beginning in 2013, there were reports of outbreaks of highly pathogenic avian flu, caused by the H7N9 virus, in various parts of the PRC. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economy and financial markets of China and result in the temporary closure of our offices or fabs. Additionally, any recurrence of SARS, similar to the occurrence in 2003 which affected the PRC, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries and regions, would also have similar adverse effects. Such disruptions could adversely affect our business operations and earnings.

Our operations are also vulnerable to natural disasters or other catastrophic events, including wars, terrorist attacks, snowstorms, earthquakes, fire, floods, power failures and shortages, water shortages, hardware failures, computer viruses, and similar events which may or may not be foreseeable or otherwise within our control.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares.

Prior to the Global Offering, there has not been a public market for our Shares. An active public market may not develop or be sustained after the Global Offering. The initial Offer Price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Sole Global Coordinator on behalf of the Underwriters and may not be indicative of prices that will prevail in the trading market after the Global Offering.

We have applied to list and deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop or be sustained. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected. As a result, you may not be able to resell your Shares at prices equal to or greater than the price paid for the Shares in the Global Offering.

The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.

The market price of our Shares may fluctuate significantly and rapidly as a result of a variety of factors, many of which are beyond our control, including:

- actual and anticipated variations in our results of operations;
- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;
- recruitment or loss of key personnel by us or our competitors;
- market developments affecting us or the semiconductor industry;
- regulatory or legal developments, including litigation;

- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;

- fluctuations in trading volumes or the release of lock-up or other transfer restrictions on our outstanding Shares or sales of additional Shares by us; and

- general economic, political and stock market conditions in Hong Kong, China and elsewhere in the world.

Moreover, in recent years, stock markets in general have experienced significant price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry fluctuations may adversely affect the market price of our Shares.

Since there will be a gap of several days between pricing and trading of our Offer Shares, the price of our Offer Shares could fall during the period before trading of our Offer Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be four Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible book value per Share prior to the Global Offering. Therefore, you will experience an immediate dilution in pro forma net tangible book value per Share. In addition, we may issue additional Shares or equity-related securities in the future under share option scheme or to raise additional funds, finance acquisitions or for other purposes. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

There can be no assurance if and when we will pay dividends in the future.

Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under the PRC GAAP, our Articles of Association, the PRC Company Law and other applicable PRC laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy. See "Financial Information — Dividend Policy" for more details of our dividend policy.

Our Controlling Shareholders may exert substantial influence over our operations and may not act in the best interests of our independent Shareholders.

Immediately upon completion of the Global Offering, our Controlling Shareholders will own approximately 54.0% of our issued share capital, without taking into account of the Shares which may be issued upon the exercise of the Over-allotment Option. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interests of the Controlling Shareholders may not always coincide with our Company or your best interests. If the interests of the Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if the Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Sale, or perceived sale, of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.

The Shares held by certain of our existing Shareholders are subject to certain lock-up periods expiring six and 12 months after the date on which trading in our Shares commences on the Hong Kong Stock Exchange, details of which are set out in the section headed "Underwriting" in this prospectus. Our existing Shareholders may dispose of Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

Facts and statistics in this prospectus relating to the PRC economy and the industry in which we operate may not be fully reliable.

Facts and statistics in this prospectus relating to China and the industry in which we operate, including those relating to the PRC economy and the semiconductor industry in China, are derived from various publications of governmental agencies or independent third parties and obtained in communications with various governmental agencies or independent third parties which we believe are reliable. We cannot guarantee, however, the quality or reliability of these materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Investors should not place undue reliance on such facts or statistics.

Investors should read the entire prospectus carefully and should not consider any particular statements in published media reports without carefully considering the risks and other information contained in this prospectus.

There may be coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should read the entire prospectus carefully and should not rely on any of the information in press articles or other media coverage without carefully considering the risks and other information contained in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements that are "forward-looking" and uses forward-looking terminology such as "anticipate," "believe," "expect," "estimate," "plan," "consider," "would," "may," "ought to," "should" or "will." Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of our Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard include, but are not limited to those identified in this "Risk Factors" section, many of which are not within our control. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans and objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and in normal circumstances at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

Our business and operations are primarily based in the PRC. It would be practically difficult and commercially unnecessary for us to relocate our Executive Directors to Hong Kong.

Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules on the following conditions:

(i) We have appointed and will continue to maintain two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that we comply with the Listing Rules at all times. Our two authorized representatives are Mr. Yu Wang, one of our Directors and Ms. Rao Fu, one of our joint company secretaries. Both Mr. Yu Wang and Ms. Rao Fu possess or can apply for travel documents to visit Hong Kong. As such, each of our authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email (if applicable). Each of our authorized representatives has been authorized to communicate on our behalf with the Stock Exchange.

(ii) All our authorized representatives (including the alternates) have means to contact all of our Directors (including our Independent Non-Executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required. To enhance communication between the Stock Exchange, our authorized representatives and our Directors, we will implement a policy that (a) each Director (including our Independent Non-Executive Directors) will have to provide his office phone number, mobile telephone number, facsimile number and email address to our authorized representatives; (b) in the event that a Director expects to travel or is out of office, he will have to provide the telephone number of the place of his accommodation to our authorized representatives or maintain an open line of communication via his mobile telephone; and (c) all our Directors (including our Independent Non-Executive Directors) and authorized representatives will provide their respective office phone numbers, mobile telephone numbers, facsimile numbers and email addresses (if applicable) to the Stock Exchange.

(iii) We have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor, pursuant to Rule 3A.19 of the Listing Rules, who will have access at all times to our authorized representatives, our Directors and the senior management of the Company, and will act as an additional channel of communication between the Stock Exchange and us for the period commencing on the Listing Date and ending on the date on which we distribute our annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules.

(iv) Meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or the compliance advisor, or directly with our Directors within a reasonable time frame.

(v) We will inform the Stock Exchange as soon as practicable in respect of any change in our authorized representatives and/or the compliance advisor in accordance with the Listing Rules.

APPOINTMENT OF JOINT COMPANY SECRETARIES

According to Rule 8.17 and Rule 3.28 of the Listing Rules, an issuer must appoint as its company secretary a person who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and

(c) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing "relevant experience", the Stock Exchange will consider the individual's:

(a) length of employment with the issuer and other issuers and the roles he/she played;

(b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Future Ordinance, Companies Ordinance, and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

Our Company has appointed Ms. Rao Fu as one of the joint company secretaries. Ms. Rao Fu joined our Group in 2007 and has held various positions within the Group, including manager of the legal department and senior legal counsel of the Group. She is very experienced on all legal matters of the Group including mergers and acquisitions, management of litigation, commercial contracts, financing, regulatory and compliance matters, as well as other matters for the Group's business. However, Ms. Rao Fu does not possess a qualification as stipulated in Rule 3.28 of the Listing Rules and may not be able to fulfill the requirements as stipulated under Rule 3.28 of the Listing Rules. As such, our Company has appointed Mr. Xiaojun Wang as the other joint company secretary who is able to fully comply with the requirements set out under Rule 3.28 of the Listing Rules.

Over a period of three years from the Listing Date, our Company proposes to implement the following measures to assist Ms. Rao Fu to become a company secretary with the requisite qualification as required under the Listing Rules:

(a) Mr. Xiaojun Wang, the joint company secretary who meets all the requirements under Rules 3.28 and 8.17 of the Listing Rules, will assist and guide Ms. Rao Fu so that she is able to acquire the relevant knowledge and experience as required under the Listing Rules in order to discharge her functions as a joint company secretary of the Company;

(b) Ms. Rao Fu, has been appointed as a joint company secretary of the Company on June 12, 2014 for a term commencing from September 18, 2014 and ending on the date which is three years from the Listing Date, a period which should be sufficient for her to acquire the relevant knowledge and experience required by the Stock Exchange;

(c) The Company will further ensure that Ms. Rao Fu has access to the relevant training and support to enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of an issuer listed on the Stock Exchange. Both Mr. Xiaojun Wang and Ms. Rao Fu will complete the professional training requirements set out under Rule 3.29 of the Listing Rules. Ms. Rao Fu will endeavor to familiarize herself with the Listing Rules during the three-year period from the Listing Date; and

(d) Ms. Rao Fu will also be assisted by the compliance advisor, particularly in relation to corporate government practices and ongoing compliance with the Listing Rules and the applicable laws and regulations.

We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver will be revoked immediately if Mr. Xiaojun Wang ceases to provide assistance and guidance to Ms. Rao Fu. At the end of the three year period, the Company will liaise with the Stock Exchange to revisit the situation and the expectation that the Company should be able to demonstrate to the Stock Exchange's satisfaction that Ms. Rao Fu, having had the benefit of Mr. Xiaojun Wang's assistance for the last three years, will have acquired the relevant experience within the meaning of Rules 8.17 and 3.28 of the Listing Rules, so that a further waiver will not be required.

CONNECTED TRANSACTIONS

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant a waiver from strict compliance with the requirement under Chapter 14A of the Listing Rules for certain non-exempt continuing connected transactions. For details of such non-exempt continuing connected transactions and the waiver, please see the section entitled "Connected Transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Sole Sponsor and any of the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) agreeing on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriter subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

If, for any reason, the Offer Price is not agreed among us and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

No part of our equity or debt securities is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, October 15, 2014. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 1347.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our register of members is maintained by our Share Registrar in Hong Kong. All transfer and other documents of title of Shares must be lodged for registration with and registered by the Share Registrar on our register of members maintained in Hong Kong.

Dealings in our Shares registered on our register of members will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

EXCHANGE RATE CONVERSION

Unless otherwise specified, the translation of Hong Kong dollars into US dollars has been made, for the purpose of illustration only, at HK$7.75 : US$1.00.

No representation is made that any amounts in Hong Kong dollars were or could have been or could be converted into US dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Wenbiao Fu (傅文彪)	Room 303, No. 6 Nong 336 Guoquan Road Yangpu District Shanghai 200433, PRC	Chinese
Yu Wang (王煜)	Room 502, No. 6 Nong 185 Zaoyang Road Putuo District Shanghai 200062, PRC	Chinese
Non-Executive Directors		
Jianbo Chen (陳劍波)	Room 603, No. 34 Nong 440, Xiaomuqiao Road Xuhui District Shanghai 200032, PRC	Chinese
Yuchuan Ma (馬玉川)	Room 1201, Gate 2 Block 8, 23 Shijingshan Road Shijingshan District Beijing 100043, PRC	Chinese
Takayuki Morita (森田隆之)	5-1-20-111 Minamitoriyama Setagaya-ku, Tokyo Japan	Japanese
Jun Ye (葉峻)	Room 1305, No. 1851 Xinzha Road Jing’an District Shanghai 200040, PRC	Chinese

Name	Address	Nationality
Independent Non-Executive Directors		
Stephen Tso Tung Chang (張祖同)	Flat C, 3/F Shouson Garden 6A Shouson Hill Road Deep Water Bay Hong Kong	Chinese
Kwai Huen Wong, JP (王桂壎太平紳士)	House B, Villa Blanche 10 Hang Hau Wing Lung Road Sai Kung Hong Kong	Chinese
Long Fei Ye (葉龍蜚)	Flat A, 26/F 31 Robinson Road Mid-Levels Hong Kong	Chinese

SENIOR MANAGEMENT

Name	Address	Nationality
Wenbiao Fu (傅文彪)	Room 303, No. 6 Nong 336 Guoquan Road Yangpu District Shanghai 200433, PRC	Chinese
Yu Wang (王煜)	Room 502, No. 6 Nong 185 Zaoyang Road Putuo District Shanghai 200062, PRC	Chinese
Wei Xu (徐偉)	Room 1908, No. 15 Nong 1980 Yushan Road Pudong New Area Shanghai 200136, PRC	Chinese
Daniel Yu-Cheng Wang (王鼎)	No. 1399, Zuchongzhi Road Pudong New Area Shanghai 201203, PRC	American
Cheng Fu (傅城)	No. 19, Gaoyou Road Xuhui District, Shanghai 200031, PRC	Chinese

Name	Address	Nationality
Weiran Kong (孔蔚然)	Room 301, No. 9 Nong 1599, Dingxiang Road Pudong New Area Shanghai 200135, PRC	American
Kai Gong (龔凱)	Room 403 151 Lingyunxincun Xuhui District Shanghai 200237, PRC	Chinese
Qi Li (李琦)	No. 45, Nong 333 Jin Hui Road Minhang District Shanghai 201107, PRC	American
Tony Chen (陳衛)	Room 502, No. 20 Nong 500, Guoxiao Road Yangpu District Shanghai 200438, PRC	Singaporean
Steven Lin (林宏哲)	PO Box 1160 Fremont CA 94538 U.S.	American
Bill Lin (林俊毅)	Room 3301, No. 3 Nong 366 Pucheng Road, Pudong New Area Shanghai 200120, PRC	Taiwanese
Mirko Sonntag	Room 1901, No. 1 Nong 1599, Dingxiang Road Pudong New Area Shanghai 200135, PRC	German

Further information about the Directors and other senior management members are set out in the section headed "Directors and Senior Management" in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Global Coordinator, Sole Bookrunner and Sole Sponsor	Goldman Sachs (Asia) L.L.C. 68th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
Joint Lead Managers	Goldman Sachs (Asia) L.L.C. 68th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong BNP Paribas Securities (Asia) Limited 63/F, Two International Finance Centre 8 Finance Street Central Hong Kong Daiwa Capital Markets Hong Kong Limited Level 28, One Pacific Place 88 Queensway Hong Kong
Legal Advisors to Our Company	*As to Hong Kong and U.S. laws:* Herbert Smith Freehills 23/F, Gloucester Tower 15 Queen's Road Central Hong Kong *As to PRC law:* King & Wood Mallesons 17/F, Shanghai International Commerce Center 999 Middle Huaihai Road Xuhui District Shanghai, PRC
Legal Advisors to the Sole Sponsor and the Underwriters	*As to Hong Kong and U.S. laws:* Simpson Thacher & Bartlett 35/F, ICBC Tower 3 Garden Road Central Hong Kong *As to PRC law:* Fangda Partners 32/F, Plaza 66, Tower 1 1266 Nan Jing West Road Shanghai, PRC

Auditors and Reporting Accountants	Ernst & Young *Certified Public Accountants* 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Property Valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F Three Pacific Place 1 Queen's Road East, Admiralty Hong Kong
Industry Consultant	International Business Strategies, Inc. 632 Industrial Way Los Gatos CA 95030 U.S.
Compliance Advisor	Anglo Chinese Corporate Finance, Limited 40th Floor Two Exchange Square 8 Connaught Place Central Hong Kong
Receiving Bank	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Hong Kong

Registered Office	Suites 3701-10, 37/F Jardine House 1 Connaught Place Central Hong Kong
Principal Place of Business and Head Office in China	288 Halei Road Zhangjiang Hi-Tech Park Shanghai 201203, PRC
Company's Website	www.huahonggrace.com *(The information on the website does not form part of this prospectus)*
Joint Company Secretary	Xiaojun Wang (solicitor) Suites 3701-10, 37/F Jardine House 1 Connaught Place Central Hong Kong
Joint Company Secretary	Rao Fu 288 Halei Road Zhangjiang Hi-Tech Park Shanghai 201203, PRC
Authorized Representatives	Yu Wang Room 502, No. 6 Nong 185 Zaoyang Road Putuo District Shanghai 200062, PRC Rao Fu 288 Halei Road Zhangjiang Hi-Tech Park Shanghai 201203, PRC
Audit Committee	Stephen Tso Tung Chang (Chairman) Long Fei Ye Jun Ye
Remuneration Committee	Kwai Huen Wong, JP (Chairman) Long Fei Ye Jianbo Chen

Nomination Committee	Wenbiao Fu (Chairman) Kwai Huen Wong, JP Long Fei Ye
Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal Banks	Shanghai Pudong Development Bank Shanghai Branch No.12, Zhongshan East 1st Road Shanghai, PRC Industrial and Commercial Bank of China Shanghai Branch No. 9, Pudong Avenue Pudong New Area Shanghai, PRC China Construction Bank Shanghai Branch No. 900, Lujiazui Ring Road Pudong New Area Shanghai, PRC Bank of Communications Shanghai Branch No. 188, Yincheng Middle Road Shanghai, PRC China Construction Bank Corporation Hong Kong Branch 28/F, CCB Tower, 3 Connaught Road, Central, Hong Kong

The information presented in this section is derived from various official government publications and other publications and from the market research report prepared by IBS, which was commissioned by us, unless otherwise indicated.

We believe that the sources of the information are appropriate and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy or completeness. The information and statistics may not be consistent with other information and statistics compiled within or outside of China.

SOURCE OF INFORMATION

In connection with the Global Offering, we have commissioned IBS, an independent third party, to conduct an analysis of, and to report on the global and China's semiconductor industry from 2010 to 2020. The report we commissioned (the "**IBS Report**"), has been prepared by IBS independent of our influence. We agreed to pay IBS a commission fee of US$99,800.00 for the preparation of the IBS Report, which we consider to reflect the market rate.

Founded in 1989, IBS operates on a global basis, and the clients of IBS are leaders within many market segments. IBS provides market data, technology analysis, competitive analysis and strategy support for the leading electronics companies globally. IBS has been involved in analyzing the wafer foundry market for over 20 years. IBS has in-depth expertise on the Chinese electronics, semiconductor and foundry businesses, and has been active in these areas for over 15 years.

The IBS Report that we commissioned provides information on the global and China's semiconductor industries and their sub-segments, and other market and economic data, which are quoted in this prospectus. The report also covers the size of the global foundry market and its growth through 2020, and there is an in-depth analysis of the foundry demand and supply chain in China, and the factors impacting the growth of foundry wafer demand in China. IBS's independent research was undertaken through use of the IBS database as well as through field interviews. IBS also uses company data that is publically available and independently verified. IBS has adopted the following assumptions in preparing its report:

- The global economy is likely to maintain a steady growth through 2020;
- The social, economic and political environment is likely to remain stable in the forecast period; and
- There will not be catastrophic events that will result in a disruption of demand for the foundry supply chain ecosystem.

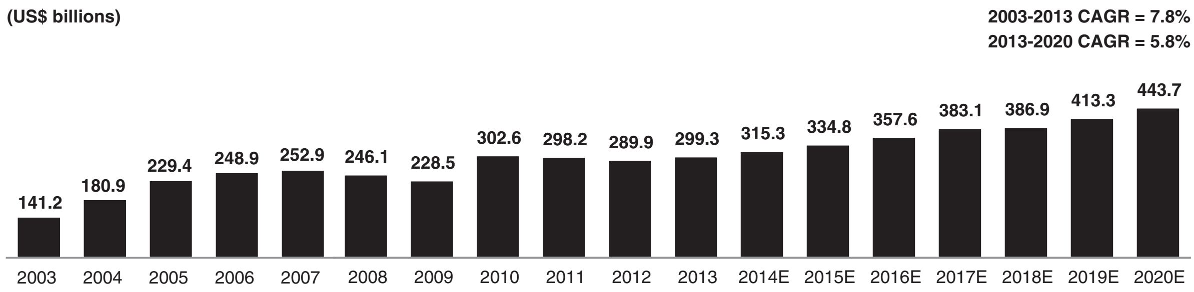
Except as otherwise noted, all the data and forecasts in this section are derived from the IBS Report.

Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date on which we obtained the data from IBS which may qualify, contradict or have an impact on the information in this section.

The Semiconductor Industry

Semiconductor devices are found in a growing array of products, such as smartphones, tablets, smart cards, smart appliances, automobiles, wearable devices and lighting along with more traditional products such as computers and power systems. According to IBS, revenue for the global semiconductor market grew from US$246.1 billion in 2008 to US$299.3 billion in 2013, representing a CAGR of 4.0%. IBS expects global semiconductor market revenue to further grow at a CAGR of 5.8% from 2013 to 2020 to US$443.7 billion.

Global Semiconductor Market Revenue

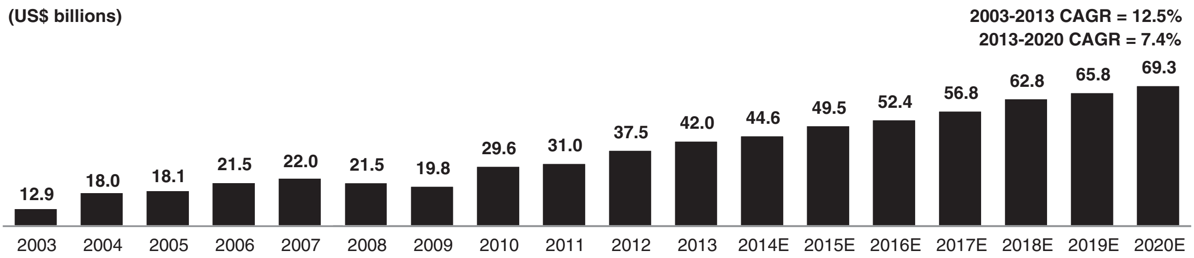


Source: IBS

The Foundry Industry

The increasing trend of IDMs to outsource wafer manufacturing coupled with the growth of fabless semiconductor companies will likely continue to drive growth of the foundry market. The size of the worldwide foundry market, according to IBS, was US$42.0 billion in 2013, representing a 14.3% CAGR from US$21.5 billion in 2008. The worldwide foundry market is projected to reach US$69.3 billion by 2020, representing a 7.4% CAGR from 2013. In contrast, the worldwide IC industry is expected to grow at a CAGR of 5.7% from 2013 to 2020, which suggests that the role of foundry vendors will become increasingly important over time.

Total Foundry Market Revenue



Source: IBS

According to IBS, the top ten pure-play foundries globally in 2013 in terms of estimated revenue were as follows:

Global Top 10 Pure-play Foundries by 2013 Estimated Revenue

Rank	Pure-play Foundry Vendor	Headquarters	2013 Estimated Revenue (US$ in million)	2013 Total Foundry Market Share by Revenue
1	TSMC	Hsinchu, Taiwan	20,011	47.6%
2	GLOBALFOUNDRIES	California, U.S.	4,212	10.0%
3	UMC	Hsinchu, Taiwan	4,150	9.9%
4	SMIC	Shanghai, China	2,069	4.9%
5	Vanguard	Hsinchu, Taiwan	708	1.7%
6	Hua Hong Semiconductor Limited	Shanghai, China	585	1.4%
7	Dongbu HiTek	Seoul, South Korea	568	1.4%
8	TowerJazz	Migdal Haemek, Israel	505	1.2%
9	WIN	Tao Yuan, Taiwan	351	0.8%
10	X-FAB	Erfurt, Germany	296	0.7%
	Total Top 10		**33,455**	**79.6%**
	Other Foundries		8,574	20.4%
	Total Foundry Market		**42,029**	**100.0%**

Source: IBS

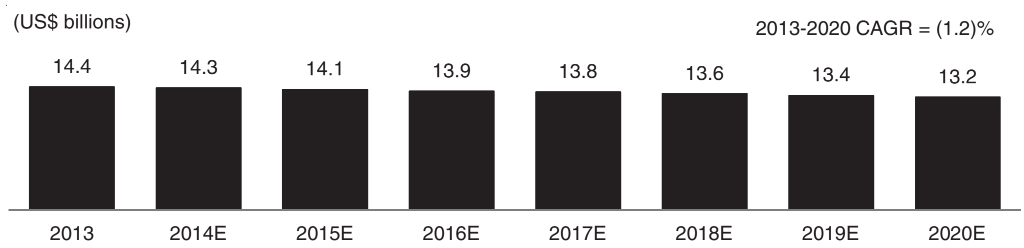
In addition to pure-play foundry vendors, Samsung and IBM are also active in the foundry business, and their revenue amongst others are included in the total foundry market. The top four pure-play foundries by estimated revenue in 2013 were TSMC, GLOBALFOUNDRIES, UMC and SMIC, and all of them offer a combination of smaller feature-size technologies (such as 65nm and smaller) on 300mm wafers and larger feature-size technologies (such as 0.13μm and above) on 200mm wafers. Whilst these foundry vendors have both 300mm and 200mm fabs, most of their emphasis is on 300mm manufacturing. The dedicated 200mm foundries include Vanguard, Hua Hong Semiconductor Limited and others. According to IBS, the largest 200mm pure-play foundry in terms of 2013 estimated revenue was Vanguard, followed by Hua Hong Semiconductor Limited.

Growing Market Opportunity for 200mm Foundries

The primary emphasis of leading-edge 300mm foundries that manufacture wafers in the 28nm, 20nm and 16/14nm technologies is on microprocessors, modems, and application processors for smartphones and tablets. Manufacturing using 300mm wafers offers performance advantages over 200mm wafers such as higher processing speed, lower power consumption and more dies per wafer. These are the main reasons why manufacturing of certain semiconductor devices such as microprocessors, baseband, DRAM and NAND Flash, which require high production volume and benefit from the performance advantages of <28nm technology, are made with 300mm wafers. The clean room facilities and equipment of 300mm foundries are designed to enable manufacturing of much smaller geometry designs at higher throughput, better precision and better yield and allow for only very limited margins for error. As such, although the growth of these markets is high, investments of US$5 billion to US$10 billion per year are required for the combination of R&D as well as capacity to compete effectively in these markets. In contrast, there is a continuing need for 200mm wafers that are manufactured at 90nm, 0.13μm and above process technology nodes to have some form of uniqueness in their process technology platforms. 200mm wafers address other semiconductor IC products such as eNVM, power management ICs and MEMS. Manufacturing these products with 200mm wafers is more economical as these ICs typically require considerable variation of products, relatively low production volumes and costs of photomasks and design services are also considerably lower than for 300mm wafers. The cost of maintaining 200mm wafer manufacturing technology is also significantly lower than for 300mm wafers and can be tens of millions of dollars for process technology development and US$50 million to US$100 million per year for capacity expansion. The lower investment required for capacity expansion for 200mm foundries is mainly due to the purchase of pre-owned and factory re-furbished equipment, which is the normal practice within the 200mm foundry industry. Although equipment suppliers no longer manufacture certain new equipment for 200mm wafers, they will typically work closely with the 200mm foundries to cost-effectively extend the life of the equipment for up to another 10 to 15 years.

According to IBS, the 200mm foundry market worldwide is projected to remain stable through to 2020 from a wafer volume perspective. The aggregate revenue for the 200mm foundry market worldwide was approximately US$14.4 billion in 2013, and is projected to be at US$13.2 billion by 2020, with wafer volumes being relatively flat and a small decline in wafer prices. IBS notes, however, it is possible for the foundry vendors that have unique wafer processes to achieve above-market revenue growth in this segment of the market. Areas where there are opportunities for wafer price premiums include support of non-volatile memory, which includes smart card ICs and MCUs.

Global 200mm Foundry Market



Source: IBS

The 200mm foundries enjoy several advantages relative to 300mm foundries for specialty segments of the market. According to IBS, the specialty 200mm foundry market is characterized by lower volatility in average selling price and revenue, and typically enjoys a longer product lifetime because the markets that are being addressed are stable. It is possible for a 200mm fab to manufacture products at a lower cost (and hence at potentially higher margins) than a 300mm wafer fab that has high levels of depreciation. Moreover, given that the ramp-up of 200mm wafers began in the 1990s, most of these fabs are now fully depreciated, which enables 200mm foundries to enjoy a competitive operating cost structure for their products, translating to steady profitability and positive free cash flow.

There are several cost-related advantages to manufacturing using 200mm wafers rather than 300mm wafers, including (i) lower fixed costs given fully or substantially depreciated fixed assets, (ii) lower costs associated with photo masks and design services, and (iii) smaller production volume requirements to be cost effective. There are also certain technological advantages to using 200mm wafers, including the ability to (i) meet high voltage design requirements, (ii) achieve more uniform thermal exposure within wafers, and (iii) manufacture wafers with less process layers to reduce material costs. These properties become physically more difficult, or sometimes impossible, to achieve at finer geometry process technology nodes offered on 300mm wafer manufacturing. Applications that require such properties, such as DC-to-DC converters, motor drivers and battery chargers, are therefore normally only manufactured using 200mm wafers.

The basis of competitiveness for 200mm foundries is access to specialty wafer processes. Specialty process technologies enable, for example, greater analog content at smaller die size or support of the higher voltages required in automotive and other market segments. These specialty process technologies include precision analog CMOS, RFCMOS, embedded memory CMOS, CIS, high voltage CMOS, BiCMOS and BCDMOS. The foundry vendors need to invest time, capital and R&D resources to manufacture wafers using these specialty process technologies at commercially viable yield levels because of the need for very tight tolerances over the process parameters.

According to IBS, the growth of 200mm wafer demand and the respective foundry services are expected to be primarily driven by the following:

Smart cards. The smart card IC market includes ICs used in SIM cards, bank cards, mobile payment devices, ID cards and social security cards. According to IBS, the smart card IC market globally is expected to grow from US$3.1 billion in 2013 to US$6.4 billion in 2020, representing a CAGR of 10.6%. In particular, the China smart card IC market was US$978 million in 2013 and is projected to be US$2.8 billion in 2020 with at a CAGR of 16.0% over the same period. The growth of the China market is driven by growth of bank IC cards, mobile payment SIM cards, and next-generation national ID and social security cards. The growth of the smart card IC market will likely increase the demand for ICs using eNVM process technology, with 200mm wafers providing most of the relevant wafer supply through 2020.

MCUs. In 2013, the MCU market was US$14.4 billion and grew at a CAGR of 0.9% from 2008. The MCU market is projected to reach US$20.9 billion in 2020, growing at a CAGR of 5.5% from 2013. The growth of the MCU market will be driven by the increasing proliferation of smart appliances, the increasing semiconductor content in the automotive segment, and the global adoption of the Internet of Things ("**IoT**"). In particular, the automotive market accounts for approximately 40% of the global market for MCU products. A key area of differentiation in the MCU market is expertise in eNVM process technology and eNVM Silicon IP design support. A complementary market to MCUs is IoT, and the IoT market is expected to grow from US$25.0 billion in 2013 to US$60.2 billion in 2020.

Automotive. This market is a large user of semiconductors manufactured on 0.13μm and 0.18μm technologies for MCUs, high voltage, analog and power management applications. According to IBS, the automotive IC market is forecasted to grow from US$17.1 billion in 2013 to US$32.0 billion in 2020, representing a CAGR of 9.3%. This growth is driven primarily by the need for higher levels of fuel efficiency as well as improved safety. The automotive market will continue to be a key driver for adoption of support functions around the MCU cores as well as eNVM technology through 2020. In particular, it is expected that there will be high growth in China, which has become the largest market for automotive electronics products. The automotive IC market is evolving from being supported by IDMs to being supported by the foundry industry.

Mixed-Signal. This market grew from US$85.7 billion in 2008 to US$111.2 billion in 2013, and is projected to grow to US$187.3 billion by 2020, representing a CAGR of 7.7%. The analog-centric mixed-signal IC market continues to use 200mm wafers because of the need for high voltage and precision linearity, which cannot be cost effectively supported at advanced smaller feature sizes, such as 28nm, on 300mm wafers. The signal-to-noise ratios that need to be supported in the analog-centric mixed-signal environment also cannot be done on the 28nm node.

RF. The RF IC market was US$27.3 billion in 2013 and is forecasted to grow to US$59.2 billion in 2020 at a CAGR of 11.7%. RF products include Wi-Fi, Bluetooth, ZigBee, NFC, and 3G and 4G power amplifiers. There are a wide range of products that are manufactured in multiple RF technologies.

MEMS Sensors. This market was US$11.2 billion in 2013, and is forecasted to grow to US$21.3 billion in 2020, representing a CAGR of 9.6%. Such growth is expected to be driven by an increasing number of sensor devices on mobile platforms, which include accelerometers, gyroscopes and a wide range of other sensors. There is also increased demand for pressure sensors, temperature and humidity sensors, and optical sensors for smart home and the IoT market, as well as sensors for automotive and medical applications. The result is that there is projected to be increased demand for foundry wafer capacity through 2020, with a dominant percentage of wafers to be produced using 200mm capacity.

Image Sensors. The image sensor market was US$7.6 billion in 2013 and is projected to be US$19.2 billion in 2020 at a CAGR of 14.2%. The key drivers for image sensors are smartphones, tablets and automotive applications. Image sensors will be manufactured in 200mm and 300mm wafers through 2020.

LED Lighting. The market for LED lighting ICs is expected to grow from US$0.7 billion in 2013 to US$1.5 billion in 2020 at a CAGR of 11.8%. LED lighting has become a large user of semiconductors manufactured with process technologies that range from 0.13μm to greater than 0.35μm. In particular, semiconductor consumption in LED lighting is expected to be large in China in the future. The larger feature dimensions manufactured on 200mm wafers are required to support high input voltages of LED lighting.

As a result of the specialty process technologies adopted by 200mm foundries and their competitive operating cost structure compared to 300mm foundries for these key end market applications, 300mm wafers will not be a practical substitute for 200mm wafers for these applications. However, as the cost of manufacturing on 300mm wafers improves over time, particularly with the decline in depreciation expenses and mask costs, the cost advantage of manufacturing on 200mm wafers may diminish in the near future. Nonetheless, as manufacturing technologies progress from 150mm to 200mm to 300mm wafers, foundries manufacturing on smaller size wafers have been able to stay competitive by enhancing their product mix to focus on specific products. As a result, IBS believes that 200mm foundries will still be able to capture market opportunities and remain profitable in the near future.

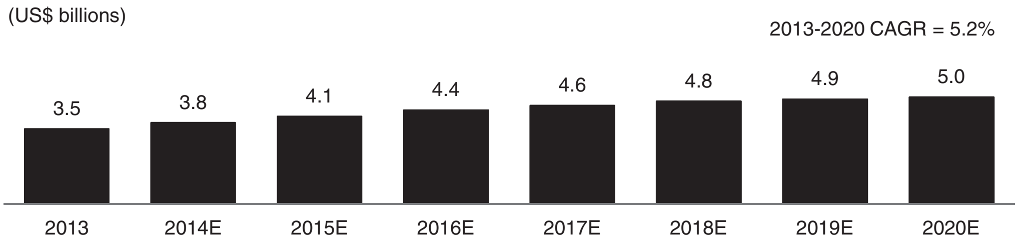
According to IBS, currently most of the 200mm wafer foundry fabrication plants are running at nearly full or completely full capacity. This is due to the strong demand expected in the coming years for 200mm wafers, in particular for applications such as smart cards, MCUs, power management products, automotive ICs, and MEMS sensors, which are more cost effective for customers to manufacture using 200mm wafers than 300mm wafers. In addition, the demand for 200mm foundry capacity has also increased due to fabless design companies and IDMs deciding to go fab-lite in recent years. The closure of 200mm fabrication plants by IDMs who decided to increase their reliance on foundries, both 200mm and 300mm, in the last several years has also reduced supply of 200mm wafer capacity. As a result, IBS believes that the 200mm foundry industry will continue to grow and will not have significant overcapacity in the foreseeable future.

Growth in China's IC Industry and Foundry Market

According to IBS, China's IC industry in terms of overall consumption is projected to increase to US$198.9 billion in 2020 from US$113.6 billion in 2013 at a CAGR of 8.3%. Over the same period, consumption of semiconductors in North America, Japan and Europe is forecasted to grow at a CAGR of 4.3%, 0.1% and 0.7%, respectively. As a result, China's share of the worldwide IC market is expected to increase from 45.9% in 2013 to 54.5% by 2020.

The growth of China's IC industry is expected to increase the demand for foundry wafers. Wafer demand growth will be primarily driven by ICs used in smartphones, tablets, automotive electronics, consumer electronics, LED lighting and other applications. In particular, strong wafer demand for eNVM technologies in China is expected to continue beyond 2020 due to growth in smart cards, automotive controllers, touchscreen controllers for smartphones and tablets, and industrial applications. In addition to eNVM, the demand for RF products, which will drive wafer consumption in 0.18μm, 0.13μm and 90nm technology nodes, as well as the demand for mixed-signal technology are also expected to experience strong growth in China through 2020 and beyond.

China 200mm Foundry Market



Source: IBS

As a result of these growth drivers, China's foundry market is projected to grow faster than the worldwide foundry market from 2013 to 2020. China's foundry market is expected to grow from US$4.6 billion in 2013 to US$12.7 billion by 2020, representing a CAGR of 15.8%, while the worldwide foundry market is forecasted to grow at a CAGR of 7.4%, from US$42.0 billion in 2013 to US$69.3 billion. The 200mm foundry market in China is expected to grow from US$3.5 billion in 2013 to US$5.0 billion by 2020, representing a CAGR of 5.2%. It is expected that Chinese foundry vendors will increase their share of the China market through 2020 if there is access to funding to increase manufacturing capacity. According to IBS, the largest pure-play foundries in China in terms of 200mm wafer fab capacity are SMIC and Hua Hong Semiconductor Limited, with 131,000 and 124,000 wafers per month, respectively.

From a foundry vendor perspective, operating in China is a major competitive advantage. Unlike other geographic markets, many end-market applications in China require access to specialized processes in mature wafer technologies that are supported by 200mm wafer manufacturing. Although the market for products manufactured on mature process technologies continues to grow, Chinese foundries must develop and support specialty wafer processes in order to continue to fulfill customer requirements and further establish higher competitive barriers. Providing support for specialty wafer processes is complemented by the low cost structure of Chinese foundry vendors. This combination of specialty technology and cost effective manufacturing enables Chinese foundry vendors to support fabless IC customers outside of China and so gain access to a considerable market. As a result of the foregoing factors, China's foundry market is expected to grow rapidly through 2020.

Our Competitive Advantages

For our competitive advantages, see "Business—Our Competitive Strengths" for more details.

Price of Key Raw Materials and Final Products

The principal raw materials used by foundries to manufacture semiconductors include silicon wafer, gases, photomasks, photoresist and other materials. The following table indicates the total cost of major raw materials required to manufacture semiconductors in the global foundry industry and their respective growth rate during the periods indicated.

Cost of Raw Materials for Semiconductors

US$ billion	2010	2011	2012	2013
Silicon wafers	9.6	10.3	9.7	10.2
Growth rate (%)	NA	7.6%	(6.1)%	6.1%
Gases	3.1	3.3	3.2	3.2
Growth rate (%)	NA	7.1%	(4.8)%	2.6%
Photomasks	3.0	3.1	3.0	3.1
Growth rate (%)	NA	5.0%	(3.9)%	3.9%
Photoresists (and support)	2.5	2.6	2.5	2.6
Growth rate (%)	NA	6.1%	(5.9)%	4.0%
Other materials(1)	4.2	4.4	4.3	4.5
Growth rate (%)	NA	5.7%	(3.1)%	4.0%
Total raw materials	22.3	23.8	22.6	23.7
Growth rate (%)	NA	6.7%	(5.1)%	4.7%

Source: IBS

(1) Other materials include chemical mechanical polishing slurry and pads, wet chemicals, sputter targets and other raw materials.

A silicon wafer is the primary raw material used to manufacture semiconductors. Silicon wafer cost, as a percentage of total raw material costs, increased from 42.9% in 2010 to 43.3% in 2013. Over the same period, the total cost of silicon wafers increased from US$9.6 billion in 2010 to US$10.2 billion in 2013. The total cost of silicon wafers as a percentage of total raw materials is expected to remain relatively stable in the future, and potential increases will not have a significant impact on the financial performance of the supply chains of the semiconductor industry.

Gases, such as nitrogen and helium, are also key raw materials used to manufacture semiconductors. The total cost of gases increased from US$3.1 billion in 2010 to US$3.2 billion in 2013. Over the same period, the total cost of gases as a percentage of total raw materials decreased from 13.9% in 2010 to 13.7% in 2013. The total cost of gases is expected to remain stable in the future.

The total cost of photomasks increased from US$3.0 billion in 2010 to US$3.1 billion in 2013. Over the same period, the total cost of photomasks as a percentage of total raw materials decreased from 13.3% in 2010 to 13.2% in 2013. Photomask costs are expected to remain stable in the future.

The total cost of photoresist, which includes photoresists and photoresist support, increased from US$2.5 billion in 2010 to US$2.6 billion in 2013. Over the same period, the total cost of photoresist as a percentage of total raw materials decreased from 11.1% in 2010 to 10.8% in 2013. The cost of photoresist is expected to remain stable in the future.

The total cost of other materials, which are comprised of chemical mechanical polishing slurry and pads, wet chemicals, sputter targets and other raw materials, increased from US$4.2 billion in 2010 to US$4.5 billion in 2013. Over the same period, the total cost of other materials as a percentage of total raw materials increased from 18.8% in 2010 to 18.9% in 2013. The cost of other materials is expected to remain stable in the future.

In general, the prices of ICs or wafers are a function of the design, complexity and process technologies used to manufacture such ICs or wafers. As a result, it is not practical to ascertain an industry trend for the price of ICs or wafers.

The following table indicates the pricing trend, on a per wafer basis, of major raw materials required to manufacture semiconductors in the global foundry industry and their respective growth rate during the periods indicated.

(US$)	**2010**	**2011**	**2012**	**2013**
Silicon wafers	82.46	83.25	80.14	78.41
Growth rate (%)	N/A	1.0%	-3.7%	-2.2%
Gases	7.21	7.22	7.21	7.18
Growth rate (%)	N/A	0.1%	-0.1%	-0.4%
Photomasks	4,208	4,156	3,942	3,871
Growth rate (%)	N/A	-1.2%	-5.1%	-1.8%
Photoresists	18.72	18.75	18.72	18.69
Growth rate (%)	N/A	0.2%	-0.2%	-0.2%
Photoresist support	9.44	9.47	9.44	9.39
Growth rate (%)	N/A	0.3%	-0.3%	-0.5%

Note: Photomask prices are for average mask cost. Completed wafer will be implemented with multiple mask steps. Other categories are based on consumption per 200mm wafer.

Source: IBS

The following is a summary of the principal PRC laws, regulations, policies and administrative directives to which we are subject.

FOREIGN INVESTMENT

Companies with limited liability and joint stock companies with limited liability established and operating in the PRC are governed by the Company Law of the PRC（《中華人民共和國公司法》, the "**Company Law**"）promulgated by the Standing Committee of the National People's Congress (the "**SCNPC**") on December 29, 1993 which became effective from July 1, 1994 and was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013, respectively. A foreign investment company is also subject to the Company Law, unless otherwise provided by the foreign investment laws.

On December 28, 2013, the decision on amendments to the Company Law was considered and passed at the sixth meeting of the Standing Committee of the Twelfth National People's Congress, and the amended Company Law (the "**new Company Law**") has become effective from March 1, 2014. The major amendments include, but are not limited to, cancelling the paid-up capital registration and removing the statutory minimum registered capital requirements and the statutory timeframe for the capital contribution.

The establishment and operations of wholly foreign-owned enterprises are governed by the Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法》, the "**Foreign-Invested Enterprise Law**"), which was promulgated by the SCNPC on April 12, 1986 and amended on October 31, 2000, and the Implementation Rules of the Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》, the "**Implementation Rules of the Foreign-Invested Enterprise Law**"), which were promulgated by the Department of the Foreign Economic and Trade of the PRC on December 12, 1990 and amended by the State Council on April 12, 2001 and February 19, 2014.

Investments in the PRC by foreign investors and foreign-invested enterprises are regulated by the Industry Guidance Catalogue of Foreign Investments (《外商投資產業指導目錄》, the "**Catalogue**"), the latest version of which was promulgated by the NDRC and the MOFCOM on December 24, 2011 and became effective from January 30, 2012. The Catalogue is a longstanding tool that PRC policymakers have used to manage and direct foreign investment. The Catalogue has been divided into the encouraged industries, the restricted industries and the prohibited industries for foreign investment, and the industries which are not listed in the Catalogue shall be classified as the permitted industries for foreign investment. The Group's business falls into the encouraged industries for foreign investment.

INTEGRATED CIRCUIT INDUSTRY

In order to promote the development of China's software industry and integrated circuit industry, the State Council promulgated the Several Policies on Encouraging the Development of the Software Industry and Integrated Circuit Industry (《關於鼓勵軟件產業和集成電路產業發

展的若干政策的通知》， 國務院[2000]第18號) and the Several Policies on Further Encouraging the Development of the Software Industry and Integrated Circuit Industry (《進一步鼓勵軟件產業和集成電路產業發展的若干政策的通知》，國發[2011]4號) on June 24, 2000 and January 28, 2011 respectively.

Pursuant to the Several Policies on Encouraging the Development of the Software Industry and Integrated Circuit Industry and the Circular on Issues Concerning Tax Policies on Encouraging the Development of the Software Industry and Integrated Circuit Industry (《關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》，財稅[2000]25號) promulgated jointly by the Ministry of Finance, the SAT and the General Administration of Customs on September 12, 2000:

(a) An integrated circuit manufacturing enterprise with an investment of more than RMB8 billion or production of width of integrate circuit line less than 0.25μm may enjoy the following tax preferential policies:

- implementing the tax preferential policy concerning encouragement of foreign investment in energy and transportation; and

- exemption of the tariff and value-added tax of imported materials and consumable products imported for self-use.

(b) The tariff and value-added tax of imported production equipment for self-use and relevant imported technologies, special equipment and instruments imported separately of a certified integrated circuit manufacturing enterprise shall be exempted, except for the import goods stipulated in the Catalogue of Import Products of Foreign Investment Projects not to be Exempted from Tax (《外商投資項目不予免稅的進口商品目錄》) and the Catalogue of Import Products of Domestic Investment Projects not to be Exempted from Tax (《國內投資項目不予免稅的進口商品目錄》).

Pursuant to the Several Policies on Further Encouraging the Development of the Software Industry and Integrated Circuit Industry and the Circular on Income Tax Policies on Further Encouraging the Development of the Software Industry and Integrated Circuit Industry (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》，財稅[2012]27號) promulgated jointly by the SAT and the Ministry of Finance on April 20, 2012:

(a) For enterprises producing integrated circuits of 0.8μm or less in width, upon certification, the enterprise income tax shall be exempt for the first and second year and shall be levied thereon at half of the statutory rate of 25% for the third through fifth year thereafter until the expiration of the preferential period which shall be calculated from the first year of profit to December 31, 2017.

(b) For enterprises producing integrated circuits of 0.25μm or less in width or with an investment amount of over RMB8 billion, upon certification, enterprise income tax shall be levied at the reduced rate of 15%; for those with a operation term of over 15 years, enterprise income tax shall be exempt for the first through fifth year and shall be levied at half of the statutory rate of 25% for the sixth through tenth year thereafter until the expiration of the preferential period which shall be calculated from the first year of profit to December 31, 2017.

TAXATION

Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》), the "**EIT Law**") which was promulgated by the National People's Congress on March 16, 2007 and became effective from January 1, 2008, the income tax rate for both domestic and foreign-invested enterprises is 25% commencing from January 1, 2008 with certain exceptions for qualified foreign-invested enterprises. In order to clarify certain provisions in the EIT Law, the Implementation Rules of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》, the "**EIT Implementation Rules**") were promulgated by the State Council on December 6, 2007 and became effective from January 1, 2008. According to the EIT Law and the EIT Implementation Rules, a non-resident enterprise which hasn't established agencies or offices in China, or which has established agencies or offices in China but whose income has no association with such agencies or offices shall pay enterprise income tax on its income earned from inside China, and such income of a non-resident enterprise shall be taxed at the reduced rate of 10% and shall be withheld at source, for which the payer thereof shall be the withholding agent.

On December 26, 2007, the State Council promulgated the Circular on Implementation of Enterprise Income Tax Transition Preferential Policy (《關於實施企業所得税過渡優惠政策的通知》, 國發[2007]39號, the "**Transition Preferential Policy Circular**"), which became effective on January 1, 2008. Under the EIT Law and the Transition Preferential Policy Circular, enterprises that were established before March 16, 2007 which already enjoyed preferential tax treatment will continue to enjoy it: (a) in the case of preferential tax rates, for a period of five years from January 1, 2008 during which the tax rate will gradually increase from 15% to 25%; or (b) in the case of tax exemption or reduction for a specified term, until the expiration of such term.

Moreover, under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be deemed PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The EIT Implementation Rules define the term "de facto management body" as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the Circular Relating to Relevant Issues on the Identification of a Chinese Holding Company Incorporated Overseas as a Residential Enterprise under the Criterion of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》，國税發[2009]82號) issued by the SAT on April 22, 2009 provides that an offshore enterprise funded by Chinese enterprises as controlling investors will be classified as a "resident enterprise" with its "de facto management bodies" located within China if all of the following requirements are satisfied: (a) the senior management and core management departments in charge of its daily operations function are mainly in the PRC; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (d) more than half of the enterprise's directors or senior management with voting rights reside in the PRC.

Withholding Income Tax

Pursuant to the EIT Law and the EIT Implementation Rules, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Pursuant to the Agreement between Mainland China and the Hong Kong Special Administrative Region for Avoidance of Double Taxation and Prevention of Tax Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) promulgated by the SAT on August 21, 2006, the applicable withholding income tax rate for any dividends declared by a Chinese company is 5% for a shareholder being a Hong Kong resident holding at least 25% interest in its registered capital, or 10% for a shareholder being a Hong Kong resident holding less than 25% interest in its registered capital. According to the Circular of the SAT on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (《國家稅務總局關於印發<非居民享受稅收協定待遇管理辦法(試行)>的通知》,國稅發[2009]124號) which became effective on October 1, 2009, the 5% tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the relevant taxation treaties.

Pursuant to the Circular on Printing and Distributing of the Interim Administrative Measures for Source Withholding and Remittance of Non-Resident Enterprise Income(《國家稅務總局關於印發<非居民企業所得稅源泉扣繳管理暫行辦法>的通知》,國稅發[2009]3號) issued by the SAT on January 1, 2009 and became effective from January 1, 2009, with regards to equity investment earnings such as dividends and bonuses, interest, rental income, income of franchise use, property transfer income, and other kinds of taxable income earned by non-resident enterprises from sources in China, source withholding and remittance shall be implemented; as such, the withholding obligors are the entities or individuals which have the direct obligation to make payment of relevant funds to the non-resident enterprises pursuant to relevant laws or the stipulations of relevant contracts. Each time a withholding obligor pays or is due to pay an income type as stipulated in this Circular to a non-resident enterprise, enterprise income taxes shall be withheld from the sum paid or due to be paid.

Value-added Tax

Pursuant to the Interim Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), which were promulgated by the State Council on December 13, 1993, amended on November 10, 2008 and became effective from January 1, 2009, and the Implementation Rules of the Interim Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》), which were promulgated by the Ministry of Finance on December 25, 1993, amended on December 15, 2008 and October 28, 2011 (effective from November 1, 2011), sale of goods, provision of processing services, repair and replacement services, and import and export of goods within the PRC are subject to payment of value-added tax ("**VAT**"). VAT payable is calculated as "output VAT" minus "input VAT", and the VAT rate is 17% or in certain limited circumstances 13%, depending on the products, except for a small-scale taxpayer under the Interim Regulations on Value-added Tax of the PRC.

On December 12, 2013, the Ministry of Finance and the SAT promulgated the Circular of the Ministry of Finance and the SAT on the Inclusion of the Railway Transport Industry and Postal Service Industry in the Pilot Collection of Value-added Tax in Lieu of Business Tax (《財政部、國家稅務總局關於將鐵路運輸和郵政業納入營業稅改征增值稅試點的通知》，財稅[2013]106號) and its appendixes including the Implementing Measures for Pilot Collection of Value-added Tax in Lieu of Business Tax (《營業稅改徵增值稅試點實施辦法》, the "**Implementing Measures for Pilot Collection**"), the Provisions on Matters Concerning the Pilot Collection of Value-added Tax in Lieu of Business Tax (《營業稅改徵增值稅試點有關事項的規定》), the Provisions on the Transit Policies for the Pilot Collection of Value-added Tax in lieu of Business Tax (《營業稅改徵增值稅試點過渡政策的規定》) and the Provisions on VAT Zero Rate and Tax Exemption Policy Applicable to Taxable Services (《應稅服務適用增值稅零稅率和免稅政策的規定》). According to the Implementing Measures for Pilot Collection, entities and individuals providing services of transportation, postal services and certain modern service industries within the territory of the PRC are value-added tax taxpayers. Taxpayers providing taxable services shall pay VAT according to the Implementing Measures for Pilot Collection, and will no longer pay business tax. The VAT rates applicable to various services are as follows:

- to provide leasing services of tangible personal property, the tax rate shall be 17%.
- to provide transportation services and postal services, the tax rate shall be 11%.
- to provide services in modern services industry (with the exception of leasing services of tangible personal property), the tax rate shall be 6%.
- for the taxable services specified by the Ministry of Finance and the SAT, the tax rate is zero.

LABOR

The relevant labor laws in the PRC include the Labor Law of the PRC (《中華人民共和國勞動法》, the "**Labor Law**") (effective from January 1, 1995), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》, the "**Labor Contract Law**") (effective from January 1, 2008, amended on December 28, 2012 and then effective on July 1, 2013), the Implementation Regulations of the PRC Labor Contract Law (《中華人民共和國勞動合同法實施條例》), the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the Provisional Measures on Maternity Insurance of Employees (《企業職工生育保險試行辦法》), the Regulations on Work-Related Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》), the Interim Regulations on Collection of Social Insurance Premiums (《社會保險費征繳暫行條例》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Administrative Regulations on the Declaration and Contribution of Social Insurance Premiums (《社會保險申報繳納管理規定》), the Administrative Regulations on Housing Reserve Fund (《住房公積金管理條例》), and other relevant laws and regulations issued by governmental authorities from time to time in the PRC.

The Labor Law was promulgated by the SCNPC and came into force on January 1, 1995, whose amendments were made on August 27, 2009. Pursuant to the Labor Law, employees are entitled to equal opportunities in employment, selection of occupations, receiving labor remuneration, rest days and holidays, protection of occupational safety and healthcare, social insurance and welfare, etc. Employers must establish and improve the system for occupational safety and healthcare, provide education on occupational safety and healthcare to employees, comply with national and/or local regulations on occupational safety and healthcare, and provide necessary labor protective supplies to employees.

Pursuant to the Labor Contract Law, another important law concerning employees promulgated by the SCNPC, labor contracts must be executed in order to establish the labor relationship between employers and employees. In recruiting employees, an employer should inform the employees truthfully the scope of work, working conditions, workplace, occupational hazards, production safety conditions, labor remuneration and other information requested by the employees. An employer and an employee shall fully perform their respective obligations in accordance with the terms set forth in the labor contract. An employer must pay employees labor remuneration timely and in full amount in accordance with terms in the labor contract.

Under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the Regulations on Work-Related Injury Insurance (《工傷保險條例》), the Provisional Measures on Maternity Insurance of Employees (《企業職工生育保險試行辦法》), the Interim Regulations on Collection of Social Insurance Premiums (《社會保險費征繳暫行條例》) and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), an employer is required to make contribution to social insurance schemes for its employees, including basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. If the employer fails to make social insurance contributions in full and on time, the social insurance authorities may demand the outstanding contributions to be paid off within a specified period together with a late payment fee. If the employer fails to settle the overdue payment within such time limit, the relevant administrative authorities may impose a fine on such employer.

Under the Administrative Regulations on Housing Reserve Fund (《住房公積金管理條例》) promulgated by the State Council on April 3, 1999 and amended on March 24, 2002, employers are required to make contributions to housing reserve fund for their employees.

FOREIGN EXCHANGE

The Foreign Exchange Administrative Regulations of the PRC (《中華人民共和國外匯管理條例》) promulgated by the State Council on April 1, 1996 and amended on August 5, 2008 form an important legal basis for the PRC authorities to supervise and regulate foreign exchange. On June 20, 1996, the PBOC further promulgated the Administrative Regulations on Foreign Exchange Settlement, Sales and Payment (《結匯、售匯及付匯管理規定》, the "**Settlement Regulations**").

Pursuant to the Foreign Exchange Administrative Regulations and the Settlement Regulation, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, securities investment, derivative products or loans unless a prior approval of the SAFE and/or its competent local counterparts is obtained.

Foreign-invested enterprises in the PRC may, without an approval of the SAFE and/or its competent local counterparts, purchase foreign exchange for dividend distribution, trade or services by providing certain evidencing documents (board resolutions, tax certificates, etc.).

Effective on August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》，匯綜發[2008]142號), the "**SAFE Circular 142**". Pursuant to SAFE Circular 142, the registered capital of a foreign-invested enterprise settled in RMB that is converted from foreign currencies may only be used for purposes within the business scope approved by the competent governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of foreign-invested enterprises settled in RMB converted from foreign currencies by requiring that the use of such RMB capital may not be changed without SAFE's approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations may result in severe penalties, such as heavy fines.

The Circular of the SAFE on Issues Concerning Further Clarifying and Regulating the Foreign Exchange Administration under Some Capital Accounts (《國家外匯管理局關於進一步明確和規範部份資本項目外匯業務管理有關問題的通知》， 匯發[2011]45號) which was promulgated by SAFE on November 9, 2011 further regulates the administration of the payment and settlement of foreign exchange capital of foreign-funded enterprises and strengthens the administration of external borrowing by foreign-funded enterprises.

The Circular of the SAFE on Relevant Issues concerning Strengthening the Administration of the Foreign Exchange Business (《國家外匯管理局關於加強外匯業務管理有關問題的通知》，匯發[2010]59號), as promulgated by SAFE on November 9, 2010, strengthens the management of capital contributions made by foreign investors to foreign-funded enterprises and the examination of the authenticity of the settlement of foreign exchange for the funds raised from overseas listing after they are transferred back in accordance with the requirements of the system of foreign exchange settlement upon payment.

Pursuant to the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors and the Supporting Documents (《關於印發<外國投資者境內直接投資外匯管理規定>及配套文件的通知》，匯發[2013]21號) that took effect since May 13, 2013 promulgated by SAFE, a foreign-invested enterprise shall be registered with SAFE and/or its competent local counterparts after being duly established. Where a foreign investor has made capital contributions to a foreign-invested enterprise in the form of monetary funds, equity, tangible assets, intangible assets, etc. (including lawful incomes obtained in the PRC), or where the foreign investor has paid consideration for the acquired equity from the PRC side of a domestic enterprise, the foreign-invested enterprise shall register the capital contribution and the rights and interests of the foreign investor with SAFE and/or its competent local counterparts. The foreign-invested enterprise shall go through alteration registration with SAFE and/or its competent local counterparts if subsequently it increases or reduces its capital, transfers its equity or undergoes other capital changes. The foreign-invested enterprise shall go through deregistration with SAFE and/or its competent local counterparts if it is subsequently deregistered or converted to a non-foreign-invested enterprise.

A foreign-invested enterprise that needs to remit funds abroad due to capital reduction, liquidation, advance recovery of investment, profit distribution, etc. may purchase foreign exchange and make external payment with the relevant bank after going through corresponding registration. A domestic equity transferee who needs to remit funds abroad due to the fact that it was transferred the equity held by a foreign investor in the foreign-invested enterprise may purchase foreign exchange and make external payment with the relevant bank after the foreign-invested enterprise has gone through corresponding registration.

According to the Circular of the SAFE on Further Improving and Adjusting the Policies on Capital Account Foreign Exchange Administration (《國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知》，匯發[2014]2號) which was promulgated by SAFE on January 10, 2014 and became effective on February 10, 2014, administration over the outflow of profits by domestic institutions shall be simplified:

(1) In principle, a bank is no longer required to examine transaction documents when handling the outflow of profits of not more than the equivalent of USD 50,000 for a domestic institution. When handling the outflow of profits exceeding the equivalent of USD 50,000, the bank, in principle, is no longer required to examine the financial audit report and capital verification report of the domestic institution, provided that it shall examine, according to the principle of transaction authenticity, the profit distribution resolution of the board of directors (or the profit distribution resolution of

all partners) that is related to this profit outflow and the original copy of its tax record-filing form. After each profit outflow, the bank shall affix endorsements on the original copy of the relevant tax record-filing form to indicate the actual amount of the profit outflow and the date of outflow.

(2) Restrictions that the amount of profits disposed of by an enterprise in the current year shall, in principle, not exceed the sum of the "dividends payable" and the "undistributed earnings" attributable to foreign shareholders in the latest financial audit report shall be abolished.

INTELLECTUAL PROPERTY

China is a party to several international conventions on intellectual property rights, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (《與貿易有關的知識產權協定》), the Paris Convention for the Protection of Industrial Property Rights (《保護工業產權巴黎公約》), the Berne Convention for the Protection of Literary and Artistic Works (《保護文學和藝術作品伯爾尼公約》), the World Intellectual Property Organization Copyright Treaty (《世界知識產權組織版權公約》), the Madrid Agreement concerning the International Registration of Marks (《商標國際註冊馬德里協定》), the Patent Cooperation Treaty (《專利合作公約》), and the Treaty on Intellectual Property in Respect of Integrated Circuits (《關於集成電路知識產權條約》).

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》, the "**Patent Law**") which was promulgated by the SCNPC on March 12, 1984, and amended on September 4, 1992, August 25, 2000 and on December 27, 2008 (effective from October 1, 2009), and the Implementation Rules of the Patent Law of the PRC(《中華人民共和國專利法實施細則》) which were promulgated by the State Council on June 15, 2001, and last amended on January 9, 2010, there are three types of patent in the PRC: invention patent, utility model patent and design patent. The protection period is 20 years for invention patent and 10 years for utility model patent and design patent, commencing from their respective application date. Use of a patent or any other activity in infringement of a patent by any person or entity without prior authorization of the patentee is subject to compensation to the patentee and a fine imposed by relevant administrative authorities and, if constituting a crime, shall be held criminally liable according to laws.

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》, the "**Trademark Law**") which was promulgated by the SCNPC on August 23, 1982 and amended on February 22, 1993, October 27, 2001 and August 30, 2013 (effective from May 1, 2014), the period of validity for a registered trademark is 10 years, commencing from the date of registration. Upon expiry, the period of validity for a registered trademark may be renewed by the registrant through an application for the extended usage which should be submitted within 12 months prior to the expiry as required. Where it is unable to submit the application during the period, a grace period of six months may be granted. The period of validity for each renewal of registration is 10 years, commencing from the day immediately after the expiry of the preceding period of validity for the subject trademark. In absence of a renewal upon expiry, the registered trademark shall be cancelled. Industrial and commercial administrative authorities have the authority for investigating any behavior in infringement of the exclusive right under a registered trademark. In case of a suspected criminal offence, the case shall be referred to a judicial authority in time according to laws.

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) which was promulgated by the SCNPC on September 7, 1990 and amended on October 27, 2001 and February 26, 2010 (effective from April 1, 2010), a Chinese citizen, legal person or other organisation is entitled to the copyright thereunder for any works, whether published or not, that are originated by them. Copyright covers any literature, art, natural science, social science, engineering and technological works created in the following manner: literary works; oral works; music, theatre, opera, dance and acrobatic works; art and architecture works; photograph works; film works and any works created through a process similar to cinematography; engineering design diagrams, product design graphics, maps, sketches and other graphic works and model works; computer software; and other works as provided by laws and administrative regulations. Any party in infringement of copyright or any other right associated therewith shall indemnify the copyright holder against any loss incurred and is subject to, where appropriate, a fine as well as confiscation of illegal income, infringing duplicates and any other properties for or from such illegal activities.

The Regulations on the Protection of Computer Software (《計算機軟件保護條例》, the "**Computer Software Protection Regulations**") were promulgated by the State Council on December 20, 2001, and amended on January 30, 2013. Pursuant to the Computer Software Protection Regulations, software copyright is created from the date when the development of the software is completed. With respect to a natural person's software copyright, the term of protection shall be the life of the natural person plus 50 years and with respect to a legal person's or other organization's software copyright, the term of protection shall be 50 years, and shall end on December 31 of the 50th year after the software's first release.

Pursuant to the Measures for the Administration of Internet Domain Names of China (《中國互聯網絡域名管理辦法》), which was promulgated by the Ministry of Information Industry on November 5, 2004 and took effect from December 20, 2004, "domain name" shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of "first come, first served" is followed for the domain name registration service. After completing the domain name registration, the applicant will become the holder of the registered domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registry shall write it off and notify the holder of the domain name in written form.

TECHNOLOGY IMPORT AND EXPORT

According to Regulation on Administration of Technology Import and Export of the PRC (《中華人民共和國技術進出口管理條例》) promulgated by the State Council on December 10, 2001, as amended on January 8, 2011, technology import and export is broadly defined to include the transfer or license of patents, software and know-how, and the provision of services in relation to technology.

Technology falling under the catalog of prohibited import or export technology, which is promulgated and updated by the PRC Government from time to time, cannot be imported or exported. Technology falling under the catalog of restricted import or export technology can only be imported or exported with approval from the MOFCOM (and/or its competent local counterparts).

Technology which does not fall under the above two catalogs can be imported or exported upon registration of contracts with respect to the import or export of the technology with the competent commercial administration authority.

IMPORT AND EXPORT OF GOODS

Pursuant to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated by the SCNPC on May 12, 1994 and amended on April 6, 2004, the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the SCNPC on January 22, 1987 and amended on July 8, 2000, June 29, 2013 and December 28, 2013, the Regulations on the Administration of Import and Export of Goods of the PRC (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council on December 10, 2001, and the Measures for Record Filing and Registration of Foreign Trade Operator (《對外貿易經營者備案登記辦法》) promulgated on June 25, 2004 by the MOFCOM, any foreign trade business operator engaging in the import or export of goods or technology must go through the record filing and registration formalities with the MOFCOM or an authority authorized by the MOFCOM. If a foreign trade business operator fails to go through the formalities for record-filing and registration in accordance with the relevant provisions, customs will refuse to handle the declaration and clearance formalities of its imports and exports.

According to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs of the PRC on March 13, 2014, imported and exported goods shall be declared by the consignor or consignee itself, or by a customs declaration enterprise entrusted by the consignor or consignee and duly registered with the customs authority. Consignors and consignees of imported and exported goods shall go through customs declaration entity registration formalities with the competent customs in accordance with the applicable provisions. After going through the registration formalities with the customs, consignors and consignees of imported and exported goods may handle their own customs declarations at customs ports or localities where customs supervisory affairs are concentrated within the customs territory of the PRC.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated by the SCNPC, which became effective on December 26, 1989, the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated by the SCNPC, which became effective on September 1, 2003, the Administration Regulations on the Environmental Protection of Construction Project (《建設項目環境保護管理條例》) promulgated by the State Council, which became effective on November 29, 1998, and relevant environmental laws and regulations, companies causing environmental pollution and other public hazards must include environmental protection measures in their plans and set up a system of environmental protection responsibility. Pollution prevention facilities for construction projects must be designed, constructed and launched into production and use at the same time with the main part of the projects. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. If necessary, and in accordance with relevant environmental production regulations, construction projects may be put into trial production prior to final environmental protection examination and acceptance. Such trial production shall also be subject to the approval of the relevant environmental protection authority. Enterprises and institutions discharging pollutants must report to and register with relevant authorities in accordance with the provisions of the environmental protection authority under the State Council. The relevant authorities are authorized to impose various types of penalties on the persons or entities in violation of the environmental regulations. The penalties which could be imposed include the issue of a warning, the suspension of operations or installations which are incomplete and which fail to meet the prescribed standards, the reinstallation of preventive facilities which have been dismantled or left idle, the administrative sanction against the office-in-charge, the suspension of business operations or the shut-down of the enterprise or institution. Fines could also be levied together with these penalties.

PRODUCT LIABILITY

Products that we manufacture are subject to the laws, rules and regulations in relation to the product quality in the PRC. The Product Quality Law of the PRC (《中華人民共和國產品質量法》，the "Product Quality Law"), which was promulgated by the SCNPC on February 22, 1993 and became effective on September 1, 1993 and amended on July 8, 2000 and August 27, 2009, is the principal law governing the supervision and administration of product quality.

According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell. The manufacturer shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products of the manufacturer unless the manufacturer is able to prove that:

- the product has never been circulated;
- the defect did not exist at the time when the product was circulated; or

- the scientific or technological knowledge at the time when the product was circulated was at a level incapable of detecting the defect.

The seller shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such losses against the manufacturer or the seller.

Pursuant to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which was promulgated by the National People's Congress of the PRC on April 12, 1986 and became effective on January 1, 1987 and amended on August 27, 2009, both manufacturers and sellers shall be held jointly liable for losses and damage suffered by the injured parties caused by the defective products they manufactured or sold.

The Tort Liability Law of the PRC (《中華人民共和國侵權責任法》), which was promulgated by the SCNPC on December 26, 2009 and became effective on July 1, 2010, provides that if a product endangers a person's life or property due to its defect, the manufacturers and the sellers shall bear liability in torts.

According to the applicable PRC laws and regulations, manufacturers who produce defective products in the PRC shall be liable for the damage or personal injury caused by such products. We offer customized semiconductors on 200mm wafers for specific use by our customers in their end products. If our products fail to meet the required specifications or quality standards as a result of any defects in our manufacturing process resulting in defective or malfunctioning end products, we could be liable for damages, especially if the defects or malfunction in the end products cause any physical harm to people or damage to property. The occurrence of such event could result in product liability claims as well as a mandatory recall of, or safety alert or advisory notice relating to, the end products. Such claims may be pursued by way of contractual remedy or by way of civil action if defects in our products result in damages or injuries of third parties. In such event, our business reputation and our financial condition could be adversely affected. We have not experienced any product liability claims or product recalls during the Track Record Period.

As confirmed by the local authorities supervising production, no penalties due to violation of relevant laws, regulations and administrative rules on product quality supervision have been imposed upon any of our subsidiaries in the PRC during the Track Record Period.

OUR HISTORY AND DEVELOPMENT

History and Development

We are a leading pure-play 200mm wafer foundry with headquarters located in Shanghai, China. Currently we have three 200mm wafer manufacturing facilities in Shanghai. Our sales and technical support extends outside the PRC to Taiwan, Japan, Europe and North America.

Our history can be traced back to July 1997, when HHNEC was founded by Shanghai Hua Hong Microelectronics Co., Ltd., NEC and NEC (China) Co., Ltd.. HHNEC was established initially to develop, manufacture and sell DRAM wafers for NEC. In 2003, HHNEC phased out DRAM production and started its foundry services. Our Company was established in January 2005 as the holding company of HHNEC. In December 2000, Grace Shanghai was established by Grace Cayman as a pure-play foundry to develop, manufacture and sell semiconductor wafers. Since 2006, both HHNEC and Grace Shanghai have focused on the research, development and manufacture of semiconductors using eNVM and power discrete technologies.

In 2009, our Company and Grace Cayman decided to consolidate our businesses by way of the Merger, with a view to increasing operational efficiency, improving core competitiveness and enhancing our ability to access global capital market. The Merger was completed in December 2011 and the subsequent intra-group Restructuring, which resulted in the consolidation of our primary operating entities in China, was substantially completed in October 2013.

The following are the important milestones in our business history to date:

Year	Milestones
1997	• HHNEC was established.
1999	• HHNEC successfully pilot-ran the DRAM production line.
2000	• Grace Cayman established Grace Shanghai.
2003	• HHNEC phased out DRAM production and commenced its foundry services.
	• Grace Shanghai commenced production of 0.20μm PC chipsets.
	• Grace Shanghai commenced production of 0.25/0.18μm standalone NOR Flash.
2004	• Grace Shanghai commenced production of 0.25μm eFlash automotive engine control units.
2005	• Our Company was incorporated in Hong Kong as the holding company of HHNEC.

Year	Milestones
	• Grace Shanghai commenced production of 0.15μm PC chipsets.
	• HHNEC commenced production of embedded EEPROM for China's national ID card.
2006	• HHNEC licensed the 0.13μm SONOS technology from Cypress for the production of eFlash.
	• Grace Shanghai licensed the SuperFlash technology from SST.
2007	• HHNEC commenced production of 0.35μm BCD semiconductors.
	• Grace Shanghai commenced production of 0.18μm eFlash.
2008	• HHNEC commenced production of 0.13μm SONOS eFlash.
2009	• Grace Shanghai commenced production of the 0.13μm Logic and 0.12μm NOR Flash.
	• Grace Shanghai commenced production of 0.13μm SONOS for touch panel controllers.
2010	• HHNEC commenced production of 0.18μm BCD.
	• Grace Shanghai commenced production of 0.13μm eFlash based on Superflash technology.
2011	• Accumulated shipments by HHNEC of power MOSFET exceeded two million wafers.
	• Accumulated shipments by Grace Shanghai and HHNEC of SuperFlash-based ICs exceeded one million wafers.
	• HHNEC commenced production of 600V SJNFET and 1200V NPT IGBT.
	• The Merger was completed.
2012	• Annual shipments by Grace Shanghai and HHNEC of 0.13μm ICs for SIM cards reached approximately 1.8 billion units.
2013	• The intra-group Restructuring pursuant to the Merger was substantially completed.
	• HHGrace delivered magnetic sensor samples for mobile applications.

History of HHNEC and Grace Shanghai prior to the Merger

1. ***HHNEC and Our Company***

HHNEC was established on July 17, 1997, with a total investment of US$1.2 billion and a registered capital of US$700 million, which was fully paid up. The founders of HHNEC were: (i) Shanghai Hua Hong Microelectronics Co., Ltd., which contributed US$500 million, holding a 71.4% equity interest, (ii) NEC, which contributed US$130 million, holding a 18.6% equity interest, and (iii) NEC (China) Co., Ltd., a subsidiary of NEC, which contributed US$70 million, holding a 10% equity interest. At its inception, HHNEC manufactured DRAM for NEC and later changed its focus to developing, manufacturing and selling semiconductor wafers specializing in four technology platforms: eNVM, analog and power management, high voltage and RF.

Following the initial establishment of HHNEC in 1997, there were several changes to its ownership until it was converted into a WFOE in 2005. A series of capital injections and equity transfers from 2003 to 2005 resulted in the following shareholders of HHNEC: (i) Hua Hong International, an exempted company incorporated in the Cayman Islands with limited liability on December 28, 2001 and a wholly-owned subsidiary of Huahong Group, (ii) NEC, a company incorporated in Japan, (iii) Hylintek Limited, a company incorporated in Hong Kong and (iv) Newport Fab LLC, a company incorporated in the United States. Huahong Group and Hylintek Limited were under the common control of CEC. The other shareholders of HHNEC were independent of each other.

On January 21, 2005, our Company was incorporated as a limited company under the laws of Hong Kong as the holding company of HHNEC. Pursuant to a share purchase agreement dated March 3, 2005, and in order to establish an offshore holding structure, Hua Hong International, NEC, Hylintek Limited and Newport Fab LLC transferred all of their equity interests in HHNEC to the Company in return for an allotment of Shares of our Company. As confirmed by our PRC Legal Advisor, we obtained all necessary approvals from the relevant PRC government authorities for such share transfer. Immediately after such share transfer, on October 9, 2005, HHNEC became a WFOE and a wholly-owned subsidiary of our Company. The resulting equity interests of our Company were held as to (i) 61.42% by Hua Hong International (of which 0.49% was held on behalf of Shanghai Zhangjiang (Group) Co., Ltd.); (ii) 17.36% by NEC; (iii) 11.22% by Hylintek Limited; and (iv) 10% by Newport Fab LLC. Subsequently, in a series of equity interest transfers pursuant to the PRC Government's instruction, an equity stake in Huahong Group was transferred to SAIL, as a result of which, by 2009, SAIL had obtained 47.08% in Huahong Group, which in turn held 100% in Hua Hong International. As at the Latest Practicable Date, the shareholders of Huahong Group are SAIL, CEC, INESA and Shanghai Jinqiao (Group) Co., Ltd., which are state-owned enterprises directly administered by the State-Assets Supervision and Administration Commission (SASAC).

In September 2011, HHNEC resolved to make an investment of RMB700 million in Shanghai Huali, a company primarily engaged in the fabrication of 300mm wafers. The investment was fully settled in January 2012, which resulted in HHNEC holding an 8.86% equity interest in Shanghai Huali.

In August 2011, our Company repurchased for US$32 million the shares held by Newport Fab LLC. As a result and immediately prior to the Merger, our Company was held as to 68.24% by Huahong Group through Hua Hong International (of which 0.54% was held on behalf of Shanghai Zhangjiang (Group) Co., Ltd.), 19.29% by NEC and 12.47% by Hylintek Limited.

2. ***Grace Cayman and Grace Shanghai***

Grace Cayman was established as an exempted company with limited liability in the Cayman Islands on October 5, 1999. Since then, it raised a total share capital of US$993.6 million from various investors. Immediately prior to the Merger, SAIL (through its offshore subsidiaries), SST, Cheung Kong (Holdings) Limited/Hutchison Whampoa Limited, Sanyo and other international investors held 69.19%, 9.59%, 3.12%, 1.06% and 17.04%, respectively, of Grace Cayman. All shareholders were independent of each other.

Grace Shanghai, a wholly-owned subsidiary of Grace Cayman, was established in the PRC as a WFOE on December 20, 2000 with a registered capital of US$700 million. Grace Shanghai commenced operations in 2003 to provide foundry services based on a broad portfolio of differentiated technologies and services.

Grace Cayman also had subsidiaries in Japan, Hong Kong, Austria, Germany and the United States. The registered capital of Grace Shanghai was increased and paid-up to US$900 million in 2009. Grace Cayman closed its subsidiary in Austria in 2010.

In February 2010, Grace Shanghai resolved to make an investment of RMB700 million in Shanghai Huali. The first installment of RMB350 million was made in 2010 and the remaining RMB350 million was fully settled in February 2014, which resulted in Grace Shanghai holding an 8.86% equity interest in Shanghai Huali.

The Merger and the Restructuring

In order to leverage our complementary strengths to further expand our product range and customer coverage, in September 2011 our shareholders approved a merger with Grace Cayman, which included two aspects: the Merger and the Restructuring.

1. ***The Merger***

On September 13, 2011, we entered into the Merger Agreement with Grace Cayman and the Merger Subsidiary. Pursuant to the Merger Agreement and the plan of merger adopted by our Board on October 18, 2011, Grace Cayman merged with the Merger Subsidiary.

Following the merger of Grace Cayman and the Merger Subsidiary, Grace Cayman, as the surviving entity, then became our wholly-owned subsidiary. The shareholders of Grace Cayman at the time of the Merger Agreement were issued and allotted 280,715,021 Shares based on a pre-determined exchange ratio of 13.9969315 Grace Cayman shares to one Share (the "**Exchange Ratio**").

The major steps of the Merger are set out below:

- On September 7, 2011, we established the Merger Subsidiary prior to the execution of the Merger Agreement to facilitate the merger process.

- Upon completion of the Merger on December 28, 2011:

  (a) the Merger Subsidiary was merged into Grace Cayman with Grace Cayman as the surviving company, and Grace Cayman became our wholly-owned subsidiary. The issued shares of the Merger Subsidiary were converted into Grace Cayman shares and all the then outstanding shares of Grace Cayman were cancelled (the "**Cancelled Grace Shares**"); and

  (b) in exchange for the Cancelled Grace Shares, we issued a total of 280,715,021 Shares to Grace Cayman's shareholders based on the Exchange Ratio.

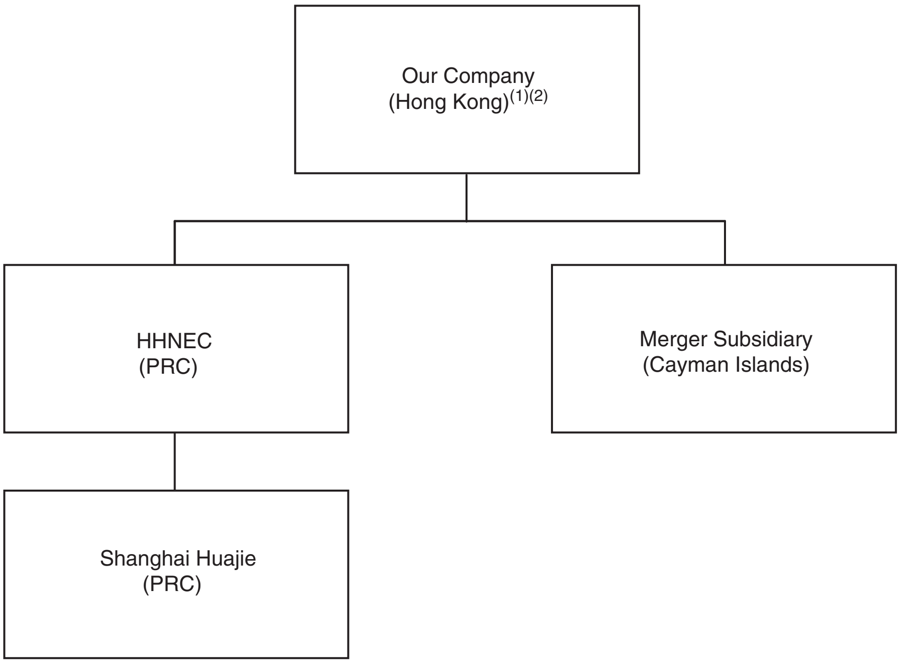
In October 2011, all holders of then-existing outstanding options to purchase Grace Cayman's preferred shares assigned all of their rights, benefits, liabilities and obligations under the options granted to them in 2009 to SAIL. The options were then exercised by SAIL at a total exercise price of approximately US$40.7 million. In consideration of the assignment of the relevant options to SAIL, SAIL granted the relevant option holders a right to purchase the corresponding number of Shares from SAIL based on the Exchange Ratio.

Prior to the completion of the Merger, SAIL converted US$20 million in principal amount of convertible bonds of Grace Cayman (the "**Grace Convertible Bonds**") that it held into preferred shares of Grace Cayman. We assumed the remaining Grace Convertible Bonds in the principal amount of US$69 million upon the completion of the Merger.

To eliminate any dilution effect caused by the conversion of the outstanding Grace Convertible Bonds, our Company issued an additional 11,010,635 Shares upon completion of the Merger which were held in escrow by SAIL as the escrow agent (the "**Escrow Shares**"). The Escrow Shares were to be released to the pre-Merger shareholders of our Company if the outstanding Grace Convertible Bonds were converted after the Merger, and would be released to the pre-Merger shareholders of Grace Cayman if no conversion took place prior to the maturity date of September 30, 2012.

Subsequent to the Merger, the outstanding Grace Convertible Bonds were not converted and had lapsed upon the maturity date of September 30, 2012. Pursuant to the escrow arrangement, the Escrow Shares were released to the pre-Merger shareholders of Grace Cayman[(1)].

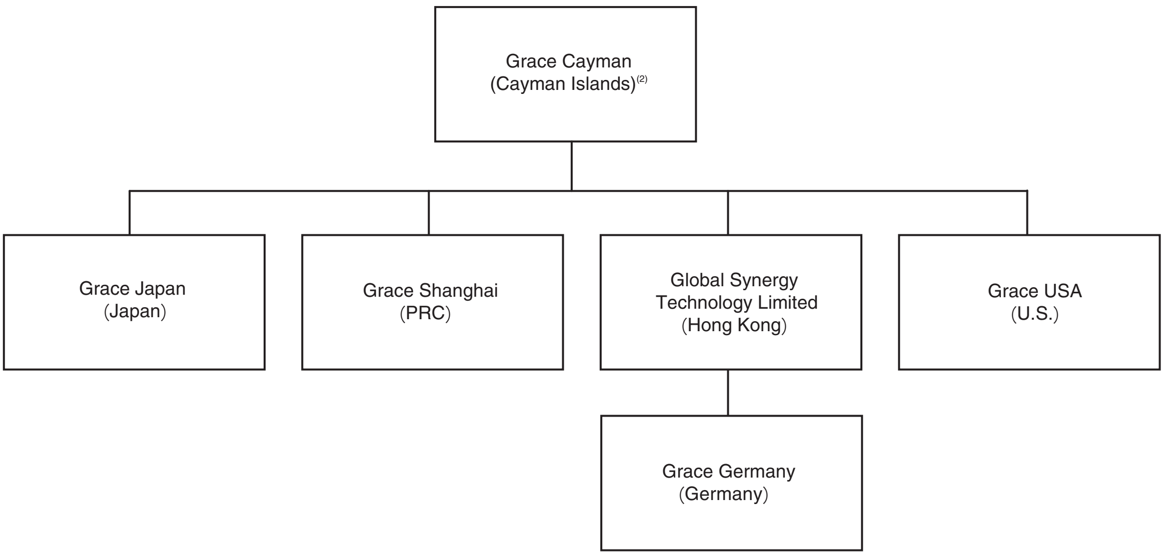
The following chart illustrates the structure of our Company immediately prior to the Merger (unless otherwise specified, each subsidiary is 100% owned by its holding company):



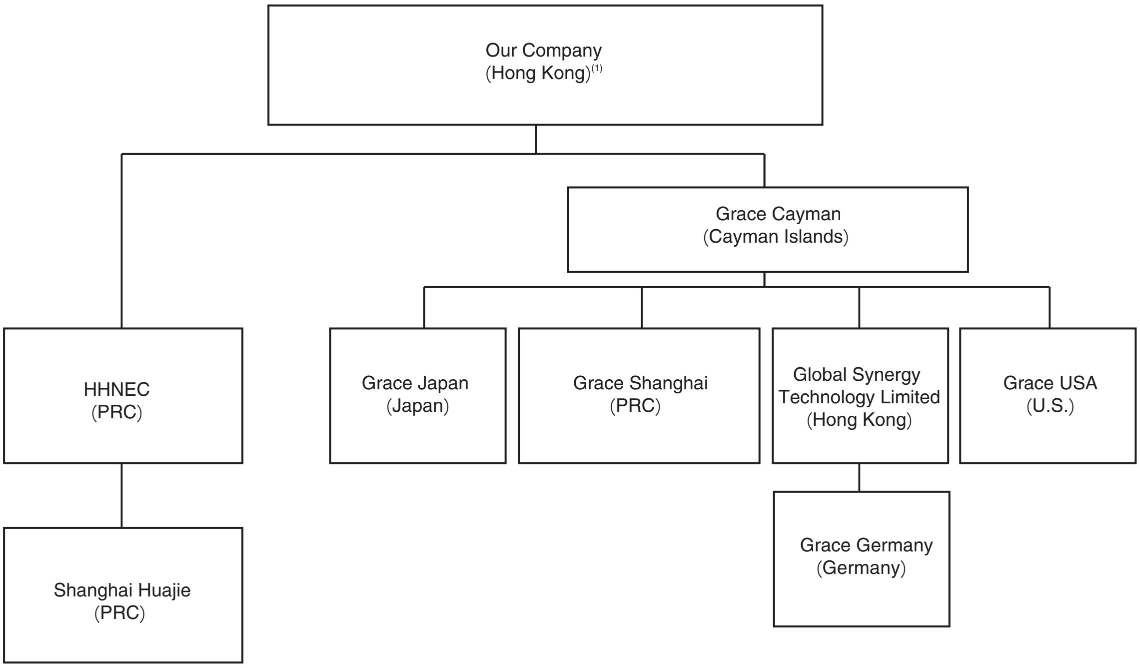
(1) As at the Latest Practicable Date, Sino-Alliance International, Ltd. was still holding 3,645 Escrow Shares as the relevant shareholders did not return the relevant signed transfer documents for the release of the Escrow Shares.

(2) Associates are not included in the chart. For details of our associates, see Note 1 to the Accountants' Report in Appendix I.

The following chart illustrates the structure of Grace Cayman immediately prior to the Merger (unless otherwise specified, each subsidiary is 100% owned by its holding company):



The following chart illustrates the structure of our Company immediately after the Merger and immediately prior to the Restructuring (unless otherwise specified, each subsidiary is 100% owned by its holding company):



(1) Associates are not included in the chart. For details of our associates, see Note 1 to the Accountants' Report in Appendix I.

2. ***The Restructuring***

Following the Merger, we undertook a series of restructuring steps that resulted in: (i) the consolidation of our primary operating subsidiaries, namely HHNEC and Grace Shanghai, into HHGrace and (ii) the transfer of ownership of all other subsidiaries under Grace Cayman to our Company and renaming of these subsidiaries.

The major steps of the Restructuring are set out below:

- On March 16, 2012, Grace Cayman and our Company entered into an equity transfer agreement.

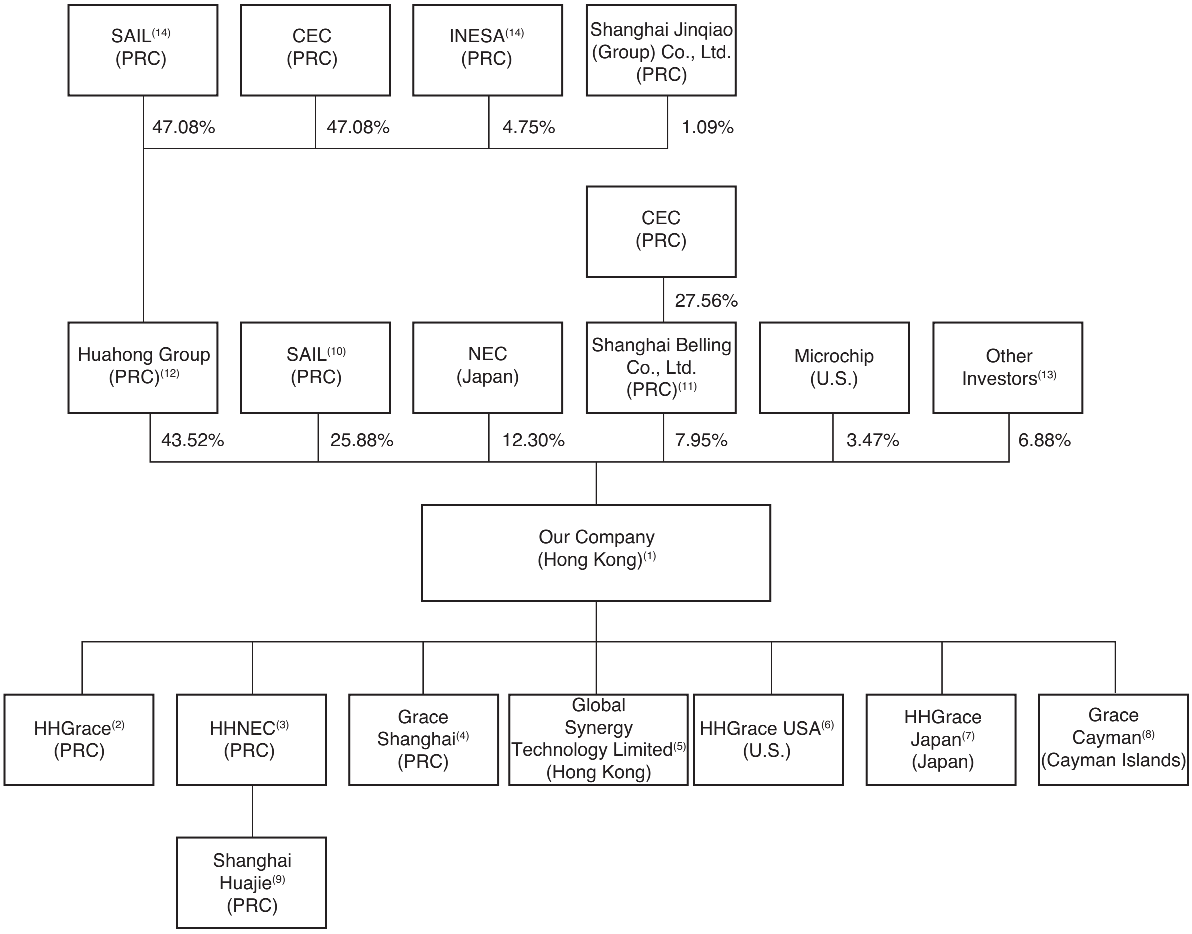
- On March 31, 2012, Grace Shanghai received the approval of Shanghai Municipal Commission of Commerce for the equity transfer. Following such approval, Grace Shanghai registered the equity transfer with the Shanghai Administration for Industry & Commerce.

- On January 24, 2013, HHGrace was established as a wholly-owned subsidiary of our Company and a WFOE to consolidate the assets and liabilities of HHNEC and Grace Shanghai. This consolidation has been substantially completed except for certain administrative formalities which still need to be fulfilled before we dissolve and deregister HHNEC and Grace Shanghai.

As advised by our PRC Legal Advisor, all approvals from the relevant PRC authorities have been obtained with respect to the Merger and the Restructuring, and the Restructuring will be completed upon the deregistration of HHNEC and Grace Shanghai.

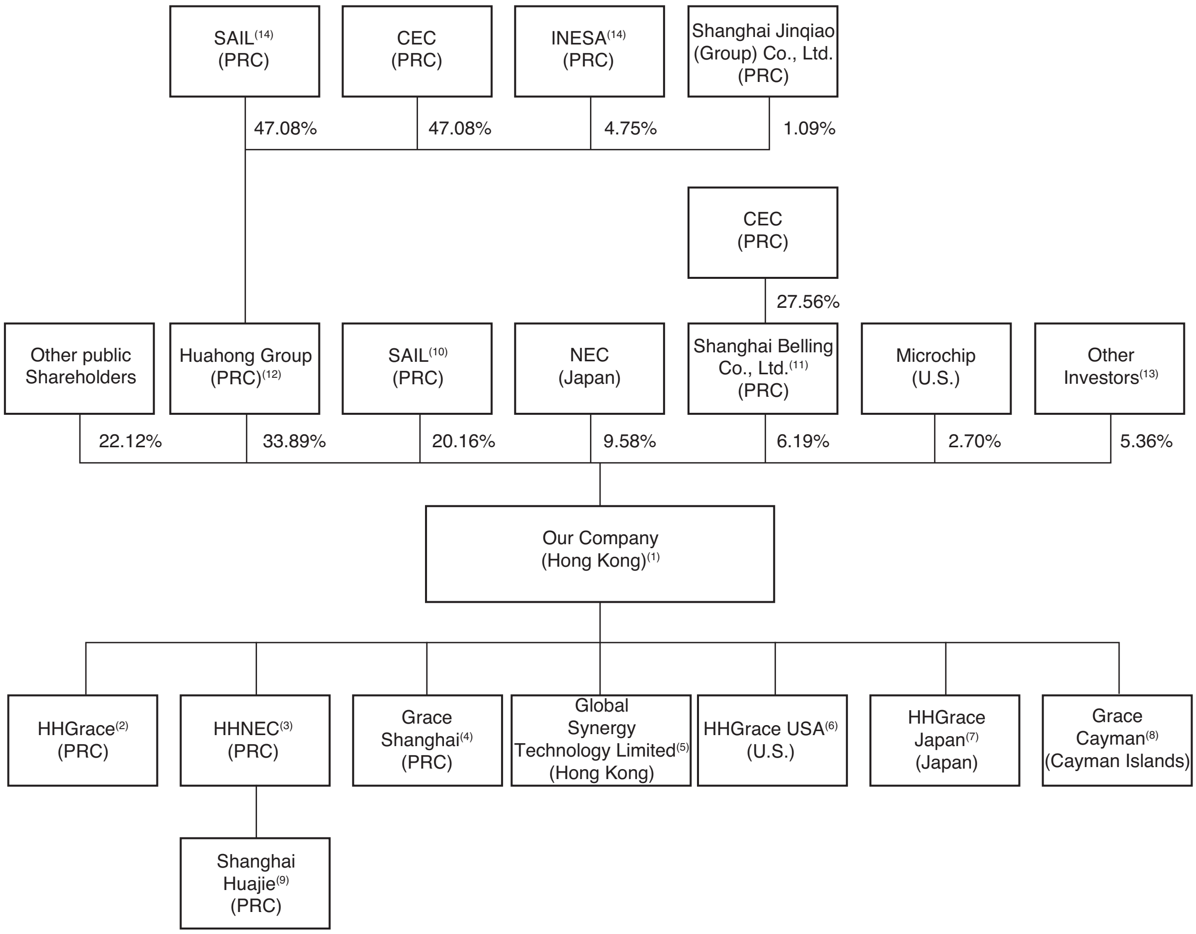
GROUP STRUCTURE

The following chart depicts the shareholding and corporate structure of our Group as at the Latest Practicable Date (unless otherwise specified, each subsidiary is 100% owned by its holding company):



(1) Associates are not included in the chart. For details of our associates, see Note 1 to the Accountants' Report in Appendix I.
(2) The principle business of HHGrace is to research, develop, manufacture and sell semiconductors as a pure-play foundry.
(3) The principle business of HHNEC was to research, develop, manufacture and sell semiconductors as a pure-play foundry.
(4) The principle business of Grace Shanghai was to research, develop, manufacture and sell semiconductors as a pure-play foundry.
(5) Global Synergy Technology Limited is a trading company.
(6) The principle business of HHGrace USA is to serve as a representative of our Company and to promote our interests and brand in the United States.
(7) The principle business of HHGrace Japan is to serve as a representative of our Company and to promote our interests and brand in Japan.
(8) The principle business of Grace Cayman is investment holding.
(9) The principle business of Shanghai Huajie is to design, develop and market IC products.
(10) SAIL indirectly holds interests in the Company through four wholly owned subsidiaries.
(11) Shanghai Belling Co., Ltd. holds interest in the Company through Hylintek Limited, a wholly-owned subsidiary of Shanghai Belling Co., Ltd., an investment holding company.
(12) Huahong Group holds interest in the Company through Hua Hong International, a wholly-owned subsidiary of Huahong Group and an investment holding company.
(13) Other investors include 55 shareholders of our Company, all of whom are independent third parties. These 55 shareholders were shareholders of Grace Cayman at the time of the Merger Agreement and pursuant to the terms and conditions of the Merger Agreement, they were issued and allotted shares in the Company. The issuance of such Shares was completed and fully settled on December 28, 2011. For detailed information, see the section headed "— The Merger and the Restructuring — 1. The Merger."
(14) Pursuant to a voting agreement dated June 6, 2014 between SAIL and INESA, SAIL and INESA are voting in concert.

The following chart depicts the shareholding and corporate structure of our Group immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised (unless otherwise specified, each subsidiary is 100% owned by its holding company):



(1) Associates are not included in the chart. For details of our associates, see Note 1 to the Accountants' Report in Appendix I.
(2) The principle business of HHGrace is to research, develop, manufacture and sell semiconductors as a pure-play foundry.
(3) The principle business of HHNEC is to research, develop, manufacture and sell semiconductors as a pure-play foundry.
(4) The principle business of Grace Shanghai is to research, develop, manufacture and sell semiconductors as a pure-play foundry.
(5) Global Synergy Technology Limited is a trading company.
(6) The principle business of HHGrace USA is to serve as a representative of our Company and to promote our interests and brand in the United States.
(7) The principle business of HHGrace Japan is to serve as a representative of our Company and to promote our interests and brand in Japan.
(8) The principle business of Grace Cayman is investment holding.
(9) The principle business of Shanghai Huajie is to design, develop and market IC products.
(10) SAIL indirectly holds interests in the Company through four wholly owned subsidiaries.
(11) Shanghai Belling Co., Ltd. holds interest in the Company through Hylintek Limited, a wholly-owned subsidiary of Shanghai Belling Co., Ltd., an investment holding company.
(12) Huahong Group holds interest in the Company through Hua Hong International, a wholly-owned subsidiary of Huahong Group and an investment holding company.
(13) Other Investors include 55 shareholders of our Company, all of whom are independent third parties. These 55 shareholders were shareholders of Grace Cayman at the time of the Merger Agreement and pursuant to the terms and conditions of the Merger Agreement, they were issued and allotted shares in the Company. The issuance of such Shares was completed and fully settled on December 28, 2011. For detailed information, see the section headed "— The Merger and the Restructuring — 1. The Merger."
(14) Pursuant to a voting agreement dated June 6, 2014 between SAIL and INESA, SAIL and INESA are voting in concert.

OUR SUBSIDIARIES

1. *Subsidiaries of the Group*

Set forth below are the details of the subsidiaries of our Group.

(1) *HHGrace*

As a result of the Merger and the Restructuring, HHGrace was incorporated on January 24, 2013 as a wholly-owned subsidiary of our Company and a WFOE. HHNEC and Grace Shanghai are in the process of transferring all of their respective assets and liabilities to HHGrace.

As of the Latest Practicable Date, the registered capital of HHGrace was RMB5.87 billion, being the total net assets of HHNEC and Grace Shanghai as of December 31, 2011. The principal business of HHGrace as a pure-play foundry is research, development and manufacturing of semiconductors on 200mm wafers for specialty applications, in particular eNVM and power discretes.

(2) *Global Synergy Technology Limited*

On November 12, 2003, Silicon Synergy Technology Limited was incorporated under the laws of Hong Kong. It was renamed Global Synergy Technology Limited on April 4, 2005. Pursuant to a certificate of registration dated December 18, 2013, Grace Cayman transferred all its equity interest in Global Synergy Technology Limited to our Company, and it is now a wholly-owned subsidiary of our Company.

As of the Latest Practicable Date, the authorized share capital of Global Synergy Technology Limited was HK$10,000 divided into 10,000 shares of a nominal value of HK$1.00 each. Its principal business is a trading company.

(3) *HHGrace USA*

On October 20, 2005, Grace USA was incorporated under the laws of the State of California, United States. As at the date of incorporation, Grace USA was authorized to issue 10,000 shares of common stock with no par value.

Pursuant to the Merger and the Restructuring, Grace Cayman transferred all its equity interest in this subsidiary to our Company on December 20, 2013, and it is now a wholly-owned subsidiary of our Company. On February 4, 2014, Grace USA was renamed HHGrace USA.

As of the Latest Practicable Date, the authorized share capital of HHGrace USA was 10,000 shares of common stock with no par value. HHGrace USA serves as a representative of our Company and promotes our interests and brand in the United States.

(4) *HHGrace Japan*

On May 2, 2006, Grace Japan was incorporated under the laws of Japan. The maximum number of authorized shares is 800, of which 200 are issued. As at the date of incorporation, Grace Cayman held all 200 shares of Grace Japan.

Pursuant to the Merger and the Restructuring, Grace Cayman transferred all its equity interest in this subsidiary to our Company on December 10, 2013 and it is now a wholly-owned subsidiary of our Company. On September 1, 2013, Grace Japan was renamed HHGrace Japan.

As of the Latest Practicable Date, the authorized share capital of HHGrace Japan was JPY 10 million divided into 200 shares. HHGrace Japan serves as a representative of our Company and promotes our interests and brand in Japan.

(5) *Shanghai Huajie*

On April 8, 2002, Shanghai Huajie was incorporated under the laws of the PRC as a Chinese-foreign equity joint venture with a registered capital of US$5 million, with its equity interests held as to 50% by Unified Technologies Corporation, an independent third party incorporated in Mauritius, 15% by Huahong Group, 5% by HHNEC, 15% by Shanghai Belling Co., Ltd. and 15% by Shanghai Xinxin Investment Co., Ltd., a company incorporated in the PRC. At that time, Huahong Group was the largest shareholder of both Shanghai Belling Co., Ltd. and Shanghai Xinxin Investment Co., Ltd. From March to August 2006, pursuant to a series of share transfer agreements, all the other shareholders transferred their respective interests in Shanghai Huajie to HHNEC. As a result, Shanghai Huajie became a wholly-owned subsidiary of HHNEC on December 19, 2006.

As of the Latest Practicable Date, the registered capital of Shanghai Huajie was approximately RMB41.4 million. The principal business of Shanghai Huajie is to design, develop and market IC products. Upon the completion of the Restructuring, Shanghai Huajie will be a wholly-owned subsidiary of HHGrace.

(6) *HHNEC*

For detailed information for HHNEC, see the section headed " — History of HHNEC and Grace Shanghai prior to the Merger — HHNEC and Our Company". Upon completion of the transfer of the relevant assets and liabilities, we intend to deregister HHNEC.

(7) *Grace Shanghai*

For detailed information for Grace Shanghai, see the section headed " — History of HHNEC and Grace Shanghai prior to the Merger — Grace Cayman and Grace Shanghai". Upon completion of the transfer of the relevant assets and liabilities, we intend to deregister Grace Shanghai.

(8) *Grace Cayman*

For detailed information for Grace Cayman, see the section headed " — History of HHNEC and Grace Shanghai prior to the Merger — Grace Cayman and Grace Shanghai".

2. ***Subsidiary that was liquidated during the Track Record Period***

(1) *Grace Germany*

Grace Germany was a company incorporated on February 21, 2008 under the laws of Germany with a registered capital of EUR25,000. In order to facilitate and develop our business for European customers, pursuant to a share purchase agreement, on April 30, 2008, Blitzstart Holding AG and Blitz Beteiligungs GmbH sold a share of EUR 24,750 and a share of EUR250 in Blitz 08-349 GmbH, respectively, to Grace Semiconductor Europe GmbH. Blitz 08-349 GmbH was subsequently renamed Grace Semiconductor Germany GmbH. The original intention to set up the representative office in Germany was to help maintain customer relationships and to handle daily sales operation matters for our fast growing European customer base. However, as it turned out, the European office was less effective in serving the local customers as compared with our other regional offices, mainly due to its high overhead costs and the scattered geographical distribution of the European customers. In order to streamline our operations, we decided to liquidate this company for cost reasons and maintain the customer relationships and daily sales operation matters for the region from our Shanghai office. The liquidation process was completed on December 11, 2012.

SHAREHOLDERS' APPROVAL AND PRC LEGAL COMPLIANCE

We obtained shareholders' approval for the Global Offering on May 12, 2014. Based on the confirmation of the Shanghai Branch of SAFE, our PRC Legal Advisor is of the view that in terms of the foreign exchange compliance, our Controlling Shareholders have completed all necessary registration and filing procedures with SAFE for their offshore investments during the Merger and the Restructuring.

Our PRC Legal Advisor further confirmed that all necessary approvals from the relevant PRC authorities have been obtained with respect to the Global Offering and the Listing.

OVERVIEW

We are a global, leading pure-play 200mm foundry. We primarily focus on manufacturing semiconductors on 200mm wafers for specialty applications. Our manufacturing expertise comes from many years of research and development of advanced and differentiated technologies for 200mm wafer manufacturing, in particular eNVM and power discretes. Our portfolio also includes several other advanced process technologies such as RFCMOS, analog and mixed signal, CMOS image sensors, PMIC and MEMS. The semiconductors we manufacture are incorporated into a wide range of products in diverse markets, including consumer electronics, communications, computing and industrial and automotive. We believe we are well positioned to address new growth opportunities in these markets.

We are the trusted technology and manufacturing partner of our customers, who fall into two main categories: (i) IDMs and (ii) systems and fabless companies. We develop and offer our customers a portfolio of advanced, differentiated wafer process technologies. We have a long operating track record through HHNEC and Grace Shanghai, which began operations in 1999 and 2003, respectively, and which merged into HHGrace in 2013.

According to IBS, based on total 2013 revenue, we ranked second globally amongst pure-play 200mm foundries, and sixth amongst all the pure-play foundries worldwide. We currently have one of the largest 200mm wafer processing capacities in China through our three fabs in Shanghai, with an approximate total 200mm wafer manufacturing capacity of 124,000 wafers per month as of June 30, 2014. We intend to strategically and profitably expand our 200mm wafer processing capacity to approximately 164,000 wafers per month by the end of 2016 to address the growing demand from our customers.

We offer a broad selection of customizable processes across the 1.0μm to 90nm technology nodes. In particular, we are a specialist in the design and manufacture of semiconductors that require eNVM process technologies. We believe our eNVM solutions deliver superior performance on smaller die size relative to those of our competitors, making us the foundry of choice for a variety of fast growing eNVM applications such as smart cards and MCUs. We also have strong capabilities in power discrete technologies and have a dedicated fab to manufacture discrete products.

We serve a diversified customer base that includes some of the world's leading semiconductor companies, such as Cypress, Microchip and ON Semiconductor. We derived approximately 50% of our revenue in 2013 from China-based semiconductor companies, such as Huada, Nationz and TMC. We intend to continue working closely with our global customers and to leverage our scale and technology leadership to further address opportunities in China's fast growing semiconductor industry.

Through our flexible and customizable manufacturing platform, we are able to support a variety of customer-specific requirements. We also offer design enablement services facilitating the timely completion of complex designs that are optimized in terms of performance, cost and manufacturing yield on our processes.

OUR COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our competitive position and will continue to be the key drivers of our ability to generate growth and shareholder returns:

Leading Pure-play 200mm Foundry Focused on Advanced, Differentiated Technologies

We are a global, leading pure-play 200mm foundry. We primarily focus on manufacturing semiconductors on 200mm wafers for specialty applications. Our manufacturing expertise comes from many years of research and development of advanced, differentiated technologies for 200mm wafer manufacturing. We currently offer a broad and deep platform of process technologies across the 1.0μm to 90nm technology nodes. We are strategically focused on the advanced geometries of 0.13μm, 0.11μm and 90nm, and we believe we have more extensive technology offerings at these geometries as compared to other 200mm foundries.

In particular, we are a leader in eNVM and power discrete technologies. We have successfully commercialized and currently provide our customers with eNVM solutions on two major technology platforms: SuperFlash from SST (now a subsidiary of Microchip) and SONOS from Cypress. We believe we are the only pure-play foundry globally to have successfully implemented SST's ESF2 SuperFlash processes in commercial production. SuperFlash-based eNVM solutions provide high endurance and data retention capabilities across a wide temperature range (-40ºC to 125ºC), which is critical in industrial and automotive applications. We continue to work with our customers using SuperFlash technology to address opportunities in these markets. We have licensed the SONOS technology from Cypress for eNVM since 2006, and work closely with Cypress on its technology roadmap to optimize design and manufacturing processes. We believe the Cypress SONOS technology enables a very fast manufacturing ramp to high yield at a low cost, which in turn allows us to shorten time-to-market for our customers. We are currently the largest foundry worldwide that mass produces 0.35μm and 0.13μm SONOS-based eFlash and eEEPROM semiconductors. Our technology leadership in eNVM has allowed us to establish a strong market share and capture the robust growth in smart cards and MCUs worldwide.

We are also a leader in power discrete. In 2002, we began to offer 200mm Trench MOSFET technology. By 2011, our accumulated shipments in power MOSFET exceeded two million wafers. We continue to invest in power discrete technologies for applications where energy savings and cost reductions are critical. These include growing markets such as smart appliances, smart city, cloud computing and Internet of Things. In 2011, we commenced production of SJNFET and IGBT semiconductors. We have a large customer base for these high performance, cost-effective power discrete solutions. We expect our business in this segment to continue to grow and deliver stable margin. Our commitment to this business is reflected in the fact that we have dedicated an entire fab to manufacturing power discrete products.

Diverse Global Customer Base with Long-Standing Relationships

During the Track Record Period we served over 600 customers across 20 countries globally, including 11 of the top 30 semiconductor companies by 2013 estimated revenue, according to IBS. In addition, we derived approximately 50% of our revenue in 2013 from China-based customers. Our top three and top 10 customers contributed approximately 20.9% and 49.4% of our revenue in 2013, respectively. We believe we are the primary foundry for our key customers for the types of products that we specialize in.

We have built strong, long-standing relationships with our customers, which we consider to be one of our most valuable competitive strengths. Seventeen of our top 20 customers have been working with us for more than five years, including Cypress, Huada, TMC, Microchip and ON Semiconductor. In particular, SST and Cypress have not only been consistently among our top 10 customers for each of the last three years, they are also our important, long-term technology partners. These long-term licensing and joint development partnerships enable us to establish and maintain market leadership in eNVM technologies.

We also focus on providing value-added services to our customers. We offer them IC design services for designing, customizing and integrating our eNVM solutions to meet their product specifications. We also maintain close collaboration with third-party vendors to provide comprehensive support across design tools, physical IP designs, mask services and assembly and testing services. Our ability to collaborate closely with customers helps to foster customer loyalty, and we believe this also creates a high barrier to entry for our competitors. Through these customer engagements, we gain better perspectives into both the business and technological requirements of our customers and can better develop our technologies to meet their demands.

Established Player in China's Large and Fast Growing Semiconductor Market

China's semiconductor industry is expected to outgrow other global markets through 2020 according to IBS, driven primarily by strong domestic demand for mobile communications, consumer electronics semiconductors and smart cards, including mobile payment SIM, banking, and national ID and next-generation social security cards. The semiconductor industry has also been identified by the PRC Government as one of the key strategic industries to support in the 12th Five Year Plan announced in 2011. According to IBS, China's fabless market in terms of revenue is forecasted to increase from US$8.9 billion in 2013 to US$33.3 billion in 2020, representing a CAGR of 20.7%. The growth in revenue of China's fabless market will likely contribute to the growth of China's foundry market, which IBS expects to increase at a CAGR of 15.8% over the same period.

We have strategically maintained a balanced revenue contribution from both global and Chinese semiconductor customers in order to capture growth opportunities across different geographies and to continue collaborating with technology leaders in the industry. For the year ended December 31, 2013, we recorded revenue of US$291.4 million, or approximately 50%, of our total revenue, from China-based customers. With our manufacturing base in Shanghai, we are in close proximity to and have built long-term relationships with leading fabless companies in China. We were voted the "Most Recognized Foundry" in 2013 by fabless companies in a survey conducted by Electronic Engineering Times — China, a magazine for the electronics industry in Greater China. We have established an excellent platform to address the anticipated continued growth of China's semiconductor industry with one of China's largest 200mm foundry capacities and a rich portfolio of process technologies, strong design services capabilities and excellent customer service.

In particular, we believe we are well positioned to benefit from the expected strong growth in the Chinese smart card market. Our top 10 customers include TMC and Huada, which are two of the largest smart card IC solutions providers in China, as well as Nationz, which is China's leader in security IC solutions. Moreover, we are the primary foundry authorized to manufacture the ICs used in Chinese national ID cards. Also, thanks to our technology leadership, we expect to be the primary foundry supplier for next-generation social security cards.

Flexible and Customizable Manufacturing Platform

We believe our ability to offer customizable and flexible manufacturing solutions positions us favorably for continued success because it enables us to satisfy multiple end-market product requirements and the diverse specifications of our customers. We routinely manage over 100 manufacturing process flows concurrently in our fabs, some of which are customer proprietary and require us to create separate workflows and implement measures to safeguard the relevant intellectual properties. Our ability to manage such complex operations is key to winning customer confidence and securing long-term business. Both the scale of our 200mm operations and the close proximity of our three fabs support flexible allocation of manufacturing capacity among different process technologies and applications. We can ramp up quickly to high volumes and shift production mix as needed to meet the variable needs of our customers. This drives high capacity utilization and high customer satisfaction. This flexibility is due primarily to our open platform and excellent technology transfer processes led by our large pool of experienced engineers. We believe the collective experience of our management and engineering teams allows us to provide customers with reduced cycle times and increased yields that help to improve their overall financial performance.

Competitive Cost Structure and Focus on Shareholder Value

We have a cost-conscious corporate culture, and we manage our operating expenses and capital expenditures carefully. As of June 30, 2014, 86% of our fixed assets had been depreciated. Lower fixed cost translates into a lower break-even utilization, enabling us to remain competitive during industry downturns and to enjoy higher gross and net margins as the industry recovers, and thus enhance shareholder value.

We expect to maintain our cost advantage through the continued acquisition of high-quality pre-owned and factory-refurbished 200mm equipment to debottleneck and increase our manufacturing capacity efficiently. Because we are one of the largest 200mm foundries, we believe we will continue to enjoy access to such equipment at low cost, and we understand how to selectively purchase equipment that integrates well into our existing manufacturing lines.

Furthermore, our strategic manufacturing in China provides us with cost advantages relative to operating in other regions of the world. We incur relatively lower distribution costs due to our geographic proximity to the product delivery locations of many of our customers, as China continues to be the key electronics manufacturing hub for global and domestic consumption. In addition, we enjoy R&D project grants and certain tax incentives and preferential tax treatments to integrated circuit enterprises incorporated in the PRC to encourage the development of the semiconductor industry.

We have improved and expect to continue improving our operating leverage by implementing initiatives to drive further synergies from the Merger and the Restructuring of our businesses. We continue to reduce our operating expenses as well as leverage economies of scale, including negotiating volume discounts with suppliers. We believe our cost structure to be highly efficient, and we are committed to further streamlining our operations as well as optimizing R&D resources with a focus on maximizing shareholder value.

Talented Workforce Led by Experienced Senior Management

We believe the quality and stability of our workforce is also our key competitive strength. As of June 30, 2014, we had 3,642 employees, including 1,465 operators; we had a team of 262 R&D engineers, of which 34% had on average 10 years of experience in the industry and 35% had been with our Company for over seven years. We believe we have developed a collaborative corporate culture based on the spirit of promoting *Disruptive Innovation, Confidence, Initiative and Teamwork (“革新， 自信， 進取， 團結”)*. Our strong corporate culture helps us to attract and retain high quality personnel.

We are led by an experienced and stable senior management team, comprising industry veterans with over 20 years of relevant experience. Our president, Mr. Yu Wang, has been with us since 1997, and he participated in the construction of China’s first 200mm production line. Mr. Wei Xu, our executive vice president of operations, has been with us since 1997 and is responsible for our planning, procurement, quality control, testing and human resources. Our executive vice president of finance, Mr. Daniel Yu-Cheng Wang, brings over 20 years of experience in finance and information technology, and has played a critical leadership role in the development of Grace Shanghai since its inception. Dr. Cheng Fu, our executive vice president in charge of strategy, legal and compliance, science and technology projects, brings approximately 15 years of industry experience. Our executive vice president in charge of research, technology development and design services, Dr. Weiran Kong, has over 19 years’ experience in the semiconductor industry. Mr. Kai Gong, our executive vice president in charge of general office and government relations, general administrative security, environmental safety and health, has been with us since 1998. Our senior management team has a long history of working together and is directly responsible for our performance track record.

OUR BUSINESS STRATEGIES

Continue to Improve Product Mix, Capture High-Margin and High-Growth Opportunities

We intend to continue to shift our product mix towards higher margin and higher growth opportunities to improve our profitability. The key end market applications that we focus on include smart cards, MCUs, automotive, smart grids, LED lighting, wearable devices and connected sensor devices via the Internet of Things. We believe these selected end market applications and technologies are fast-growing and the relevant semiconductor products, such as MCUs, bank card ICs and LED lighting ICs using BCD 700V technology, may potentially command gross margins higher than that of our historical average gross margin.

In particular, we intend to leverage our expertise in eNVM technology to further enhance our presence in the smart card market. According to IBS, the global smart card IC market, which encompasses SIM cards, bank IC cards, mobile payment devices, ID cards and social security cards, is expected to reach US$6.4 billion by 2020 from US$3.1 billion in 2013, representing a CAGR of 10.6%. IBS forecasts that China's share of the smart card IC market will increase from 31.1% in 2013 to 43.4% by 2020, primarily driven by strong demand for bank IC cards, mobile payment SIM cards and next-generation social security cards. We expect to increase the revenue contribution of our eNVM business from 34.8% for the year ended December 31, 2013 to approximately 50% in the near future.

We also intend to continue to enhance our advanced, differentiated process technology portfolio with LED lighting and automotive sensor applications. We currently employ our ultra-high voltage BCD 700V technology to manufacture high performance, cost-effective LED driver semiconductors to address the growing LED lighting market. Going forward, we will broaden our advanced power management platform to offer a comprehensive suite of cost-effective solutions.

Regarding automotive, we have been certified by BSI for quality system ISO/TS16949, a key quality certification for automotive manufacturing. We have already been qualified and passed numerous, extensive audits rendered by our Japanese, European and U.S. customers as well as their end customers. We manufacture ICs for engine control units and airbag controllers, as well as infotainment, radio and navigation systems, and discrete chips for power steering. We intend to continue leveraging our advanced process technology expertise to penetrate automotive markets as well as other high-growth end market applications, such as sensors.

Continue to Engage in R&D of Differentiated Advanced Technologies, One of Our Key Competitive Advantages

We differentiate ourselves from our global peers through the depth of our specialty process technology portfolio and our focus on advanced technology nodes on 200mm wafers. We believe that we must continue to engage in R&D in order to maintain and grow our market leadership. Our ability to develop our own advanced technologies and to co-develop specialty technologies with our customers and partners has been and will remain a cornerstone of our economic success. We plan to continue building on our existing capabilities, in particular eNVM, and focus on specialty technologies for emerging high-growth end-market applications, such as sensors.

For eNVM, we expect to commence mass production of our 90nm solutions by 2015. We have already delivered multiple project wafers on 90nm to selected customers. We are also working on memory cell enhancement on 90nm and ultra low leakage solutions for 0.11μm. We engage in R&D projects that are expected to result in better production yield, smaller die size and lower power consumption on these advanced technology nodes. In addition, we plan to work on new types of memory applications requiring lower power consumption and higher performance.

We will continue to engage in R&D to address new business opportunities. For example, we are working to enhance our integration capabilities across different technologies. Specifically, we are focused on the integration of our eFlash and RF technologies to provide cost-effective solutions for wearable devices, IoT and automotive applications. We have also identified sensors as a new growth category for our Company, in particular sensors that utilize MEMS technology. We have made an investment in QST and are working together with it to develop MEMS sensors for the mobile markets. In the long term, we aim to invest and expand our capabilities into other MEMS sensor opportunities such as bolometers, pressure sensors and humidity and temperature sensors for the IoT market. We are also engaged in R&D of new process technologies using new materials such as SOI substrate.

Our R&D projects generate significant innovations, resulting in a continuing increase in our patents and patent applications. We view our patent portfolio as an important factor in ensuring our competitiveness and a critical entry barrier for competitors. We will continue to expand and vigorously defend our IP portfolio.

Continue to Realize Merger Synergies

Key benefits from the Merger on December 28, 2011 include greater manufacturing flexibility, an enlarged customer base, a more comprehensive and complementary product portfolio, increased economies of scale and a stronger financial base. Additionally we have been able to leverage the enlarged business to negotiate more favorable terms with suppliers.

We undertook the Restructuring to collapse the onshore corporate structures of our companies, formally combining substantially all of the assets and operations of HHNEC and Grace Shanghai under one corporate entity in January 2013. This has allowed us to further eliminate costs and streamline our management systems. Going forward, we expect to continue to realize synergies from the Merger and the Restructuring to improve our profitability. Such initiatives include ongoing technology transfers and optimization of our product mix across the three fabs to improve utilization, as well as continuing to explore ways to increase both our manufacturing and our operating efficiencies as part of our overall effort to enhance financial returns over time.

Pursue Capacity Expansion Strategically and Profitably

To serve increasing demands for 200mm wafer manufacturing capacity, we expect to use the net proceeds from the Global Offering to invest prudently to expand our manufacturing capacity. We have readily available areas within our current fabs that would enable us to expand capacity without having to undertake substantial infrastructure projects. We will continue to procure refurbished equipment to manage our capital expenditure and limit increases in our depreciation costs. Using the net proceeds from the Global Offering, we believe we can increase our 200mm manufacturing capacity to approximately 164,000 wafers per month by the end of 2016.

We currently have no plans to build our own 300mm capacity or to develop the necessary process technologies. We will remain focused on providing our customers with manufacturing solutions for their 200mm wafers, as we expect demand for 200mm wafers will continue to grow going forward.

Whilst it is theoretically possible for certain applications designed at the same process technology node to be manufactured on either 300mm or 200mm wafers, it is not the common industry practice to migrate applications from 200mm wafers to 300mm wafers without shrinking the design geometry for better performance. This refers to a scenario where the manufacturing is migrated on to 300mm wafers without making any improvements to the existing IC design. By keeping the design geometry the same, or in other words, keeping the design at the same technology node, there typically would not be any performance improvement. Shrinking the design geometry of an IC essentially implies re-creating a new design, which may take at least three months to a year of R&D efforts depending on the complexity of the ICs and experience of the engineers. There are also substantial investments, such as EDA tools, Silicon IPs, and lithography mask sets, required.

The selection of the most appropriate foundry services (whether using 200mm or 300mm wafers) takes into account a multitude of considerations including production volume per product and effective cost per die. High volume products which have more digital circuits in their designs such as baseband ICs and application processors for mobile applications tend to favor manufacturing using 300mm wafers to gain better performance and more gross dies per wafer. In contrast, there are many products, including our eNVM products, whose designs need to be modified and/or optimized frequently based on different specific applications, or they contain more analog/RF circuits, making design shrinkage difficult. We expect these products will continue to be manufactured more cost effectively using 200mm wafers.

That said, we recognize the advantage of being able to engage with our customers not only for 200mm, but also for their future product development needs beyond the 90nm node that require 300mm manufacturing. To this end we have a strategic investment in a 300mm venture, Shanghai Huali, in which we own a 17.72% stake. Some of our existing and potential customers may have requirements for both 200mm and 300mm wafers manufacturing for their broad range of products, and these customers may prefer to work with a single foundry offering both 200mm and 300mm wafers instead of separate foundries. We are able to offer these customers manufacturing solutions for their 200mm wafers, and through our strategic investment in Shanghai Huali, we can refer them to Shanghai Huali for their 300mm wafer requirements. Additionally, since we are leasing fab space in our existing facilities to Shanghai Huali and they are in the same location as us, it is very convenient for customers that have requirements for both 200mm and 300mm wafers manufacturing and would like to purchase from a single supplier, to purchase 200mm wafers from the Company and 300mm wafers from Shanghai Huali. That way, we are able to more effectively compete with foundries that offer both 200mm and 300mm wafers and reduce the risk of losing potential customers, because we cannot address their 300mm wafer needs. Shanghai Huali can also refer their customers to us for 200mm wafer requirements. We currently do not compete with Shanghai Huali for any customer for the same applications, and as of the Latest Practicable Date, we do not have any overlapping customer with Shanghai Huali as the business of Shanghai Huali is in a start-up stage. Nevertheless, as the operations of Shanghai Huali continue to develop, and as the Company and Shanghai Huali continue to refer potential customers to each other, we and Shanghai Huali may over time have overlapping customers, providing foundry services to meet their different product and service requirements. We have also entered into an agreement with SAIL and Huahong Group, the other shareholders of Shanghai Huali, which grants us the right of first refusal on acquisition of their stake in Shanghai Huali should they decide to dispose of their stake.

Strengthen Collaboration with Key Customers and Continue to Provide High Quality Service

We intend to continue strengthening and deepening relationships with our key customers through strategic alliances on critical design and product development roadmaps. We believe such collaborative relationships solidify our position with our customers, enhance our competitiveness and accelerate our drive for deeper market penetration.

We believe we offer a high level of customer service due to the customer-focused environment built by all of our employees. Our focus on consistent delivery of high quality service is an important factor in attracting and retaining leading global and domestic semiconductor companies as our customers. Key elements of our customer service include responsiveness to customer requirements in terms of lead times and product cycle times, cost effectiveness, on-time delivery of products in the required volumes, Silicon IP customization design services, and assembly and testing services.

To better serve our customers, we have developed a comprehensive customer satisfaction index ("**CSI**") that surveys our customers semi-annually. This index assesses, among other things, our ranking, competency, quality, delivery, technology, troubleshooting capabilities, customer service and support as well as hazardous substance management. We believe this survey enables us to solicit detailed and real-time feedback from our customers on a regular basis in order to improve the service that we provide.

MANUFACTURING FACILITIES AND TECHNOLOGIES

Introduction

We are a global, leading pure-play 200mm foundry focused on manufacturing semiconductors for specialty applications, such as eNVM and power discretes. Using our own proprietary processes and techniques, we manufacture semiconductors to the design specifications of our diverse customers, which primarily fall within two categories: (i) IDMs that have the internal capability to perform all functions including manufacturing, but may also outsource manufacturing, and (ii) systems and fabless companies that design, develop and distribute proprietary semiconductor products but do not maintain internal manufacturing capabilities. We are the trusted technology and manufacturing foundry partner of our customers, and we develop and offer them a portfolio of advanced, differentiated wafer process technologies. Semiconductors manufactured by us are incorporated into a wide range of products in diverse markets, including consumer electronics, communications, computing, and industrial and automotive.

Fabs

We currently operate three 200mm wafer fabrication facilities in Shanghai, China that employ process technologies, categorized by line widths, or the minimum physical dimensions of the transistor gate of semiconductors in production, from 1.0μm to 90nm.

The following table sets forth operational data regarding each of our manufacturing facilities as of June 30, 2014.

	Fab 1	Fab 2	Fab 3
Commencement of Volume Production	1999	2007	2003
Estimated Capacity (in 200mm wafers/month)	50,000	34,000	40,000
Clean Room Size (m^2)	16,572	5,431	13,307
Process Technology Nodes	1μm, 0.8μm, 0.5μm, 0.45μm, 0.35μm, 0.25μm, 0.18μm, 0.13μm	Power discretes, 0.35μm	0.25μm, 0.22μm, 0.20μm, 0.18μm, 0.162μm, 0.153μm, 0.15μm, 0.14μm, 0.13μm, 0.115μm/0.11μm, 90nm

	Fab 1	Fab 2	Fab 3
Most Advanced Process Technology Node	0.13μm	0.35μm	90nm
Representative Applications	• Smart cards • Analog • PMIC • Power discretes • Sensors	• Power discretes	• MCUs • Smart cards • Audio Products • Bluetooth • FM tuner • USB related • PC peripheral • Sensors

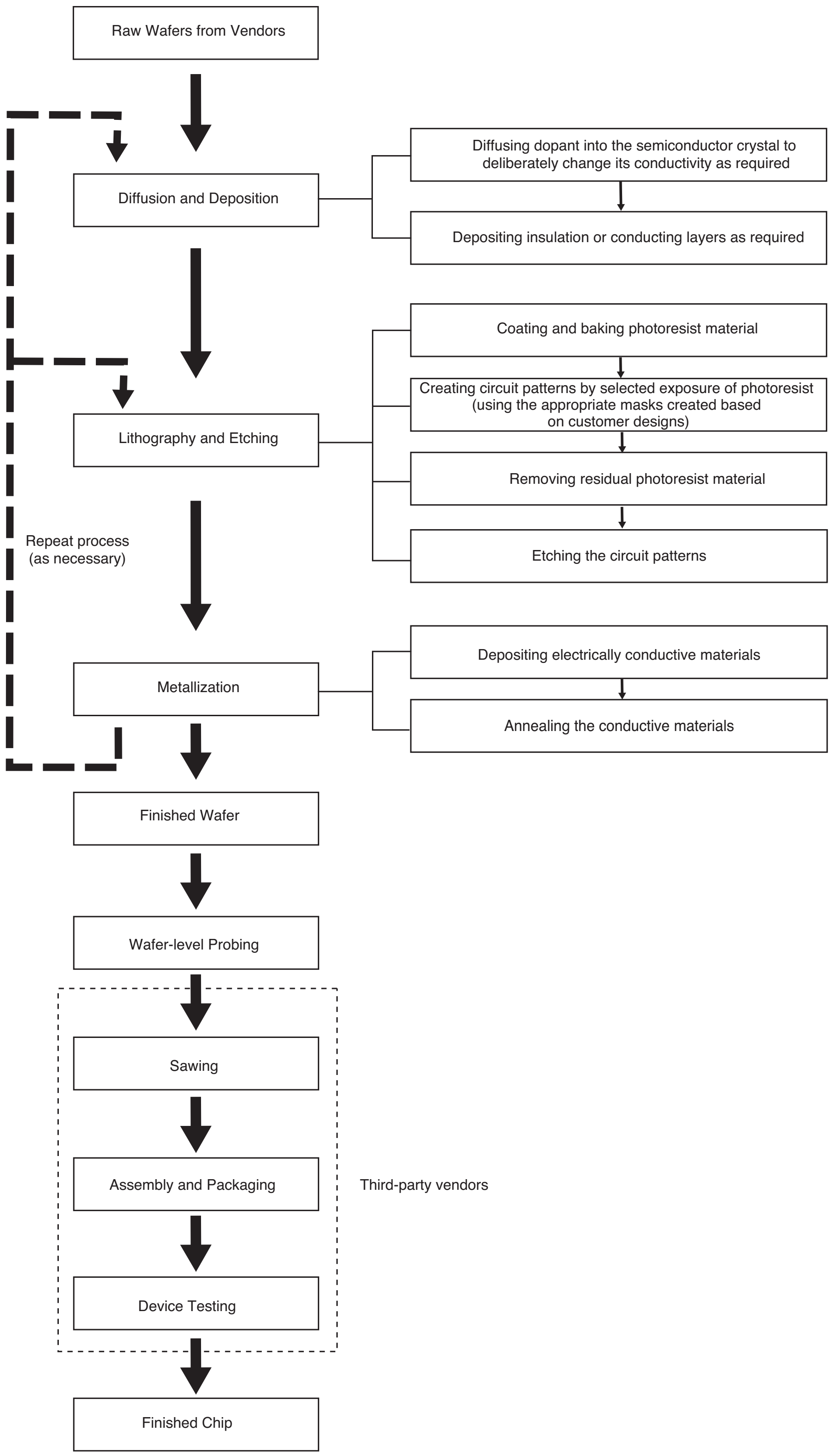
Semiconductor Fabrication Process

We manufacture different types of semiconductors to perform different functions pursuant to the design specifications of our customers by changing the number and the combination of conducting, insulating and semiconducting layers on the wafer, and by defining different patterns in which such layers are applied on the wafer.

Our manufacturing service provides all aspects of the wafer fabrication process by utilizing a full range of advanced process technologies. During the wafer fabrication process, we perform procedures in which a photosensitive material is deposited on the wafer and exposed to light through the mask to form transistors and other circuit elements comprising a semiconductor. The etching process removes the unwanted material and leaves only the desired circuit pattern on the wafer.

In the assembly process, each wafer is cut into dies, or individual semiconductors, and tested. Defective dies are discarded, while good dies are packaged and assembled. Assembly protects the IC, facilitates its integration into electronic systems and enables the dissipation of heat or cold. Following assembly, the functionality, voltage, current and timing of each chip is tested. After testing, the completed chip is shipped to the customer.

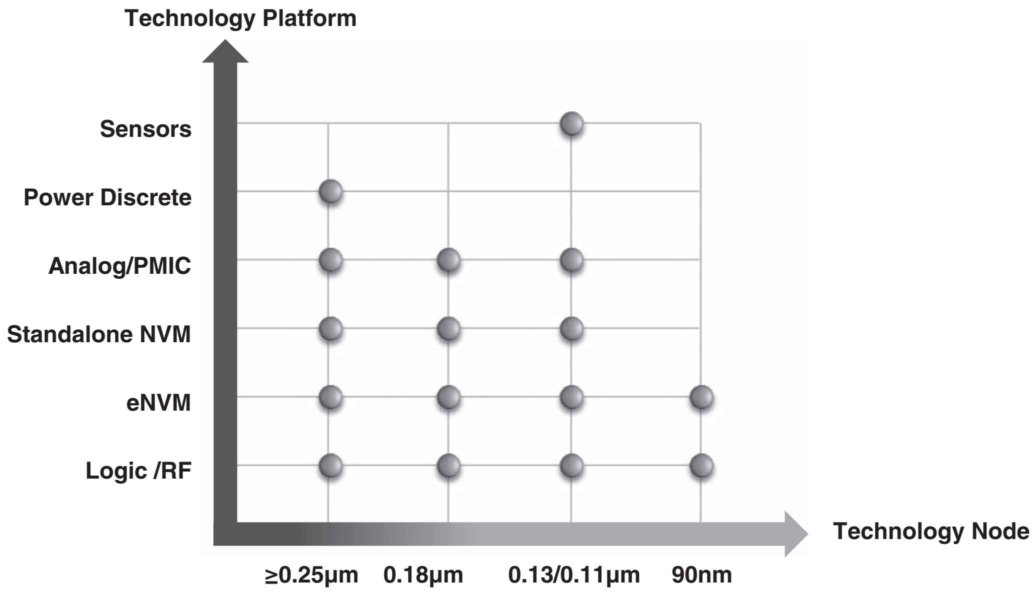
The flowchart below illustrates the general steps undertaken during the semiconductor fabrication process.



Process Technology

The process technology is a set of specifications and parameters that we implement for manufacturing the critical dimensions of the patterned features of the circuitry of semiconductors. The major process technologies that form our technology platform include eNVM, standalone NVM, discrete, analog & PM, logic & RF and sensors. We utilize our own proprietary process technologies and also the proprietary process technologies of our customers on our equipment. These customers have trusted us to implement and safeguard their highly proprietary process technologies and in some cases, we further develop these process technologies together with our customers. We also license leading process and IP macro design technologies from technology partners. These partners include Cypress for SONOS-based eNVM, SST for SuperFlash-based standalone NOR and eNVM and LSI Corporation for a certain patent portfolio license related to the semiconductor industry.

The continued enhancement of our process technologies enables us to manufacture a variety of semiconductor devices for a full range of end market applications. The chart below sets forth each level of process technology.



Products made with our specialty technologies are typically more complex to manufacture than products manufactured using standard basic logic technologies at similar line widths. The design infrastructure is complex and includes design kits and device models that are specific to the foundry in which the process is implemented and to the process technology itself. As such, we believe that customers who use our process technologies cannot easily transfer designs to another foundry, which further highlights our customers' trust in our abilities when they choose us as their manufacturing partner.

The following table sets out a breakdown of our revenue by technology platform, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
							(unaudited)			
eNVM[(1)]	202,410	33.2	175,378	30.7	203,468	34.8	91,717	32.5	130,007	40.1
Logic & RF[(2)]	99,522	16.3	111,155	19.5	119,628	20.5	56,317	20.0	53,801	16.6
Discrete[(3)]	121,468	19.9	125,945	22.0	114,118	19.5	56,424	20.0	64,825	20.0
Analog & PM[(4)]	54,597	9.0	56,930	10.0	72,360	12.4	35,367	12.5	41,832	12.9
Standalone NVM[(5)]	106,774	17.5	83,360	14.6	67,051	11.5	37,095	13.2	31,447	9.7
Others[(6)]	25,073	4.1	18,712	3.2	8,094	1.3	4,917	1.8	2,543	0.7
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Note:

(1) eNVM products include MCUs used in remote controllers, home appliances, smart meters and etc., and smart cards (such as SIM cards, social security cards, national ID cards, USB keys and bank IC cards).

(2) Logic products include consumer audio products, memory card (SD) controllers; RF products include Bluetooth devices used in wireless keyboard or mouse, Electronic Toll Collection (ETC) and etc.

(3) Discrete products include MOSFET, SJNFET and IGBT silicon chips which can be used across a large variety of different market segments, such as consumer products (home appliances), computers, industrial products (such as welding machines) and automotive products (such as steering controls).

(4) Analog & PM products include audio amplifier ICs for mobile products, battery management ICs, AC-DC converter ICs for home appliances, computers and power adapters, and controller ICs for LED lighting bulbs.

(5) Standalone NVM products include NOR Flash memory and EEPROM, which are used across a large variety of different market segments, such as consumer products (home appliances), computers, communication products (such as mobile phones) and automotive products (such as infotainment systems).

(6) Includes high voltage.

The following table sets out a breakdown of our revenue by process technology node, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
0.13μm and below[(1)]	136,465	22.4	158,464	27.7	183,936	31.5	76,713	27.2	123,551	38.1
0.15μm and 0.18μm	149,448	24.5	134,657	23.6	150,942	25.8	76,810	27.3	71,917	22.2
0.25μm	56,734	9.3	20,268	3.5	14,073	2.4	10,109	3.6	2,280	0.7
0.35μm and above	267,197	43.8	258,091	45.2	235,768	40.3	118,205	41.9	126,707	39.0
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Note:

(1) Includes 0.13μm and 0.11μm.

Capacity and Utilization

The table below sets forth the estimated monthly capacity, actual average monthly output and capacity utilization for the Track Record Period for our fabs.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in thousands of 200mm wafers per month, except percentages)			
Estimated monthly capacity				
Fab 1	50	50	50	50
Fab 2	32	34	34	34
Fab 3	37	38	40	40
Total estimated monthly capacity	119	122	124	124
Average monthly output (actual) for the period then ended	99	99	104	114
Capacity utilization[(1)]	83%	81%	84%	92%

Note:

(1) The capacity utilization is calculated based on average monthly output divided by total estimated monthly capacity.

Technology Upgrade and Capacity Expansion Plans

We regularly perform long-term market demand forecasts to estimate market and general economic conditions for semiconductor foundries. We manage our overall capacity accordingly, enabling us to match potential increased demand for our services with corresponding capacity expansion. Since market conditions may vary significantly and unexpectedly, our market demand forecasts may change significantly at any time. However, based on current forecasts, we intend to maintain our strategy of expanding manufacturing capacity for 200mm wafers and improving our manufacturing process technologies to meet the future manufacturing and engineering demands of our customers. More specifically, we plan to focus on adding manufacturing capacity for embedded non-volatile memories using both 0.13μm and 90nm process technologies, primarily for use in the various smart card products and MCUs.

The table below sets forth our total future capacity after implementation of our capacity expansion plan.

	As of December 31,		
	2014	2015	2016
	(in thousands of 200mm wafers per month)		
Planned capacity			
Fab 1	50	57	62
Fab 2	39	42	45
Fab 3	40	40	57
Total planned capacity	129	139	164

We estimate our planned capital expenditures for the capacity expansion and upgrade will be approximately US$96.3 million, US$263.0 million and US$24.5 million for the years ending December 31, 2014, 2015 and 2016, respectively. We plan to fund our capital expenditures by using our cash flow generated from our operations and the net proceeds received from this Global Offering.

VALUE ADDED SERVICES

Our primary business focus is fabrication of our customers' semiconductor products on 200mm wafers. In order to provide integrated solutions, we also provide our customers with a range of value-added services, from design support and mask making to wafer-level probing and testing. We provide some of these services internally as well as through our external qualified partners. This ability to deliver a variety of complementary services, such as design, mask making, wafer probing, and support of assembly and testing, enables us to accommodate the needs of a full array of customers with different in-house capabilities, such as IDMs, systems companies and fabless design houses.

Design Support

At the initial design stage, our engineers generally work with our customers to ensure that their designs can be successfully and cost-effectively manufactured in our facilities. We assist our customers in the design process by providing them with electronic design analysis tools, IP design and other design services. We also coordinate with leading suppliers of Silicon IP, design and ASIC services to ensure their offerings are available to our customers in an integrated, easy to use manner that matches the needs of our customers to our technologies.

Mask Making

The design of each layer of a semiconductor is imprinted on a photographic negative, called a semiconductor mask. The mask is the blueprint for each specific layer of a semiconductor. Our engineers work with mask vendors and assist our customers to procure mask sets that are optimized for our advanced process technologies and equipment.

Wafer Probing, Assembly and Testing

For our eNVM and power discretes technology platforms, we provide wafer probing services, which involve electronically inspecting each individual die in order to identify those that are operable for assembly.

After probing, the wafers are transferred to assembly and test facilities. We provide logistic support at customer request for transfer of dies to assembly and testing services with leading providers.

SALES AND MARKETING

We believe that developing direct and close relationships with our customers is crucial to the success of our foundry business. Our sales, service and marketing efforts focus on building long-term relationships with our customers. Our customer service and technical support managers work closely with our sales force to offer integrated services to customers over the lifetime of their products. Our revenue is derived primarily from product sales generated by our direct sales force.

As of June 30, 2014, we had 102 sales staff and related personnel to sell and promote our products. Our main sales office is located in Shanghai, China, with representative offices in Taiwan, Japan and the United States. In addition, we have a sales team that focuses on Europe.

As of June 30, 2014, we had 16 staff in our marketing and business development division. This division is responsible for market development and promotion strategy. It conducts market research, collects market intelligence, positions target markets, and monitors competitors' technology development trends and price movements. It also analyzes the marketing environment, including competitor intentions and customer needs and their impact on our products and services, and tailors our marketing strategy to the environment.

Furthermore, we have a marketing communications group to develop and maintain our Company image, further enhance corporate branding and strengthen customer perceptions and loyalty towards our solutions and services. We advertise in trade journals, organize technology seminars, and attend a number of industry trade fairs to promote our advanced specialty technologies and one-stop services. We hold a technology symposium annually, which offers an opportunity to showcase our latest technology innovations and achievements. We are also an active participant in industry associations and have established good and close relationships with over 10 associations, such as Global Semiconductor Alliance ("**GSA**"), China Semiconductor Industry Association ("**CSIA**"), Chinese American Semiconductor Professional Association ("**CASPA**") and Shanghai Society of Automotive Engineers ("**SAE-S**").

CUSTOMERS AND MARKETS

Our Customers

Our primary customers are some of the world's leading semiconductor companies, such as Cypress, Huada, Microchip, Nationz, ON Semiconductor and TMC.

The following table presents the breakdown of wafer revenue by customer types and other revenue for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
Wafer Revenue										
Systems and fabless companies	356,475	58.5	359,650	62.9	382,803	65.5	181,487	64.4	239,851	73.9
IDMs	229,859	37.7	195,048	34.1	183,988	31.5	92,734	32.9	74,972	23.1
Other Revenue	23,510	3.8	16,782	3.0	17,928	3.0	7,616	2.7	9,632	3.0
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

We categorize our revenue geographically, based on the country or region in which the customer is headquartered, which may be different from the countries or regions to which we actually sell or ship our products, or different from where products are actually ordered and invoices paid. Under this approach, the following table presents a regional geographic breakdown of our revenue for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
China[(1)]	295,381	48.4	277,157	48.5	291,414	49.8	137,668	48.8	176,986	54.5
United States	218,747	35.9	178,576	31.2	146,458	25.0	77,205	27.4	66,412	20.5
Japan[(2)]	39,239	6.4	32,305	5.7	53,154	9.1	22,223	7.9	20,020	6.2
Asia[(3)]	46,657	7.7	62,028	10.9	51,500	8.9	29,288	10.4	32,471	10.0
Europe	9,820	1.6	21,414	3.7	42,193	7.2	15,453	5.5	28,566	8.8
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Notes:

(1) Includes Hong Kong.

(2) Includes a major customer in Japan that was acquired by a U.S. headquartered company during the Track Record Period.

(3) Excludes China and Japan.

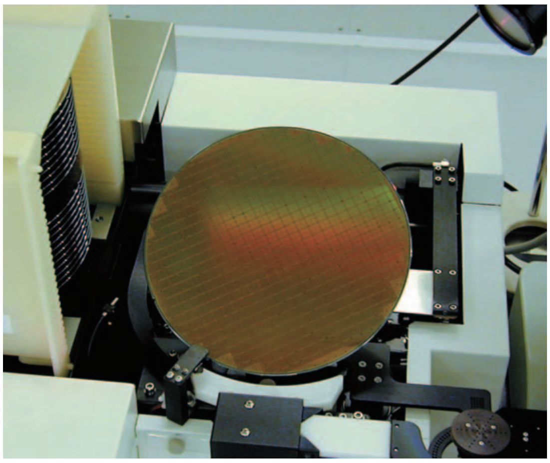
Although we are not dependent on any single customer, a sizeable portion of our revenue has been generated from sales to a few customers. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, sales to our largest customer accounted for 11.9%, 10.4%, 7.9% and 7.9% of our revenue, respectively, while sales to our five largest customers accounted for 40.8%, 37.2%, 30.7% and 29.2% of our revenue, respectively. See "Risk Factors — Risks Relating to Our Business — We may become dependent upon a small number of customers and any decrease in sales to any of them could adversely affect our results of operations." None of our Directors or their respective associates or any Shareholder (who to the knowledge of our Directors owns more than 5% of the issued Shares) had any ownership interest in any of our five largest customers during the Track Record Period and as at the Latest Practicable Date.

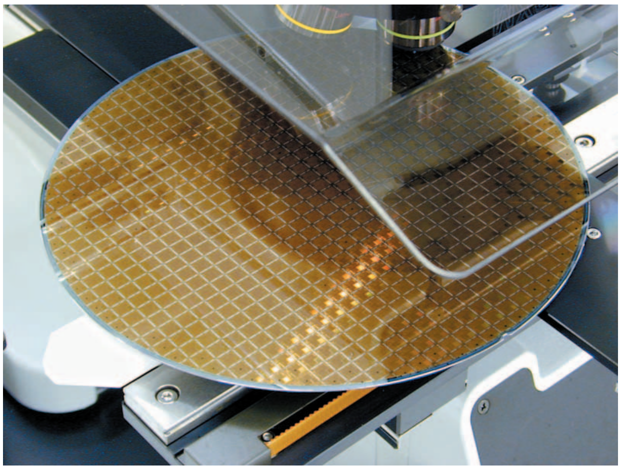
We generally enter into a foundry manufacturing agreement with a term ranging from one to five years with our main customers with automatic renewal provisions. Most of our major customers have worked with us for over five years. During the term of the agreement, we require our customers to provide us with rolling forecasts updated on a monthly basis. However, we are not bound by such forecasts. We start mass manufacturing once we accept our customer's purchase orders, which set forth, among other things, the amounts of wafers to be produced, prices, and place and time of delivery. Generally, once manufacturing commences, if our customers cancel a purchase order, they will be required to compensate us based on an agreed formula. We arrange the transportation of our wafers with our customers based on Incoterms. We generally offer a warranty period of one year. We generally grant our customers a credit term ranging from 30 days to 45 days, based on our regular credit assessment, while we grant some of our major customers a credit term of 60 days.

Cypress Semiconductor Technology Ltd., a subsidiary of Cypress, and Tongfang Guoxin Electronics Co. Ltd., the controlling shareholder of TMC, have approved to invest in Shares of the Company in the amount of US$10 million (approximately HK$77.5 million) and US$15 million (approximately HK$116.3 million), respectively. Cypress and TMC had been our top 10 customers during the Track Record Period.

Products and Applications

We are focused on the production of a broad range of semiconductors that are based on our differentiated, advanced wafer process technologies tailored to the special needs of our customers. Set forth below are pictures of our wafers.





The semiconductors we manufacture for our customers are generally used in the following four end markets: consumer electronics, communications, computing, and industrial and automotive. The following table sets forth an overview of the principal products and applications that we manufacture by industry type.

End Market	Products/Key Applications
Consumer Electronics	• Microcontrollers • Motor drives • Touch control devices • Power management • Battery management • LED displays

End Market	Products/Key Applications
Communications	• SIM cards • Mobile payment devices • RF frontend • Power management • Battery management • Displays • MEMS and magnetic sensors
Computing	• PC peripherals • Power supplies • Adapters • Power management • Battery management • LED backlights
Industrial and Automotive	• Smart grid • Motor drives • High speed trains • Bank cards • RFID cards • Microcontrollers • Engine control units • Safety devices • Infotainment systems • Battery management • Oil pump system • Machine-to-machine

The table below sets forth the breakdown of our revenue by end market segment for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
End Market Segment										
Consumer Electronics	226,965	37.2	235,189	41.2	265,887	45.5	126,953	45.0	162,182	50.0
Communications	174,055	28.5	177,008	31.0	173,970	29.8	78,885	28.0	91,377	28.2
Computing	143,618	23.5	111,879	19.6	87,093	14.9	47,035	16.7	29,237	9.0
Industrial and Automotive	65,206	10.8	47,404	8.2	57,769	9.8	28,964	10.3	41,659	12.8
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Customer Support

We focus on providing the highest possible level of customer service in order to attract customers and maintain their ongoing loyalty. Our culture emphasizes responsiveness to customer needs with a focus on flexibility, speed and accuracy throughout our manufacturing and delivery processes. Our customer-oriented approach is especially evident in two types of services: design development and manufacturing.

We work with our customers throughout the design and prototyping processes. Our design support team interacts closely with customers and Silicon IP vendors to facilitate the design process and to identify their specific requirements for Silicon IP offerings. We are responsive to our customers' requirements for rapid overall turn-around time and production time-to-market. For example, we help our customers streamline their design processes and deliver prototypes in a timely and easy-to-use fashion. We also maintain flexibility and efficiency in our technical capability and respond quickly to our customers' design changes.

As a design moves into manufacturing, we continue to provide ongoing customer support through all phases of the manufacturing process. The local account manager works with our customer service representative to ensure the continued high quality of our services, drawing upon our marketing and customer engineering support teams as required.

Purchase Orders and Pricing Terms

Due to the fast-changing technology and functionality in semiconductor design, foundry customers generally do not place purchase orders far in advance for a particular type of product. However, for our mutual benefit, we engage in ongoing future-oriented discussions with customers regarding their expected manufacturing requirements to ensure maximum possible insight in advance of purchase orders. We usually require our customers to provide us with rolling forecasts updated on a monthly basis.

We generally price our products on a per wafer basis, and occasionally on a per die basis, taking into account the complexity of the technology, the prevailing market conditions, volume forecasts, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. Our blended average selling price per wafer was US$488, US$474, US$464, US$459 and US$458 for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, respectively. Our blended average selling price per wafer for the two months ended August 31, 2014 was US$452. See "Financial Information — Cyclicality of the semiconductor industry" and "Financial Information — Pricing" in this prospectus for more details.

INTELLECTUAL PROPERTY

Our success depends in part on our ability to generate patents and obtain licenses and other intellectual property rights covering our activities. We intend to continue to seek patents covering our many inventions and acquire relevant licenses for all areas of our business.

As of the Latest Practicable Date, we held over 1,100 patents, of which 38 are registered in the United States. Among the issued patents, 15 are material to our business development. As of the same date, we had over 2,300 pending patent applications in the United States (60) and the PRC (over 2,230), out of which 13 are material to our business. We also have a registered trademark in the PRC and we have made a filing to register a trademark for one of our specialty technologies, and four pending trademark applications in Hong Kong. Please see "Statutory and General Information — Further Information about our Business — Intellectual property rights of our Group" in Appendix V to this prospectus.

Our ability to compete also depends on our ability to operate without infringing on the proprietary rights of others. The semiconductor industry is generally characterized by frequent claims and litigation regarding patent and other intellectual property rights. As is the case with many companies in the semiconductor industry, we have from time to time received communications from third parties asserting patents that allegedly cover certain of our technologies and alleging infringement of certain intellectual property rights of others. We expect that we will receive similar communications in the future. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and devote significant management resources to the defense of these claims, which could seriously harm our Company. See "Risk Factors — Risks Relating to Our Business — Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position." During the Track Record Period and up to the Latest Practicable Date, we were not sued for infringement of intellectual property rights by any third party, and we were not aware of any threatened material proceedings or claims relating to intellectual property rights against us.

In order to minimize our risks from claims based on our manufacturing of semiconductor devices or end-use products whose designs infringe on others' intellectual property rights, we accept orders only from companies that we believe enjoy satisfactory reputation and for products that are not identified as risky for potential infringement claims. Furthermore, we generally obtain indemnification rights from major customers regarding the design and/or process technology they provide and generally enjoy the protection of the "have made" rights of our customers. We also generally obtain indemnification rights from equipment vendors regarding any losses resulting from any suit or proceedings brought against our Company involving allegation of infringement of intellectual property rights on account of our use of the equipment supplied by them.

We have entered into various technology license agreements with major technology companies, including a number of leading international semiconductor companies. In particular, SST and Cypress are our important long-term technology partners. We have licensed SONOS-based eNVM technology from Cypress and SuperFlash-based eNVM technology from SST since 2006. Our licenses may have different terms and expiry dates. Depending upon our competitive position and strategy, we may or may not renew our current licenses and we may enter into different and/or additional technology and/or intellectual property licenses in the future.

Pursuant to our license agreements, we are generally granted a non-exclusive, non-transferable, royalty-bearing and worldwide license to manufacture, sell or distribute licensed products to third parties by applying or incorporating the licensed technology from our technology partners during the term of the agreement. In addition, under some license agreements, we are also granted a non-exclusive, non-transferable, royalty-bearing and worldwide license to design licensed products by applying or incorporating the licensed technology from our technology partners during the term of the agreement. We must pay our technology partners fixed license fees as well as on-going royalties for each of our products utilizing their licensed technologies, calculated at a certain percentage rate of the selling price of our products or at a fixed price per our product. The license agreements we enter into with our technology partners generally have a term ranging from five to 15 years. The license agreements will automatically renew at the expiration of such agreements unless either party provides written notice in advance to stop the automatic renewal. In general, the agreements can only be terminated upon the occurrence of any of the following events: (i) in case of a material breach of the agreement, the non-breaching party has the right to terminate the agreement unless the breaching party can cure the breach within a prerequisite timeframe and (ii) in case one party to the agreement undergoes a change of control or a voluntary or involuntary petition in bankruptcy, or any proceeding relating to insolvency, receivership, liquidation, or winding up, the other party has the right to terminate the agreement.

RESEARCH AND DEVELOPMENT

The semiconductor industry is characterized by rapid changes in technology, frequently resulting in the introduction of new process technologies and in the obsolescence of less competitive technologies and products. We believe that, in order to stay ahead of our competitors and to maintain our market position in the foundry sector, we must continue to successfully develop and introduce to production advanced process technologies that meet our customers' needs in a timely manner. Our process technology development strategy, in part, relies on process platforms that we develop ourselves, those we license and transfer from third parties and those we co-develop with third parties.

Our R&D efforts are mainly focused on delivering a broad and deep portfolio of advanced, differentiated process technologies, strong customer support services and flexible, adaptive manufacturing techniques. In addition, portions of our R&D activities are undertaken in cooperation with our customers and equipment vendors. These resources provide our foundry customers with improved opportunities to design and manufacture products that supply the global market using what we believe to be the best available technology fit for these products.

We incurred approximately US$30.8 million, US$30.2 million, US$30.3 million, US$14.6 million and US$17.7 million in 2011, 2012, and 2013 and the six months ended June 30, 2013 and 2014, respectively, on research and development expenses, which represented 5.1%, 5.3%, 5.2%, 5.2% and 5.5%, respectively, of our revenue for these periods. We record these investments in administrative expenses. We recognized government grants in these same years of US$22.9 million, US$20.4 million, US$4.6 million, US$2.4 million and US$3.8 million, respectively, to offset R&D expenses incurred by the projects which the grants support, based on progress made. We plan to continue to engage in R&D to sustain and grow our success in making innovative process technologies and leading-edged manufacturing know-how available to our customers. See "Financial Information — Principal Components of Consolidated Statements of Profit or Loss — Administrative Expenses" and "Financial Information — Critical Accounting Policies and Estimates — Government Grants" in this prospectus for more details.

As of June 30, 2014, we had an in-house staff of 262 employees in our R&D department. Among these employees, we had 125 research staff with a master's or doctorate degree in related fields such as microelectronics, physics, materials, electronic and communication engineering. Our executive vice president in charge of research, technology development and design services, Dr. Weiran Kong, leads our R&D group. Dr. Kong has over 19 years of successful R&D experience in the semiconductor industry with particular emphasis on NOR Flash, logic and eNVM technologies. A cadre of highly competent managers, engineers and technicians support Dr. Kong for each sub-group that focuses on a particular technology.

In recognition of our achievements in the area of R&D, we have received a number of awards in China, including: the second prize of the National Science and Technology Award in 2013 by the PRC State Council ("2013年國家科學技術進步獎二等獎(國務院)"), and the 2010 Outstanding Contribution Award by the Office of the National Science and Technology Major Projects ("2010年度突出貢獻獎(國家科技重大專項實施辦公室)").

QUALITY AND RELIABILITY ASSURANCE

We place significant emphasis on achieving and maintaining a high standard of manufacturing. We believe that our reputation for high quality and reliable products and services has been key to attracting and retaining the leading international and domestic semiconductor companies that make up our valued customer base. To maintain this trust, we devote significant resources to quality and reliability assurance.

Our quality mission statement is:

> "To ensure a win-win relationship and for the mutual benefit of our customers and us, we will deliver high quality products, free of hazardous substances on time and provide competitive services by fully implementing performance excellence, while actively fulfilling corporate social responsibility requirements. Our goal is to completely meet customer requirements and continuously improve customer satisfaction."

We organize our quality and reliability assurance efforts into the following six integrated departments:

1) Quality System and Customer Satisfaction is responsible for achieving and maintaining external certification of company quality, and for the maintenance and continuous improvement of systems for information security, hazardous substance management, customer quality engineering and all related activities. This department also handles quality issues from customers;

2) Quality Engineering works closely with the site manufacturing team to focus on line control and quick response to any abnormalities;

3) Reliability Assurance is responsible for the qualification and ongoing monitoring of all technology platforms and products;

4) Failure Analysis is responsible for the rapid determination of the root cause of any failures during manufacturing;

5) Vendor Management Engineering is responsible for qualification of suppliers and ongoing audits to ensure they maintain agreed standards; and

6) Clean Room Quality monitors the clean room environment to ensure adherence to quality standards.

As of June 30, 2014, we had 147 personnel in our quality control division, including one quality control director, two deputy directors and 10 managers. The day to day management of the division is led by Scott Liao, who obtained a bachelor's degree in 1994 from Chung Yuan Christian University and has more than 19 years of experience in quality control in the semiconductor industry.

Many of our customers require us to pass both physical production-site qualification processes in the early development phase as well as routine quality conformance audits in the volume production phase. These audits include both quality systems review and physical fabrication area inspection for verification of conformity with international quality standards and the customer's own quality requirements. Our quality management system and quality control programs have been qualified and routinely audited by our customers, which include leading semiconductor companies in the world with stringent quality standards.

All our fabrication facilities are certified compliance with ISO/TS 16949 and QC080000 IECQ HSPM standards. ISO/TS 16949 sets the criteria for developing a fundamental quality management system emphasizing customer satisfaction in quality management, continual improvement, defect prevention and reduction of variation and waste. QC080000 IECQ HSPM sets the criteria for developing a process management system for hazardous substances and focuses on developing environmentally friendly manufacturing processes. In addition, our quality control system has been certified by BSI to comply with ISO 9001.

Warranty and After-Sale Services

We generally offer a warranty period of one year. Our product warranty typically requires us to manufacture products free from defects in material and workmanship and in conformity with the customer specifications. If our products fail to meet the applicable warranties due to reasons attributable to us, our customers may, within the warranty period, return such non-conforming products to us and we shall repair or replace such products free of charge. The value of products returned by our customers for the three years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014 was US$1.4 million, US$0.9 million, US$0.9 million, US$0.5 million and US$0.2 million, respectively, representing 0.3%, 0.2%, 0.2%, 0.2% and 0.1%, respectively, of our cost of sales during the same periods.

We do not make any warranty provision. During the Track Record Period, we did not incur any warranty expenses.

As a result of our enforcement of strict quality control policies, during the Track Record Period and up to the Latest Practicable Date, we did not, due to material product quality issues, (i) receive fines, product recall orders or other penalties from the PRC Government or other regulatory bodies, (ii) receive any material product return requests from our customers or (iii) receive any material complaints from consumers.

COMPETITION

We compete globally with pure-play foundry service providers, as well as with IDMs that allocate a portion of their fabrication capacity to foundry operations in the following areas: operational efficiency, time-to-market, breadth of technology and service offerings, R&D capability, quality and pricing. We believe that while we compete well in all of these areas, we compete especially well on the basis of our advanced eNVM and power discrete process capabilities, our breadth of technology and service offerings supporting a wide range of products uniquely tailored to 200mm wafers and our production quality. See "Industry Overview" in this prospectus for details.

The level of competition differs according to the process technologies and wafer sizes involved. Although no one company competes with us in all of our product lines, we face significant competition in each of our market segments. Due to high barriers to entry in the foundry industry, including significant construction costs for fabs, the global foundry industry is concentrated, with the revenue from the top 10 pure-play foundries accounting for 79.6% of total foundry revenue in 2013. According to IBS, based on total 2013 revenue, we ranked second globally amongst pure-play 200mm foundries, and sixth amongst all the pure-play foundries worldwide. See "Industry Overview — The Foundry Industry".

We compete primarily with the 200mm foundry operations of the top-tier pure-play foundries, such as TSMC, UMC and SMIC.

See "Risk Factors — Risks Relating to Our Business — If we cannot compete successfully in our industry, our results of operations and financial condition will be adversely affected."

EQUIPMENT AND SUPPLIERS

The quality and technology of the equipment used in the semiconductor manufacturing process are important because they effectively define the limits of our process technologies. Advances in process technologies cannot be implemented without commensurate advances in equipment technology. Our policy of purchasing high quality, refurbished equipment that demonstrates stable performance from vendors with strong market share helps control our expenses while remaining competitive. We work closely with our equipment suppliers to try to cost-effectively extend the life of our mature equipment for up to another 10-15 years. We believe we are especially good at getting the most out of the equipment we have, and have over time developed significant expertise in being able to fine-tune our equipment to support our differentiated technology needs.

The principal equipment we use to manufacture semiconductor devices are scanners/steppers, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputters, CVD equipment, probers and testers. Other than certain leased equipment located at testing areas, we own all of the equipment used at our fabs. We source substantially all of our equipment from the United States, Japan, Europe, South Korea and Taiwan. Most of our equipment purchases are denominated in US dollars, and to a lesser extent, the Japanese Yen or the Euro. As of the Latest Practicable Date, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risks.

Equipment Suppliers

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had 51, 50, 49 and 49 equipment suppliers, respectively. Most of our principal equipment suppliers have cooperated with us for over nine years. During the Track Record Period, we terminated business relationships with certain equipment suppliers primarily due to consolidation amongst our suppliers.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, purchases from our five largest equipment suppliers together accounted for approximately 31.3%, 37.0%, 41.0% and 41.8% of our total equipment purchases, respectively, while purchases from our largest equipment supplier for the same periods accounted for approximately 7.8%, 11.2%, 20.2% and 10.2% of our total equipment purchases, respectively. None of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our five largest equipment suppliers during the Track Record Period and as of the Latest Practicable Date.

In implementing our capacity management and technology advancement plans, we expect to make significant purchases of equipment. Some of the equipment is available from a limited number of vendors and/or is manufactured in relatively limited quantities, and certain equipment has only recently been developed. For example, the market for wafer defect review systems is dominated by KLA-Tencor, a supplier from the U.S. In addition, since equipment suppliers no longer manufacture certain new equipment for 200mm wafers, we can only source pre-owned and factory-refurbished ones. See "Risk Factors — Risks Relating to Our Business — We may be unable to obtain the tools and equipment necessary for our business operations in a timely manner and at a reasonable cost."

We believe that our relationships with our equipment suppliers are good and that we have enjoyed the advantages of being a major purchaser of 200mm semiconductor fabrication equipment. We work closely with equipment manufacturers to source equipment customized to our needs for certain advanced technologies. We have not experienced any shortage of equipment or quality issues with our equipment that materially affected our operations during the Track Record Period. In addition, during the Track Record Period, we did not have any material dispute with our equipment suppliers.

Equipment Supply Agreements

We purchase our equipment through purchase orders. Some of our purchase orders are made pursuant to the terms of a framework agreement that sets forth some general terms that will be used in each purchase order, and the remainder of the purchase orders are made on a stand-alone basis pursuant to the specific terms of such stand-alone purchase order. Each purchase order sets forth all of the terms and conditions of each transaction, including the pricing terms, specification of the equipment, quantity and date of delivery, and such purchase order is legally binding once it is accepted by the supplier. Our equipment supply framework agreements with our equipment suppliers generally do not contain any minimum purchase requirements, are legally binding and set out general terms and conditions that will apply to each of the purchase orders issued under such framework agreements. Under such framework agreements, if the purchased equipment fails to conform to the specifications agreed by the parties, such non-conformity shall be corrected at the expense of the party who caused such non-conformity. In addition, under certain circumstances, the purchased equipment can be returned at the suppliers' expense. Our suppliers are responsible for the supervision of the installation of the equipment in our fabs. Generally, the equipment is delivered based on Incoterms. Our equipment suppliers generally grant us a credit term ranging from 30-days to 60-days and a warranty period of six to 12 months. Generally, during the term of the agreements, (i) in case of a material breach of the agreement, the non-breaching party has the right to terminate the agreement unless the breaching party can cure the breach within a prerequisite timeframe and (ii) in case one party to the agreement undergoes a change of control or a voluntary or involuntary petition in bankruptcy, or any proceeding relating to insolvency, receivership, liquidation, or winding up, the other party has the right to terminate the agreement.

Equipment Maintenance

As of June 30, 2014, the average age of our major equipment was 10.3 years. We do not anticipate any significant replacement or upgrade expenditures for our equipment during the next 10 years. We have implemented a comprehensive maintenance system for our facilities and equipment, including scheduled downtimes for maintenance, and repairs and regular inspections of facilities and equipment. This allows us to operate our production lines at optimal levels. We carry out routine cleaning and maintenance of our equipment to enhance its useful life. We also conduct major annual maintenance work in line with industry practice. Our comprehensive maintenance system ensures that we continue to maintain operating efficiency and high quality control standards. We did not experience any material or prolonged interruptions to our manufacturing process due to equipment or machinery failure during the Track Record Period.

RAW MATERIALS AND SUPPLIERS

Raw materials

Our manufacturing processes use many raw materials, primarily silicon wafers, gases, photomasks and photoresists.

Silicon wafers are the most important raw material used in our production processes, since they are the basic raw material from which semiconductors are made. We have in the past obtained and believe that we will continue to be able to obtain a sufficient supply of silicon wafers. We believe based on the long-term close working relationships we have with our wafer suppliers, our major suppliers will use their best efforts to accommodate our demand. The principal suppliers of our wafers are: SUMCO Corporation (Japan); Shin-Etsu Handotai Co., Ltd. (Japan); Global Wafers Co., Ltd. (Taiwan); Siltronic AG (Germany) and SunEdison Semiconductor Pte. Ltd. (US) (formerly MEMC Electronic Materials, Inc.). According to IBS, the cost of silicon wafers used to manufacture our products remained relatively stable during the Track Record Period. See “Industry Overview — Raw Materials” for more details.

We use a large amount of water in our manufacturing lines. We obtain water supplies from a local water company and recycle over 30% of the water that we use during the manufacturing process. We also use substantial amounts of dual loop electricity supplied by a local power company. We maintain back-up generators that are capable of providing adequate amounts of electricity to maintain the required air pressure in our clean rooms in case of power interruptions. We believe our back-up devices are adequate in preventing business interruptions caused by power outages and emergency situations.

Our general inventory policy is to maintain sufficient stock of each principal raw material for production and rolling forecasts of near-term requirements received from customers. We normally maintain a two-month inventory supply of raw materials. To mitigate the risk of inventory shortages, we employ a raw material application system to forecast our raw material requirements with a three-month planning horizon. On a monthly basis, we monitor our actual consumption and deliveries of raw materials against our forecasts to identify any abnormalities and make any adjustments in advance. In addition, we stay abreast of the latest market developments to help identify fluctuations in market demand due to industry-wide factors that may affect our procurement of raw materials.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, if the cost of raw materials had been increased/decreased by 5% with all other variables held constant, our gross profit margin for the year would have been approximately 1.3% lower/higher, 1.3% lower/higher, 1.4% lower/higher, 1.4% lower/higher and 1.3% lower/higher, respectively, as a result of higher/lower cost of raw materials. We maintain multiple sources for most raw materials. For example, as of the Latest Practicable Date, we had five principal wafer suppliers. In the event of any prolonged periods of raw material price increases, we may negotiate with our principal customers to negotiate price increases to minimize the adverse impact of raw material price increases on our results of operations.

Although we have not experienced any shortage of raw materials that had a material effect on our operations, and supplies of raw materials we use currently are adequate, shortages could occur in various critical materials due to interruption of supply or an increase in industry demand. See "Risk Factors — Risks Relating to Our Business — Our revenue and profitability may decline if we are unable to obtain adequate supplies of raw materials in a timely manner and at reasonable prices."

Raw Material Suppliers

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had 109, 109, 80 and 82 raw material suppliers, respectively. Most of our principal raw material suppliers have cooperated with us for over nine years. During the Track Record Period, we terminated business relationships with certain raw material suppliers primarily because of our ongoing post-merger integration.

We maintain multiple sources for most raw materials so that a quality or delivery problem with any one vendor will not have a significant adverse impact on our operations. While we generally purchase our raw materials from multiple vendors, we purchase some of our raw materials from a single vendor, such as photoresists and chemicals. During the Track Record Period, we purchase over 150 different types of chemicals, and many of these chemicals are purchased through single source vendors in order to ensure uniformity and quality and take advantage of economies of scale, even though there are multiple vendors that can supply such chemicals. We generally purchase each type of photoresist we use in our manufacturing process from a single vendor because each manufacturing process is designed around the photoresist selected for use in such process. While there are multiple vendors for photoresists before a manufacturing process is designed and finalized by us, once the manufacturing process is finalized to use a specific photoresist, changing the vendor of the photoresist may require more time and potential changes to the manufacturing process. Therefore, we usually purchase each specific photoresist used in a specific manufacturing process from a single vendor. For the eight months ended August 31, 2014, purchases by the Company of such photoresists from single-sourced vendors amounted to approximately 8.9% of our total raw material costs for such period. Our raw material procurement policy is to select only those vendors who have demonstrated a high level of quality control and reliability and have an excellent record of on-time delivery. The quality and delivery performance of each vendor is evaluated quarterly and quantity allocations are adjusted for subsequent periods based on the results of the evaluation.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, purchases from our five largest raw material suppliers together accounted for approximately 14.3%, 15.9%, 14.8% and 16.2% of our total cost of sales, respectively, while purchases from our largest raw material supplier for the same periods accounted for approximately 5.9%, 7.7%, 6.9% and 7.0% of our total cost of sales, respectively. None of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our five largest raw material suppliers during the Track Record Period and as of the Latest Practicable Date.

Raw Materials Supply Agreements and Arrangements

We purchase our raw materials through purchase orders. Some of our purchase orders are made pursuant to the terms of a framework agreement that sets forth some general terms that will be used in each purchase order, and the remainder of the purchase orders are made on a stand-alone basis pursuant to the specific terms of such stand-alone purchase order. Each purchase order sets forth all of the terms and conditions of each transaction, including the pricing terms, specification of the raw materials, quantity and date of delivery, and such purchase order is legally binding once it is accepted by the supplier. Our raw materials supply framework agreements with our raw material suppliers generally do not contain any minimum purchase requirements, are legally binding and set forth general terms and conditions that will apply to each of the purchase orders issued under such framework agreements. The duration of the framework agreements generally vary from one to three years and contain automatic renewal provisions. Such framework agreements can generally be terminated by the non-breaching party, if the other party fails to perform or fulfill certain of its duties or obligations thereunder. Under the framework agreements, if the purchased raw materials fail to conform to the specifications agreed by the parties, we generally have the right to return such raw materials to the supplier or ask the suppliers to replace such purchased goods. Generally, the raw materials are delivered based on Incoterms. Our raw materials suppliers generally grant us credit terms ranging from 30-days to 60-days and the right to replace or refund the delivered goods in case of defective products.

We provide demand forecasts and delivery requests for raw materials to key materials suppliers on a periodic basis. We are not under any obligation to purchase raw material inventory that is held by our vendors for our benefit until we actually order it. The actual purchase price is generally determined based on prevailing market conditions and historical prices. In the past, prices of our principal raw materials have not been volatile to a significant degree.

INVESTMENTS

Huahong Technology Development

We hold a 50% economic interest in Huahong Technology Development, which is an associated company of ours and holds 100% of the equity interests in Huahong Real Estate, which is a company engaging in real estate development in Shanghai. Huahong Real Estate primarily focuses on the development of industrial-office buildings in the Hua Hong Innovation Park (華虹創新園) located within the Jinqiao Export Processing Zone in the municipality of Shanghai. There are a total of 35 buildings in the Hua Hong Innovation Park, including one dormitory building that provides housing for employees of our Company and another building that provides supporting retail facilities such as a cafeteria and a convenience store. Except for the aforementioned dormitory and supporting buildings along with one industrial-office building, which Huahong Real Estate plans to continue operating and leasing, the other industrial-office buildings have been developed for sale.

During the Track Record Period, Huahong Real Estate developed a total of 35 buildings with a total gross floor area of approximately 271,910 square meters. During the Track Record Period, Huahong Real Estate sold a total of nine industrial-office buildings with a total gross floor area of approximately 26,159 square meters. As of the Latest Practicable Date, Huahong Real Estate still had 24 industrial-office buildings for sale with a total gross floor area of approximately 211,811 square meters.

Huahong Real Estate obtained a valuation report from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent third party valuation expert, that estimated the value of all interests in land and properties of Huahong Real Estate at RMB3.4 billion as of December 31, 2013.

Shanghai Huali

In February 2010, HHNEC resolved to make an investment of RMB700 million in Shanghai Huali, a company primarily engaged in the fabrication of 300mm wafers. The investment was made in January 2012, which resulted in HHNEC holding an 8.86% equity interest in Shanghai Huali. In February 2010, Grace Shanghai agreed to make an investment of RMB700 million in Shanghai Huali. The investment was made in installments as to RMB350 million in 2010 and as to a further RMB350 million in February 2014, which resulted in Grace Shanghai holding an additional 8.86% equity interest in Shanghai Huali. As of the Latest Practicable Date, we held 17.72% of equity interest in Shanghai Huali.

Shanghai Huali was formed for the purpose of building and operating a 300mm wafer fab. It is managed and operated independently from our Company by an experienced professional management team. Whilst we expect to remain focused on providing our customers with manufacturing solutions on 200mm wafers, which we believe will remain the predominant segment of their demand, we recognize the advantage of being able to engage with them on future product development trends beyond the 90nm node that require 300mm manufacturing. To this end, we see this investment in Shanghai Huali as strategic. We have entered into an agreement with SAIL and Huahong Group, the other shareholders of Shanghai Huali, which grants us the right of first refusal on acquisition of their stake in Shanghai Huali should they decide to dispose of their stake.

We currently do not compete with Shanghai Huali for any customer for the same applications. Shanghai Huali's primary focus is on the 65nm and 40nm technology nodes, which are not our addressable market opportunities. Furthermore, Shanghai Huali's facilities are still being installed and therefore carry significant capital expenditures and depreciation expenses, making it relatively uncompetitive for the applications that we target. As the business of Shanghai Huali is in a start-up stage, we did not have any overlapping customer with Shanghai Huali as at the Latest Practicable Date. Nevertheless, as the operations of Shanghai Huali continue to develop, and as the Company and Shanghai Huali continue to refer potential customers to each other, we and Shanghai Huali may over time have overlapping customers, providing foundry services to meet their different product and service requirements.

QST

On August 18, 2012, we signed a binding term sheet involving various increases in the registered capital of QST, a company primarily focusing on producing high-end magnetic sensors and MEMS sensors. In 2014, we invested RMB10.5 million in QST in the form of intellectual property transfer. As of the Latest Practicable Date, we held a 16.41% equity interest in QST. Once all the investments comprising the capital increase are completed pursuant to the term sheet, our shareholding in QST will be reduced to 8.33%.

QST has a worldwide and exclusive license to manufacture Honeywell's anisotropic megnetoresistive ("**AMR**") magnetic sensor technology. In addition, QST has the proprietary rights to an innovative combination of CMOS integrated six-axis motion sensors, such as the combination of (i) tri-axial accelerometer plus tri-axial gyroscope and (ii) tri-axial magnetic sensor plus tri-axial accelerometer.

INSURANCE

We maintain adequate insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our fixed assets and inventories in our facilities. During the Track Record Period and up to the Latest Practicable Date, we had no claim for material property or inventory damage. We also participate in government-sponsored social security programs including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing fund.

We maintain PDBI insurance covering the risk of property damage and business interruption owing to accidents or natural disasters, and public liability insurance for third party and environmental liability, specifically for property and physical loss/damage of accidental third party injury and life insurance. We provide insurance to our employees, including health and life insurance. We intend to purchase errors and omissions liabilities insurance for our directors and senior management. As is usual in China, we have no insurance for product liability. Our Directors believe that our Group's insurance policies are adequate and consistent with the common industry practice in the PRC.

EMPLOYEES

As of December 31, 2011, 2012, 2013 and June 30, 2014, we had 3,656, 3,619, 3,516 and 3,642 full-time employees, respectively. Most of our employees are located in Shanghai, China. A breakdown of our employees by function as of June 30, 2014 is set forth below:

	Number of Employees	Percentage of Total
Management	11	0.3%
Sales and Customer Service	102	2.8%
Planning/Quality Control/Testing/Procurement/Human Resources	458	12.6%
Finance/Information Technology	112	3.1%
Strategy, Legal and Compliance, Science and Technology	34	0.9%
Manufacturing	2,581	70.9%
R&D	262	7.2%
Administrative/Safety	82	2.3%
Total	3,642[1]	100.0%

(1) The number does not include part-time employees or labor dispatched from a third-party employment agency.

We believe our success depends heavily on the continuing ability and willingness of our employees to provide consistent, quality and reliable services. In order to attract and retain high quality, motivated employees and to further develop the knowledge, skill level and quality of all employees, we place a strong emphasis on training. We provide training periodically and across operational functions, including introductory training for new employees, technical training, professional and management training, team building and communications training. In addition, we sponsored qualified employees with high management potential to attend management training courses. We also have joint programs with various universities in China to train the talents we need for our business.

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety and sanitary conditions in the workplace, confidentiality obligations for commercial secrets, and grounds for termination.

In addition, as of June 30, 2014, we had 168 staff members dispatched from two employment agencies, all independent third parties. We typically use dispatched staff for positions that have higher turnover rates and are auxiliary in nature. The dispatched staff is employed by the third-party employment agencies. While we pay their salaries and purchase employee accident insurance for the dispatched staff, the third-party employment agencies bear the costs of their social insurance and housing fund as required under the PRC laws.

Pursuant to regulations in each of the local governments where we operate, we make contributions to various employee benefit plans. The total amount of contributions we made to employee benefit plans for each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014 was US$19.1 million, US$20.8 million, US$23.9 million, US$10.9 million and US$14.8 million, respectively. In addition to the employee benefit plans required by PRC laws and regulations, we also provide incentives for increasing production quantity, accommodations, meals and travel allowances.

As of the Latest Practicable Date, we had one workers union in Shanghai, China. We have not experienced any significant difficulty in recruiting employees nor have we had any significant staff compensation or labor disputes. We believe we have maintained excellent relations with our employees.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations including the Environmental Protection Law of the PRC. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. The semiconductor production process generates gaseous chemical waste, liquid waste, waste water, and other industrial waste in various stages of the fabrication process. We consider the protection of the environment to be important and have implemented measures in the operations of our business to ensure our compliance with all applicable requirements under the PRC environmental laws and regulations. We have installed various types of pollution control equipment for the treatment of chemical waste and liquid waste and equipment for the recycling of treated water in our fabs.

As confirmed by our PRC Legal Advisor, we have obtained all of the environmental permits necessary to conduct our business and are currently in compliance with all applicable environmental protection laws and regulations in all material aspects. Our operations are subject to regulation and periodic monitoring by local environmental authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

During the Track Record Period, we did not receive any complaint from our customers or any other parties in respect of any environmental protection issues, and we have not experienced any material environmental incidents arising from our manufacturing activities. During the same period, no material administrative sanctions or penalties were imposed upon us for the violation of environmental laws or regulations which had an adverse impact on our operations. Our annual costs for compliance with applicable environmental rules and regulations for the years ended December 31, 2011, 2012 and 2013 and the six months ended

June 30, 2013 and 2014 were US$2.0 million, US$2.2 million, US$2.3 million, US$1.0 million and US$1.3 million, respectively. We expect annual costs for compliance with applicable environmental rules and regulations for the year ending December 31, 2014 will be approximately US$3.6 million.

Our environmental management system has been certified to be in full compliance with ISO14001 and ISO14064.

OCCUPATIONAL HEALTH AND SAFETY

We endorse the environment, health and safety, or EHS system, and we aim to build a people-oriented working environment. We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. As confirmed by our PRC Legal Advisor, we have obtained all of the work safety permits necessary to conduct our business and are currently in compliance with all applicable work safety laws and regulations in all material aspects. Our operations are subject to regulation and periodic monitoring by local work safety authorities. See "Risk Factors — Risks Relating to Our Business — Our operations may be delayed or interrupted and our business could suffer if we fail, or are alleged to have failed, to comply with any existing or new environmental, occupational or safety regulations or to rectify non-compliance."

During the Track Record Period, we did not experience any material accidents during our manufacturing process. Our occupational health and safety management system has been certified to be in compliance with OHSAS 18001.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to the operations of our fabs, including strategic, operational, financial, and legal risks. Our risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management and assessing and updating our risk management policy on a quarterly basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

PROPERTIES

Owned properties

As of the Latest Practicable Date, we held three parcels of land with an aggregate site area of approximately 417,830 square meters, and 35 buildings with a total gross floor area of approximately 329,859 square meters in the PRC, for use as our manufacturing facilities. In addition, as of the Latest Practicable Date, we held two parcels of land with an aggregate site area of approximately 1,643 square meters, two buildings with a total gross floor area of approximately 634 square meters as residential premises and two buildings with a total gross floor area of approximately 4,536 square meters as warehouses in the PRC.

The following table sets forth the size and primary use of our manufacturing facilities, all of which are owned.

Location		Size (Land/Buildings) (in square meters)	Primary Use
Fab 1	No. 1188, Chuan Qiao Rd., Pudong, Shanghai	93,756/80,932	200mm wafer production
Fab 2	No. 668, Guo Shou Jing Rd., Zhangjiang Hi-Tech Park, Pudong, Shanghai	83,186/56,005	200mm wafer production
Fab 3	No. 818 Guo Shou Jing Rd., Zhangjiang Hi-Tech Park, Pudong Shanghai	240,888/192,923	200mm wafer production

The above properties have been mortgaged to banks as collateral for certain syndicate loan agreements.

According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is partially exempt from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings. Please refer to the property valuation report in Appendix III to this prospectus for more information of our property that form part of the our property activities with a carrying amount of 1% or more of our total assets.

As of the Latest Practicable Date, we had not yet obtained the building ownership certificates for two warehouses with a total gross floor area of approximately 4,536 square meters located at No. 818 Guo Shou Jing Rd. As we have obtained all relevant construction approvals and permits for and passed the completion inspection of such warehouses, our PRC Legal Advisor is of the view that there is no material legal impediment for us to obtain the building ownership certificates of such warehouses.

As confirmed by our PRC Legal Advisor, except for the warehouses disclosed above, we have obtained the land use rights and building ownership and legally hold or own all of our properties.

Leased properties

As of the Latest Practicable Date, we leased spaces in two buildings with an aggregate gross floor area of approximately 17,413 square meters for use as our dormitories. Such buildings have been mortgaged to a bank as collateral for credit facilities under mortgage contracts entered into by Huahong Real Estate.

Properties currently under construction

As of the Latest Practicable Date, we had one building expansion project with an aggregate gross floor area of approximately 801 square meters under construction at No.818 Guo Shou Jing Rd. The projected total cost of construction for such expansion is approximately RMB8.4 million, of which approximately RMB6.5 million had already been paid. We financed the construction primarily through cash inflows from operations. Our PRC Legal Advisor has confirmed that, as of the Latest Practicable Date, we have obtained all relevant construction approvals and permits for the construction of such property in accordance with PRC laws and regulations.

Save as disclosed above, none of the properties held or leased by us has any material encumbrances, environmental issues, litigation, breaches or defects.

LEGAL PROCEEDINGS

We are currently not a party to, and we are not aware of any threat of, any legal, arbitration or administrative proceedings that, in the opinion of our management, are likely to have a material and adverse effect on our business, financial condition or results of operations. We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business.

LICENSES, REGULATORY APPROVALS AND COMPLIANCE

Our Directors, as advised by our PRC Legal Advisor, confirm that as of the Latest Practicable Date, we have complied with all relevant PRC laws and regulations in all material respects and have obtained all requisite licenses, approvals and permits from relevant regulatory authorities for our operations in China.

CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (without taking into account the Shares that may be issued pursuant to the exercise of the Over-allotment Option), Huahong Group and SAIL will respectively hold approximately 33.89% and 20.16% of the issued share capital of our Company. In addition, SAIL controls 51.83% of the voting rights of Huahong Group by virtue of its 47.08% equity interest in Huahong Group and an additional 4.75% voting rights pursuant to a voting bloc from INESA to SAIL. It is expected that immediately after completion of the Global Offering, Huahong Group, SAIL and INESA will each be taken as a Controlling Shareholder of the Company.

Save as disclosed in this prospectus and except for their interests in our Company and its subsidiaries, none of our Controlling Shareholders nor any of their associates had interests in any other companies as at the Latest Practicable Date which may, directly or indirectly, compete with our business.

CONTROLLING SHAREHOLDERS' BUSINESSES

Huahong Group

Huahong Group is an IC industrial group that relies on IC manufacturing as core business. Our Company represents the core business of Huahong Group in IC manufacturing and Huahong Group does not have any other business which directly or indirectly competes with us. Huahong Group also develops other business areas including IC systems integration and application services, IC manufacturing process research and development, IC design, electronic component trade, and overseas venture capital investment.

SAIL

SAIL is mainly engaged in equity investment and management in the high-tech and financial services industry. It has invested in various projects in information technology, infrastructure, agriculture, real estate, biotechnology, new energy, environmental protection, new materials and financial services.

INESA

INESA is a state-owned asset management company that focuses on the research and development of Internet of Things (smart security, smart lighting, food traceability, intelligent electronics, smart home, smart transportation) and cloud computing. It seeks to provide customers with system solutions as well as information, intelligence, networking, energy-saving and environmental protection products and services.

BUSINESS DELINEATION BETWEEN THE COMPANY AND SHANGHAI HUALI

SAIL, Huahong Group and our Group own 73.42%, 8.86% and 17.72% of Shanghai Huali, respectively, which focuses on provision of foundry services on 300mm wafers. 300mm and 200mm foundries generally serve different addressable markets. Semiconductor products that require manufacturing on 300mm wafers are typically designed based on process technology nodes not available on 200mm wafers in order to achieve certain performance specifications. In addition, the cost structure of a 300mm fab is also different from that of a 200mm fab making it more suitable for products with large expected shipment volume. Furthermore, both companies have separate management teams that are independent from each other at the operational level. Although the Company and Shanghai Huali may refer potential customers to each other, the two companies do not share any confidential customer information with each other. In light of the above, the Directors are of the view that there is clear delineation between the businesses of our Company and Shanghai Huali as a result of which they do not compete with each other. As of the Latest Practicable Date, the registered capital of Shanghai Huali was RMB7,900 million.

The Directors are of the view that our business activities, which focuses on 200mm wafer processing, can be clearly differentiated from that of Shanghai Huali, which specializes in 300mm wafer processing, based on the following:

— ***Different target applications*** — semiconductor manufacturing using 300mm wafers and 200mm wafers addresses different application/products and markets. Manufacturing using 300mm wafers allows for the most advanced technologies (i.e., <28nm technology nodes) which offers performance advantages over 200mm wafers, such as higher processing speed, lower power consumption, and more dies per wafer. As a result, certain semiconductor devices such as microprocessor, baseband, DRAM, NAND flash, etc., which require high volume and benefit from the performance advantages of <28nm technology, are made with 300mm wafers. On the other hand, 200mm wafers address other semiconductor IC products such as eNVM, power management ICs and MEMS. Manufacturing these products with 200mm wafers is more economical than with 300mm wafers as these ICs typically require considerable variation of products, and have relatively low volumes. For applications that have lower production volume, it is more economical to manufacture using 200mm wafers, given that there are substantial fixed costs associated with wafer manufacturing, such as depreciation, mask set costs, R&D expenses, and silicon IP, and such costs are much higher for 300mm wafer manufacturing than those for 200mm. For these applications, 300mm wafer manufacturing will require considerably higher production volumes in order to lower unit costs to be competitive with 200mm wafers.

— ***Different expertise required*** — semiconductor products that require manufacturing on 300mm wafers are typically designed based on process technology nodes not available on 200mm wafers in order to achieve certain performance specifications. Although the underlying process for the manufacture of the 300mm and 200mm wafers is similar, the equipment used in each of the two processes is different and is not interchangeable. Each of the equipment adopted for the 200mm and 300mm wafers are specifically tailored for producing only 200mm and 300mm wafers, respectively, and generally more advanced technologies are required to manufacture the 300mm wafers. As a result, the cost involved in transitioning from 200mm to 300mm wafer processing is significant. In addition, different technical skills are required for the engineers operating 200mm and 300mm wafer manufacturing.

— ***No overlapping customer*** — we currently do not compete with Shanghai Huali for any customer on the same application. Shanghai Huali's primary focus is on the 65nm and 40nm technology nodes, which we do not offer. Furthermore, Shanghai Huali's facilities are still being installed and thus carry significant depreciation expenses making it uncompetitive for the same applications that we target.

The Directors believe that the respective technological and cost advantages of manufacturing using 200mm wafers over 300mm wafers will likely persist in the near future, for at least the next five years. Further, given that the relative advantages of manufacturing using 200mm over 300mm wafers are specific to the nature of the end products, any migration of the relevant end products to adapt to different technology nodes would be gradual and the Directors do not expect significant changes to the market landscape in the near future, in light of current trends. Therefore, the Directors are of the view that there is no potential competition between the Company and Shanghai Huali in the near future. Nevertheless, given that the semiconductor industry and its technologies are constantly changing and the production facilities of 300mm fabs continue to depreciate, resulting in lower costs to manufacture using 300mm wafers in time, the Directors cannot preclude that potential competition between the businesses of the Company and Shanghai Huali may arise beyond the near future. In order to ensure that the Company has a technology roadmap beyond 200mm wafer manufacturing into 300mm wafer manufacturing in the future, besides the existing strategic investment in Shanghai Huali, the Company has also entered into an agreement with SAIL and Huahong Group, the other shareholders of Shanghai Huali, which grants the Company the right of first refusal on acquisition of their stake in Shanghai Huali should they decide to dispose of their stake. While we have no present plan to increase our stake in Shanghai Huali, if and when Shanghai Huali's operations become more stable and profitable, and if and when our customers begin to have greater demand for 300mm wafer manufacturing within their product portfolio, our minority interest in Shanghai Huali and the accompanying Deed of Right of First Refusal will provide us with the strategic benefit to acquire the remaining stake in Shanghai Huali, provided that SAIL and Huahong Group wish to dispose of their interests in Shanghai Huali.

Shanghai Huali's 300mm wafer production business was not injected into our Group as our Directors are of the view that the two lines of businesses address different products and markets, require different equipment and expertise, and the 300mm business does not compete directly with the existing business of our Group. In any event, our Directors are of the view that such injection would have caused a significant financial impact on our Group, requiring a substantial length of time to recover the initial costs of investment in the 300mm fabs, and it is in our best interests to concentrate our resources on the development and growth of our 200mm wafer business.

NON-COMPETITION UNDERTAKING

On September 23, 2014, Huahong Group, SAIL and INESA (each a "**Covenantor**" and collectively, "**Covenantors**") and our Company entered into a Deed of Non-competition in favor of our Company pursuant to which the Covenantors have irrevocably undertaken to our Company (for itself and as trustee for the benefit of each of the members of the Group from time to time) that at any time during the Restricted Period (as defined below), it/he shall not and it/he shall procure that none of its/his associates (other than any member of the Group) shall, directly or indirectly, either on its own account or in conjunction with or on behalf of or through any person, firm or company or organization, directly or indirectly, be interested or engaged in or assist others to be interested or engaged (in each case whether as a shareholder, partner, agent, employee or otherwise and whether for profit, reward or otherwise) in any business which is or may be in competition with the existing businesses of our Company in the markets in which our Company currently operates as described in this prospectus (the "**Restricted Business**").

Such non-compete undertaking does not apply to any of the Covenantors or their respective associates in respect of:

(a) their interests in the shares of any member of our Group; or

(b) their interests in the shares of a company other than our Group which shares are listed on the Stock Exchange or a recognized stock exchange provided that the total number of the shares or securities held by each of the Covenantors (including their respective associates) does not exceed 5% of the issued shares or securities of that class of the company in question, provided that the Covenantor and its/his associates, whether acting individually or jointly, are not entitled to appoint a majority of the board of directors of that company;

provided that subject to the due compliance with the Deed of Right of First Refusal (as defined below), SAIL may continue to own interests in Shanghai Huali and operate the 300mm wafer manufacturing business operated in the PRC by Shanghai Huali (the "**Retained Business**").

Furthermore, each of the Covenantors has irrevocably undertaken that if any new business opportunity relating to, or competes, or is likely to compete with, the Restricted Business (the "**Business Opportunity**") is made available to any of the Covenantors (other than the Company) during the Restricted Period (as defined below), he/it shall direct such Business Opportunity to the Company with such required information to enable the Company to evaluate the merits of the Business Opportunity. The relevant Covenantor shall provide all such reasonable assistance to enable the Company to secure the Business Opportunity on terms and conditions no less favorable than those offered to the Covenantor when the Business Opportunity first becomes available to the Covenantor. None of the Covenantors shall pursue the Business Opportunity until the Company, in its sole discretion, decides not to pursue the Business Opportunity or fails to take on the Business Opportunity within 6 months from the date on which the relevant Covenantor introduced the Business Opportunity to our Company. Any decision of our Company will have to be approved by the majority of the

Independent Non-Executive Directors taking into consideration our Company's prevailing business and financial resources, the financial resources required for the Business Opportunity and (if necessary) any expert opinion on the commercial viability of the Business Opportunity.

The restricted period stated in the Deed of Non-competition refers to the period commencing on the Listing Date and expiring on the earliest of (i) the date on which the Shares cease to be listed and traded on the Stock Exchange; (ii) in relation to each of the Covenantors, the date on which it/he and its/his associates cease to hold any of the Shares; and (iii) the date on which the Covenantors (including their respective associates) jointly or severally cease to be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company (the "**Restricted Period**").

RIGHT OF FIRST REFUSAL

In addition, on June 10, 2014, our Company, Huahong Group and SAIL entered into the Deed of Right of First Refusal in favor of us pursuant to which each of Huahong Group and SAIL has irrevocably and unconditionally undertaken to us (for itself and for the benefit of each of the members of the Group) that at any time during the effective period of the deed, each of Huahong Group and SAIL and their respective associates (other than the Group) shall not dispose of its shares in Shanghai Huali and shall procure Shanghai Huali not to dispose of any of its core assets or business or interests in its subsidiaries from time to time (if any), or any interest in the Retained Business to any person, without first offering to us the right to acquire such business or interest. If any of Huahong Group or SAIL intends to dispose of its interest in Shanghai Huali or the Retained Business, they shall first offer to our Company the right to acquire such business or interest and provide relevant information including, among others, the proposed consideration and the payment terms. The consideration shall be subject to independent valuation by a qualified third party engaged by the Company. The relevant party may only proceed with such disposal to any third party, on terms not more favorable than those offered to us.

The effective period of the Deed of Right of First Refusal refers to the period commencing on the Listing Date and expiring on the earlier of (i) the date on which the Shares cease to be listed and traded on the Stock Exchange; and (ii) in relation to each of the Covenantors, the date on which it and its associates cease to hold any of the Shares.

CORPORATE GOVERNANCE MEASURES

The Deed of Non-competition also provides that our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of our Shareholders:

- our Independent Non-Executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;

- each of our Controlling Shareholders has undertaken to us that it will, and will procure its/his associates to provide all information necessary for the annual review by the Independent Non-Executive Directors for the enforcement of the Deed of Non-competition;

- we will disclose the review by the Independent Non-Executive Directors on the compliance with the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and

- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-competition.

The Company acknowledges that the above corporate governance measures may not be effective in managing potential conflict of interest arising from competing interest between the Controlling Shareholders and the Company. In particular, as the Controlling Shareholders' compliance with the Deed of Non-competition will be reviewed by our Independent Non-Executive Directors on an annual basis, any interim event which may constitute a breach of the Deed of Non-competition by a Controlling Shareholder may not be revealed until the end of the year. In case of any breach of the Deed of Non-competition on the part of a Controlling Shareholder, the Company undertakes to take appropriate measures to safeguard its interest, including but not limited to taking legal action against the relevant Controlling Shareholder.

DIRECTORS

Each of the Directors confirms that he does not have any interest in business competing with our Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that we are capable of carrying on our business independently of our Controlling Shareholders and their associates after the Global Offering.

Management Independence

Our Board comprises two Executive Directors, four Non-Executive Directors and three Independent Non-Executive Directors.

Three of our Directors, Mr. Wenbiao Fu, Mr. Jianbo Chen and Mr. Yuchuan Ma, are appointees of our Controlling Shareholder, Huahong Group, and two other Directors, Mr. Jun Ye and Mr. Yu Wang, are appointees of our Controlling Shareholder, SAIL, pursuant to the articles of association of the Company before Listing. In addition, Mr. Wenbiao Fu, Mr. Jianbo Chen, Mr. Jun Ye and Mr. Yuchuan Ma are directors of Huahong Group. However, each of our Directors, including Mr. Wenbiao Fu, Mr. Jianbo Chen, Mr. Jun Ye, Mr. Yu Wang and Mr. Yuchuan Ma, is aware of his fiduciary duties as a Director of our Company. These fiduciary duties require, among other things, that a Director acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. From time to time we may enter into connected transactions with subsidiaries of SAIL or Huahong Group. It is considered that the five Directors who are independent from SAIL and Huahong Group (being all of the Independent Non-Executive Directors, Mr. Yu Wang and Mr. Takayuki Morita) will form the necessary quorum to consider entry into such transactions or any other transactions which the overlapping directors may be required to abstain from. Further, these directors will collectively have the necessary expertise and experience to ensure that decisions by the Board to enter into such transactions will be properly taken having regard to the best interests of our Company and the Shareholders taken as a whole. In this connection, attention is specifically drawn to the experience in the semiconductor industry of Mr. Yu Wang and Mr. Takayuki Morita set out in the section headed "Directors and Senior Management" in this prospectus. In addition, we have an independent senior management team to carry out the business decisions of our Group independently from the Controlling Shareholders.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that they are capable of managing our business independently from the Controlling Shareholders after the Global Offering.

Operational Independence

We have established our own organizational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to sources of supplies or raw materials for production as well as customers. We are the licensee/owner of the brands/trademarks. We own our manufacturing facilities and save as otherwise disclosed in this prospectus, we do not lease any property from our Controlling Shareholders or their respective associates. We have also established a set of internal control procedures to facilitate the effective operation of our business.

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and its respective associates. Our Directors confirmed that our Group has been operating independently from our Controlling Shareholders and their associates and will continue to do so after Listing.

Financial Independence

Our Group has an accounting and financial system independent from our Controlling Shareholders and makes financial decisions according to our Group's own business needs. Historically, HHNEC and Huahong Group, our Controlling Shareholder, entered into a cash pooling arrangement with each other in 2011 to enhance the overall cash management among the group companies. Such loans were fully settled by HHNEC and Huahong Group in June 2014 and we do not intend to enter into any other similar arrangement in the future. Please refer to the section headed "Financial Information — Related Party Transactions" for details of the cash pooling arrangement. Save to the above, none of our Controlling Shareholders or their respective associates financed our operations during the Track Record Period. Our Directors confirm that our Group does not intend to obtain any borrowing from our Controlling Shareholders. Therefore, there is no financial dependence on our Controlling Shareholders.

We have entered into certain agreements with entities that will become our connected persons (as defined under Chapter 14A of the Listing Rules) upon Listing, and transactions contemplated under such agreements will constitute continuing connected transactions of our Company under the Listing Rules.

OVERVIEW OF CONTINUING CONNECTED TRANSACTIONS AND WAIVERS

The following is a summary of our continuing connected transactions upon Listing, and the relevant waivers sought:

Nature of Transaction	Waiver Sought
Sales of IC and other semiconductor products to Shanghai Huahong Zealcore Electronics Co., Ltd. ("**Huahong Zealcore**") and sales of IC and other semiconductor products and provision of services to QST ...	Waiver from circular (including independent financial advice) and independent shareholders' approval and announcement requirements
Purchases of materials from Huahong Zealcore	Waiver from announcement requirement
Purchases of materials from NEC Management Partner, Ltd. ("**NEC Management**")	Waiver from announcement requirement
Purchase of goods and services from subsidiaries of INESA ..	Waiver from announcement requirement
Lease agreement with Shanghai Huali	Waiver from announcement requirement
Lease agreement with Huahong Real Estate and property management agreement with Shanghai Huajin Property Management Co., Ltd. (上海華錦物業管理有限公司) ("**Huajin Property Management**")..	Waiver from announcement requirement

CONNECTED PERSONS

The table below sets forth the connected persons of our Company who will conduct continuing connected transactions with our Group and the nature of their connection with our Group:

Name	Connected relationship
Huahong Zealcore	Huahong Zealcore is a wholly-owned subsidiary of Huahong Group, our Controlling Shareholder. Accordingly, it is our connected person pursuant to Rules 1.01 and 14A.07(4) of the Listing Rules. Huahong Zealcore's principal business is research, development and sales of integrated circuits and ancillary products. Huahong Zealcore also engages in import and export business of goods and technology relating to the research, development and sales of integrated circuits.
QST	QST is 49.22% held by SAIL, our Controlling Shareholder. Accordingly, it is our connected person pursuant to Rules 1.01 and 14A.07(4) of the Listing Rules. SAIL, HHGrace and the other investors of QST have entered into a binding term sheet involving various increases in the registered capital by the other investors, which will result in a reduction of the shareholding of SAIL and HHGrace in this company from 49.22% to 25% and from 16.41% to 8.33%, respectively. QST's principal business is researching, developing, designing and selling high-end magnetic sensors and MEMS sensors.
NEC Management	NEC Management is a wholly-owned subsidiary of NEC, our substantial shareholder. Accordingly, it is our connected person pursuant to Rules 1.01 and 14A.07(4) of the Listing Rules. NEC Management's principal business is the sales of semiconductor equipment and parts, instrument calibration and personnel training.
INESA	INESA is our Controlling Shareholder by virtue of a voting bloc arrangement from INESA to SAIL. Accordingly, it and its associates are our connected persons pursuant to Rule 14A.07(1) and (4) of the Listing Rules.
Shanghai Huali	Shanghai Huali is 73.42% owned by SAIL, our Controlling Shareholder. Accordingly, it is our connected person pursuant to Rules 1.01 and 14A.07(4) of the Listing Rules. In addition, we also hold 17.72% of equity interest in Shanghai Huali. Shanghai Huali's principal business is developing and operating a 300mm wafer fab.

Name	Connected relationship
Huahong Real Estate	Huahong Real Estate is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, our Controlling Shareholder, and 50% held by HHNEC, our wholly-owned subsidiary. Accordingly, it is our connected person pursuant to Rules 1.01 and 14.07(4) of the Listing Rules. Huahong Real Estate's principal business is real estate development, operation, property management, interior design, construction, sales of building material and management of car parks of real estate projects.
Huajin Property Management .	Huajin Property Management is a wholly-owned subsidiary of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, our Controlling Shareholder, and 50% held by HHNEC, our wholly-owned subsidiary. Accordingly, it is our connected person pursuant to Rules 1.01 and 14.07(4) of the Listing Rules. Huajin Property Management's principal business is in property management.

CONTINUING CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

Continuing Connected Transactions which are not exempted and therefore subject to the Reporting, Annual Review, Announcement, Circular (including independent financial advice) and Independent Shareholders' Approval Requirements

Following the Listing Date, the following transactions will be regarded as continuing connected transactions subject to the reporting, annual review, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under the Listing Rules.

1. *Sales of IC and other semiconductor products to Huahong Zealcore*

We have been selling IC and other semiconductor products to Huahong Zealcore as part of our ordinary and usual course of business, and it is expected that such transactions will continue after Listing. Since Huahong Zealcore is a wholly-owned subsidiary of Huahong Group, our Controlling Shareholder, Huahong Zealcore is a connected person of our Company and the sales of products from us to Huahong Zealcore will constitute continuing connected transactions of our Company upon Listing.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we sold approximately US$2.2 million, US$4.1 million, US$6.9 million and US$6.3 million worth of IC and other semiconductor products respectively to Huahong Zealcore.

On July 1, 2014, we entered into a sales of goods agreement to govern the terms and conditions of the transactions between our Group and Huahong Zealcore in connection with the sales of IC and other semiconductor products (the "**Zealcore Sales Agreement**"). The Zealcore Sales Agreement will take effect upon Listing and will continue until the end of 2016. The Zealcore Sales Agreement is subject to an annual cap of US$12.6 million, US$13.2 million and US$13.9 million for the financial years ending December 31, 2014, 2015 and 2016, respectively. In arriving at the annual cap for 2014, our Directors considered the actual transaction values and volumes of the contracted goods in the first half of 2014 on our audited accounts. During this period we experienced a 141% increase in sales to Huahong Zealcore as compared to the same period last year. The annual caps for 2015 and 2016 assumes that the business would be similar to 2014 levels, and only growing at inflation of 5% per annum. The sales prices of the IC or the other semiconductor products were determined by reference to market prices.

The significant increase in the annual caps as compared with the historical amounts were predominantly due to the following reasons: (1) Huahong Zealcore revised its business model from a pure export-import company of wafers to a IC design company during the second half of 2013; (2) our Company is the major supplier of Huahong Zealcore and the revenue from Huahong Zealcore is expected to increase by 75% from 2013 to 2014 as a result of its transition as described in (1) above; and (3) Huahong Zealcore has newly engaged the Company to provide wafers for its LED lighting business in 2014 and its micro control units business had also experienced an increase during the first half of 2014 compared with 2013. Due to these reasons, our revenue from Huahong Zealcore for the first half of 2014 increased by 141% compared to the same period last year and the amount for the first half of 2014 is approximately half of the expected cap for 2014.

Our Directors (including the Independent Non-Executive Directors) consider that the Zealcore Sales Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

2. *Sales of IC and other semiconductor products to QST*

We have entered into an arrangement to sell IC and other semiconductor products in our ordinary and usual course of business to QST. Since QST is a 30%-controlled company (as defined in the Listing Rules) of SAIL, our Controlling Shareholder, and is a connected person of our Company, the sales to QST will constitute continuing connected transactions of our Company upon Listing. On November 1, 2013, we entered into a foundry agreement with QST to govern the terms and conditions of the transactions between our Group and QST in connection with the sales of IC and other semiconductor products (the "**QST Sales Agreement**").

Since April 2014, we began to provide IC products to QST, which was in a stage of development during the Track Record Period, pursuant to the QST Sales Agreement. For the six months ended June 30, 2014, we provided US$0.17 million worth of IC and other semiconductor products to QST.

The QST Sales Agreement will continue for three years from November 1, 2013, and is subject to an annual cap of US$1.0 million, US$8.0 million and US$16.0 million for the financial years ending December 31, 2014, 2015 and 2016, respectively. In arriving at the annual caps, our Directors considered the following factors: (1) projections from our sales team of wafer volumes to be sold to QST, based on the development plan of QST derived from its current and expected engagements with its end customers, taking into account market trends of relevant products. Our sales team expects (a) an increase in sales (revenue) of magnetic sensor products to QST of approximately six times from 2014 to 2016 and (b) the addition of new product types, namely accelerators and gyroscopes, in 2015, which would account for half of our sales to QST by 2015, with a further year on year growth of approximately 260% in 2016; and (2) projections of the average selling price of the products sold based on expected market price developments.

The projection of sales in 2014 is largely based on actual orders received by QST from its end customers. The expected growth in 2015 is largely due to the planned introduction of new product types by QST coupled with the expected mass production of magnetic sensor products, which was in trial stage in 2014. The further growth in 2016 is based on QST's expectation to achieve (i) a 60% increase in sales to its existing customers and (ii) a further 40% increase in sales to new customers. The average selling price of the products sold to QST is expected to increase by 70% from 2014 to 2016 due to changes in the mix of product sold, being the addition of accelerator and gyroscope products which have a higher average selling price than the magnetic sensor products sold in 2014, despite average selling price of each individual product remaining stable. The reason for the significant increase in the projections for these three years is that the relevant business of QST is in a start-up stage and is projected to go through significant growth. As a result, we expect to sell an increasing variety of IC and other semiconductor products to QST with increasing volume.

Our Directors (including the Independent Non-Executive Directors) consider that the QST Sales Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

3. *Provision of services to QST*

We have entered into an arrangement to provide certain services in our ordinary and usual course of business to QST. On May 18, 2014, we entered into a services agreement with QST (the "**QST Services Agreement**") to govern the terms and conditions of the transactions between our Group and QST in connection with the provision of services to QST.

Historically, under the QST Services Agreement, we have provided certain services, including technology and development services and facility maintenance services to QST since the beginning of 2013. For the six months ended June 30, 2014, we accumulated service fees of US$0.83 million, representing technology, development and maintenance services provided by us to QST in the financial year ended December 31, 2013 and the six months ended June 30, 2014 of US$0.60 million and US$0.23 million, respectively.

The QST Services Agreement will expire on March 31, 2017. The QST Services Agreement is subject to an annual cap of US$0.5 million for each of the financial years ending December 31, 2014, 2015 and 2016, respectively. In arriving at the annual caps, our Directors considered the fixed fees from QST of approximately US$0.5 million per year for the technology, development and maintenance services provided by us. The service fees were determined by reference to market prices.

Our Directors (including the Independent Non-Executive Directors) consider that the QST Services Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

Huahong Zealcore and QST are, respectively, companies indirectly and directly controlled by SAIL. Aggregating the sales of products to Huahong Zealcore and the sales of products and provision of services to QST under Rule 14A.82 and 14A.83, the total annual caps for 2014, 2015 and 2016 are approximately US$14.1 million, US$21.7 million and US$30.4 million, respectively. As the applicable percentage ratios which are the revenue and asset ratios (as defined under Chapter 14A of the Listing Rules) are expected to be more than 5% on an annual basis, the transactions under the Zealcore Sales Agreement, QST Services Agreement and QST Sales Agreement constitute connected transactions for our Company which are subject to the reporting, annual review, announcement, circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Continuing Connected Transactions which are not exempted and therefore subject to the Reporting, Annual Review, Announcement Requirements but exempted from the Circular (including independent financial advice) and Independent Shareholders' Approval Requirements

Following the Listing Date, the following transactions will be regarded as continuing connected transactions exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.36 to 14A.48 of the Listing Rules, but subject to the reporting, annual review and announcement requirements under the Listing Rules.

4. *Purchases of materials from Huahong Zealcore*

We have been purchasing chemicals for our manufacturing processes from Huahong Zealcore as part of our ordinary and usual course of business. These raw materials are used in the manufacturing process of our semiconductor products. Since Huahong Zealcore is a wholly-owned subsidiary of Huahong Group, our Controlling Shareholder, Huahong Zealcore is a connected person of our Company and our purchases of materials from Huahong Zealcore will constitute continuing connected transactions of our Company upon Listing.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we purchased approximately US$0.74 million, US$ 0.74 million, US$0.56 million and US$0.17 million worth of materials, respectively, from Huahong Zealcore.

On July 1, 2014, we entered into a purchase agreement to govern the terms and conditions of the transactions between our Group and Huahong Zealcore in connection with the purchase of materials (the "**Zealcore Purchase Agreement**"). The Zealcore Purchase Agreement will take effect upon Listing and will continue until the end of 2016. The Zealcore Purchase Agreement is subject to an annual cap of US$0.8 million, US$0.8 million and US$0.9 million for the financial years ending December 31, 2014, 2015 and 2016, respectively. In arriving at the annual cap for 2014, our Directors considered (1) the actual transaction values and volumes of the materials purchased from this company in the first half of 2014; and (2) additional US$0.46 million for a type of chemical that we expect to start purchasing from Huahong Zealcore from second half of 2014 onwards, instead of from another supplier. The annual caps for 2015 and 2016 assume that the business would be similar to 2014 levels, and only growing at inflation of 5% per annum. The purchase price of the materials is determined by reference to market prices.

Our Directors (including the Independent Non-Executive Directors) consider that the Zealcore Purchase Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole. As the applicable percentage ratios which are the revenue and asset ratios (as defined under Chapter 14A of the Listing Rules) for Zealcore Purchase Agreement are expected to be more than 0.1% but less than 5.0% on an annual basis, the transactions under the Zealcore Purchase Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review, announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

5. *Purchases of materials from NEC Management*

We have been purchasing materials and parts used for our processing equipment from NEC Management (previously known as NEC Purchasing Service, Ltd.) as part of our ordinary and usual course of business. NEC Management is a wholly-owned subsidiary of NEC, a substantial shareholder of the Company, therefore NEC Management is a connected person of our Company and our purchases of materials from NEC Management will constitute continuing connected transactions of our Company upon Listing.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we purchased nil, nil, US$0.5 million and US$0.4 million worth of materials from NEC Management. We did not make any purchase of materials in the years ended December 31, 2011 and 2012, as the relevant equipment of the Group were relatively new at that time, and the materials, which were required for maintenance purpose, were not required during these two years.

On July 1, 2014, we entered into a purchase agreement to govern the terms and conditions of the transactions between our Group and NEC Management in connection with the purchase of materials (the "**NEC Management Purchase Agreement**"). The NEC Management Purchase Agreement will take effect upon Listing and will continue until the end of 2016. The NEC Management Purchase Agreement is subject to an annual cap of US$1.3 million, US$0.8 million and US$1.3 million for the financial years ending December 31, 2014, 2015 and 2016,respectively. In arriving at the annual cap for 2014, our Directors considered (1) actual volume of the purchased materials in the first half of 2014; and (2) an additional US$0.5 million worth of purchases in 2014 due to biannual fabmaintenance. Separately, the annual cap for 2015 assumes that the business grows from 2014 at an expected inflation of 5%, but without the US$0.5 million biannual fab maintenance material purchases. The annual cap for 2016 assumes that the business grows from 2015 at an expected inflation of 5%, with an additional US$0.5 million of purchases due to biannual fab maintenance. The purchase price of the materials is determined by reference to market prices.

Our Directors (including the Independent Non-Executive Directors) consider that the NEC Management Purchase Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole. As the applicable percentage ratios which are the revenue and asset ratios (as defined under Chapter 14A of the Listing Rules) for the NEC Management Purchase Agreement are expected to be more than 0.1% but less than 5.0% on an annual basis, the transactions under the NEC Management Purchase Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review, announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

6. *Purchase of goods and services from subsidiaries of INESA*

We have been purchasing goods and services from subsidiaries of INESA (the "**INESA Entities**"), including Shanghai INESA Intelligent Electronics Co., Ltd, Shanghai Nanyang Software System Integration Co., Ltd., and Shanghai Nanyang Wanbang Information Technology Service Co., Ltd., as part of our ordinary and usual course of business. The goods and services purchased included packaging, testing, consulting services and software licenses in relation to our semiconductor manufacturing operations (the "**Goods and Services**"). Since the INESA Entities are all subsidiaries of INESA, our Controlling Shareholder, they are connected persons of our Company and our purchase of the Goods and Services from such entities will constitute continuing connected transactions of our Company upon Listing.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we purchased approximately US$7.4 million, US$0.02 million, US$0.08 million and US$0.06 million worth of Goods and Services, respectively, from the INESA Entities. The reason for the significant amount of purchases from the INESA Entities in the year ended

December 31, 2011 was because we had engaged Shanghai INESA Intelligent Electronics Co., Ltd. to carry out packaging services for a customer for SIM card products manufactured by us, incurring a service fee of approximately US$7.4 million. Since 2012, the said customer has stopped instructing us to procure the relevant packaging service.

On September 23, 2014, we entered into a master purchase agreement to govern the terms and conditions of the transactions between our Group and the INESA entities in connection with the purchase of materials (the "**INESA Master Purchase Agreement**"). The INESA Master Purchase Agreement will take effect upon Listing and will continue until the end of 2016. The INESA Master Purchase Agreement is subject to an annual cap of US$0.3 million, US$1.3 million and US$1.4 million for the financial years ending December 31, 2014, 2015 and 2016, respectively. In arriving at the annual cap for 2014, our Directors considered (1) expected significant increase in purchase of software goods in 2014 as compared to 2013 by over 20 times due to certain new licences being purchased since 2014 and (2) INESA's planned increase in capacity to provide testing services in 2015 as compared to 2014 by approximately 15 times, and our continuing internal demand for similar services. The annual cap for 2016 assumes that the level of Goods and Services purchased would be similar to 2015 levels, and only growing at inflation of 5% per annum. The purchase price of the Goods and Services is determined by reference to market prices. The significant increase in the annual cap takes into account the expected increase in capacity of the INESA Entities to provide testing services due to purchase of new equipment in 2014 which are expected to reach full capacity by 2015.

Our Directors (including the Independent Non-Executive Directors) consider that the INESA Master Purchase Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole. As the applicable percentage ratios which are the revenue and asset ratios (as defined under Chapter 14A of the Listing Rules) for the INESA Master Purchase Agreement are expected to be more than 0.1% but less than 5.0% on an annual basis, the transactions under the INESA Master Purchase Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

7. *Lease agreement with Shanghai Huali*

We entered into a lease agreement with Shanghai Huali to lease the fab space in our existing facilities to Shanghai Huali. Since Shanghai Huali is 73.42% held by SAIL, our Controlling Shareholder and a connected person of our Company, the lease agreement between our Group and Shanghai Huali will constitute continuing connected transactions of our Company upon Listing.

The lease agreement between us and Shanghai Huali ("**Huali Lease Agreement**") was entered into on February 25, 2010, pursuant to which we leased the factory premise situated at Hill 2, 13th Street, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai, PRC, to Shanghai Huali to house their 300mm wafer production line as well as certain administrative functions, for a term of 20 years from March 1, 2010 to February 28, 2030, on a fixed amount of RMB75,501,616.5 per year for factory area leased and a daily rental of approximately RMB2.9 per square meter for office space for the first 5 years and thereafter adjusted every year by the then relevant PRC consumer price index. The total gross floor area of such factory area and office space was 91,512.1 square meters. The annual rental from the sixth year onwards is calculated according to a formula based on the rental of the previous year and the PRC consumer price index rate.

Pursuant to supplemental agreements dated June 10, 2011 and July 25, 2014, the lease to Shanghai Huali was extended to include the leasing of warehouse space with gross floor area of up to 4,536.1 square meters for a term of 20 years (the "**Huali Supplemental Agreements**", together with the Huali Lease Agreement, the "**Huali Lease**"). The term of the warehouse lease commenced on July 1, 2014. The monthly rental for the warehouse space was RMB115,129. The rental was determined under arm's length negotiation and is comparable to other rental properties for similar manufacturing purposes in the neighborhood at the time of signing. In particular, we have compared the rental prices of other similar buildings in the surrounding neighbourhood, the age and state of renovation of the buildings, and their respective facilities.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, RMB74.3 million, RMB74.9 million, RMB80.5 million and RMB40.4 million, respectively, was incurred by Shanghai Huali as rental expenses for the lease of space under the Huali Lease Agreement. The increase for the rental expenses in the periods mentioned above reflects the increase in office space area leased during those periods.

The Huali Lease will continue after Listing. The rental payable under the Huali Lease is subject to an annual cap of RMB87.5 million, RMB93.4 million and RMB98.9 million for the financial years ending December 31, 2014, 2015 and 2016, respectively. The rental for the second half of 2014 is expected to increase slightly as the warehouse lease pursuant to the Huali Supplemental Agreements has commenced on July 1, 2014. The annual caps were decided taking into account the expected inflation, as the terms of the Huali Lease Agreement provides that the rental for each year shall be determined based on the rental rate in the lease agreement adjusted by the PRC consumer price index rate for the previous year.

The duration of the Huali Lease from the date of Listing until expiration is of a term exceeding three years. Our Company is of the view that it is normal business practice for leases in respect of similar properties to be of a similar duration to that of the Huali Lease and that a duration of 20 years is within normal business practice. Given that the lease of fab space to Shanghai Huali is a critical part of the Group's strategic investment in 300mm wafer manufacturing capacity, it is essential for the Huali Lease to be of a duration longer than three years. Considering that: (i) the 20 years duration of a lease of this nature is within normal business practice; (ii) the strategic importance of the Group's investment in Shanghai Huali's 300mm wafer production line and the synergy effect expected to be generated from housing the production line in our fab; (iii) the substantial investment involved in building the 300mm wafer fabrication project at the relevant property; and (iv) the information provided by our Company as to the arrangements under the Huali Lease, the Sole Sponsor, is of the view that it is normal business practice for leases such as the Huali Lease to have such a duration.

Our Directors (including the Independent Non-Executive Directors) consider that the Huali Lease was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole. As the applicable percentage ratios which are the revenue and asset ratios (as defined under Chapter 14A of the Listing Rules) for the Huali Lease are expected to be more than 0.1% but less than 5.0% on an annual basis, the transactions under the Huali Lease constitute continuing connected transactions for our Company which are subject to the reporting, annual review, announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

8. *Lease agreement with Huahong Real Estate and property management agreement with Huajin Property Management*

We entered into a lease agreement with Huahong Real Estate to rent one of their buildings for use as staff quarters for our employees. We also entered into a property management agreement with Huajin Property Management. Huahong Real Estate and Huajin Property Management are both wholly-owned subsidiaries of Huahong Technology Development, a company 50% held by and consolidated with Huahong Group, our Controlling Shareholder, and 50% held by HHNEC, our wholly-owned subsidiary. Therefore, Huahong Real Estate and Huajin Property Management are both our connected persons and the lease agreement between our Group and Huahong Real Estate and the property management agreement between our Group and Huajin Property Management, respectively, will constitute continuing connected transactions of our Company upon Listing.

The lease agreement between us and Huahong Real Estate ("**Huahong Real Estate Lease**") was entered into on January 10, 2013 and a supplemental agreement was entered into on June 10, 2014, pursuant to which we leased the dormitory premises situated at Hua Hong Innovation Park, Nong 2777, Jinxiu Road East, Pudong New Area, Shanghai, PRC ("**Dormitory Premises**"), from Huahong Real Estate for use as staff quarters for our employees on a rental for a term of 20 years effective from January 1, 2014, of RMB10.1 million per year for the first three years on a daily rental basis of RMB1.6 per square meter, and for the following years the parties will mutually agree on a new rental every three years. The total gross floor area leased by the Group from Huahong Real Estate is 17,412.87 square meters. The purpose of the supplemental agreement dated June 10, 2014 was to confirm the commencement date of the lease and the total gross floor area of the Dormitory Premises, and set out details of certain administrative fees to be shared between the Group and Huahong Real Estate in relation to the Dormitory Premises.

The management agreement between us and Huajin Property Management ("**Huajin Management Agreement**") was entered into on June 10, 2014, pursuant to which we engaged Huajin Property Management to provide property management service for the Dormitory Premises for a term of 3 years effective from January 1, 2014 of approximately RMB1.3 million per year on a basic monthly fee of RMB6 per square meter.

For the six months ended June 30, 2014, we had made lease payments of approximately RMB5.07 million to Huahong Real Estate and management fee payments of approximately RMB0.63 million to Huajin Property Management.The Huahong Real Estate Lease is subject to an annual cap of RMB10.1 million for each of the financial years ending December 31, 2014, 2015 and 2016. The Huajin Management Agreement is subject to an annual cap of RMB1.3 million for each of the financial years ending December 31, 2014, 2015 and 2016. The rental and fee payable were determined after arm's length negotiation with reference to the prevailing market rates in neighboring areas. In determining the rental payable, we have compared the rental prices of other similar buildings in the surrounding neighbourhood, taking into account the age and state of renovation of the buildings, and their respective facilities. In addition, we also compared the management fee rates for such similar and comparable buildings when determining the management fees payable under the Huajin Management Agreement.

The duration of the Huahong Real Estate Lease from the date of Listing until its expiration is of a term exceeding three years. Our Company is of the view that it is normal business practice for leases in respect of similar properties in similar locations in Shanghai, PRC to be of a similar duration to that of the Huahong Real Estate Lease and that a duration of 20 years is within normal business practice. In addition, given that the Huahong Real Estate Lease is in respect of a property in an ideal location in close proximity with the Group's principal place of business, it is essential for the Huahong Real Estate Lease to be of a duration longer than three years. Considering: (i) the 20 years duration of a lease of this nature is within normal business practice; (ii) the importance of the property housing the Group's employees and providing staff quarters to the Group; and (iii) the information provided by our Company as to the arrangements under the Huahong Real Estate Lease, the Sole Sponsor, is of the view that it is normal business practice for leases such as Huahong Real Estate Lease to have such a duration.

Our Directors (including the Independent Non-Executive Directors) consider that each of the Huahong Real Estate Lease and Huajin Management Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Aggregating the Huahong Real Estate Lease and the Huajin Management Agreement under Rules 14A.82 and 14A.83, the total annual cap for each of the financial years ending 2014, 2015 and 2016 is approximately RMB11.4 million. As the applicable percentage ratios, which are the revenue and asset ratios, (as defined under Chapter 14A of the Listing Rules) for the Huahong Real Estate Lease and Huajin Management Agreement are, in aggregate, expected to be more than 0.1% but less than 5.0% on an annual basis, the transactions under the Huahong Real Estate

Lease and Huajin Management Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review, announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Confirmation by the Directors

Our Directors (including our Independent Non-Executive Directors) are of the view that all the continuing connected transactions disclosed above have been entered into, and will be carried out in the ordinary and usual course of business of our Company, are on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors (including our Independent Non-Executive Directors) are also of the view that the proposed annual caps of all of the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Confirmation by the Sole Sponsor

After review of the relevant documentation and historical figures provided by us, the Sole Sponsor is of the view that (i) the agreements in relation to the non-exempt continuing connected transactions referred to in the sub-section headed "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions" above have been entered into in the ordinary and usual course of business of our Company and on normal commercial terms which are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the proposed annual caps for such continuing connected transactions referred to in the sub-section headed "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions" above are fair and reasonable and in the interests of our Shareholders as a whole.

WAIVER FROM THE STOCK EXCHANGE

In respect of the transactions referred to in the sub-section headed "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transaction which are subject to the Reporting, Annual Review, Announcement, Circular (including independent financial advice) and Independent Shareholders' Approval Requirements" above, since the applicable percentage ratios (other than the profit ratio) are expected to be more than 5.0% on an annual basis, such transactions are subject to the reporting, annual review and announcement, circular (including independent financial advice) and independent shareholders' approval requirements under the Listing Rules.

In respect of the transactions referred to in the sub-section headed "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transaction which are subject to the Reporting, Annual Review, Announcement Requirements but exempted from the Circular (including independent financial advice) and Independent Shareholders' Approval Requirements" above, since the applicable percentage ratios (other than the profit ratio) are expected to be more than 0.1% but less than 5.0% on an annual basis, such transactions are exempt from the circular (including independent financial advice) and independent shareholders' approval requirement but are subject to the reporting, annual review and announcement requirements under the Listing Rules.

As described above, we expect these non-exempt continuing connected transactions to be carried out on a continuing basis and to extend over a period of time, and our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs to our Company. Accordingly, we have applied for, and the Stock Exchange has granted to us, (i) a waiver from strict compliance with the announcement, circular (including independent financial advice) and independent shareholders' approval requirements under the Listing Rules at the time of the Listing of our Shares on the Stock Exchange in respect of the transactions referred to in the sub-section headed "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transaction which are subject to the Reporting, Annual Review, Announcement, Circular (including independent financial advice) and Independent Shareholders' Approval Requirements" above; and (ii) a waiver from strict compliance with the announcement requirement under the Listing Rules at the time of the Listing of our Shares on the Stock Exchange in respect of the transactions referred to in the sub-section headed "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transaction which are subject to the Reporting, Annual Review, Announcement Requirements but exempted from the Circular (including independent financial advice) and Independent Shareholders' Approval Requirements" above. In addition, we will comply with the applicable provisions under Rules 14A.34, 14A.49, 14A.51, 14A.52, 14A.53, 14A.55 to 14A.59 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

Our Board of Directors is responsible for and has general powers for the management and conduct of our business. Our Board of Directors currently consists of nine Directors, including two Executive Directors, four Non-Executive Directors and three Independent Non-Executive Directors. The following table sets forth information regarding the members of our Board:

Name	Age	Date of Joining our Group	Date of Appointment as Director	Current Position and Role	Relationship with other Directors and senior management
Wenbiao Fu (傅文彪)	59	January 19, 2009	July 16, 2009	Executive Director and the chairman of our Company, responsible for overall management, operations and the charting and reviewing of corporate directions and strategies	N/A
Yu Wang (王煜) ...	42	January 4, 1998	February 6, 2012	Executive Director and the president of our Company, responsible for overall management, operations and business strategies	N/A
Jianbo Chen (陳劍波)	49	N/A	February 6, 2012	Non-Executive Director	N/A
Yuchuan Ma (馬玉川)	49	N/A	May 12, 2014	Non-Executive Director	N/A
Takayuki Morita (森田隆之)	54	N/A	July 1, 2009	Non-Executive Director	N/A
Jun Ye (葉峻)	41	N/A	February 6, 2012	Non-Executive Director	N/A
Stephen Tso Tung Chang (張祖同)	65	N/A	May 12, 2014[(1)]	Independent Non-Executive Director	N/A
Kwai Huen Wong, JP (王桂壎太平紳士)	62	N/A	May 12, 2014[(1)]	Independent Non-Executive Director	N/A
Long Fei Ye (葉龍蜚)	72	N/A	May 12, 2014[(1)]	Independent Non-Executive Director	N/A

(1) The Independent Non-Executive Directors have been appointed pursuant to a shareholder resolution passed on May 12, 2014 with such appointments taking effect on September 18, 2014.

Executive Directors

Mr. Wenbiao Fu, aged 59, has been an Executive Director and the chairman of our Company since July 2009. Mr. Fu is primarily responsible for overall management, operations and the charting and reviewing of corporate directions and strategies of our Company. He has led many manufacturing enterprises throughout his career. Mr. Fu served as the factory chief of Shanghai Electrical Appliance Plastics Factory, Shanghai Electrical Engineering Mechanics Factory, Shanghai Compressor Factory and Shanghai Cable Factory and the general manager of Shanghai Wire and Cable Group Co., Ltd. In 1997, Mr. Fu joined HHNEC as vice General Manager (Chinese Representative) and led the construction and operation of the first 200mm wafer semiconductor production line in Mainland China.

Mr. Fu was the deputy director and the director of Shanghai Municipal Commission of Informatization from 2001 to 2008. During the same period, he was also the director of the Shanghai Radio Administration Bureau.

In 2009, he was appointed as the chairman of Huahong Group and was in charge of the Merger. Currently he is also the chairman of Shanghai Huali and the chairman of Shanghai Integrated Circuit Industry Association.

Mr. Fu received his bachelor's degree in engineering from the University of Shanghai for Science and Technology (previously known as Shanghai Mechanical Engineering Institution) in 1983, and further obtained his master's degree in economics from Fudan University in 1990. He was qualified as a senior engineer in industrial automations in 1993. Mr. Fu has been honored with various awards in his career, including the China Outstanding Young Entrepreneurs award, the China Outstanding Entrepreneurs in Engineering Industry award and the National Model Worker award presented by the State Council. Mr. Fu does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Yu Wang, aged 42, has been an Executive Director and the president of our Company since February 2012. He started his career at Shanghai Hua Hong Microelectronics Co., Ltd. in 1997. From January 1998 to October 2003, he served as the financial department manager, and director of HHNEC. From October 2003 to March 2010, Mr. Wang served as the vice president and chief financial officer of HHNEC, during which period he contributed to the set-up of the first 200mm wafer semiconductor production line in Mainland China from construction to production. In March 2010, Mr. Wang joined Grace Shanghai as first vice president and was appointed president in September 2010. As president until October 2013, he was instrumental in the successful consummation of the Merger and Restructuring.

Mr. Wang is an independent non-executive director of Xiao Nan Guo Restaurants Holding Limited (stock code: 3666.HK). Mr. Wang holds a bachelor's degree in international trade from Shanghai University of Finance and Economic in 1994, and was awarded a master's degree in international finance by Shanghai University of Finance and Economics in 1997.

Non-Executive Directors

Mr. Jianbo Chen, aged 49, has been a Non-Executive Director of our Company since February 2012. In November 2005, Mr. Chen joined Huahong Group as the vice president and was appointed as the president in August 2013. He was also the president of the Shanghai Integrated Circuit Research & Development Center from November 2005 to July 2009. Mr. Chen served as the general manager at Huahong Technology Development during May 2010 to August 2013 and has been the chairman of this company since May 2010. He is also the chairman of Shanghai Huahong Jitong Smart System Co., Ltd. (300330.SZ), a company listed on the Shenzhen Stock Exchange, since September 2013.

Between June 2003 and December 2005, Mr. Chen served as the general manager of Shanghai Zhangjiang (Group) Co., Ltd., the deputy office manager of Zhangjiang Innovation Park, and the chairman of Zhangjiang Hi-tech Park Development Co., Ltd. and Rivera (Holdings) Limited. Mr. Chen worked at Shanghai S&T Investment as deputy general manager.

Mr. Chen has over 15 years of experience in electronics engineering. He obtained a bachelor's degree in electronics engineering in 1987, a master's degree in electromagnetics and microwave technology in 1990, a doctorate degree in communications and electronics systems in 1996 from Shanghai Jiao Tong University, and a master's degree in business administration from China Europe International Business School in 2002. Except for Shanghai Huahong Jitong Smart System Co., Ltd., Mr. Chen does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Yuchuan Ma, aged 49, has been a Non-Executive Director of our Company since May 2014. Mr. Ma has over 23 years of experience in the electronics and information industry. He is currently the deputy general manager of the planning, science & technology department of CEC and has held this position since 2012. From 1994 to 2012, Mr. Ma held various positions in CEC, including division chief of the project division of the business management department, division chief of the integrated circuit & components division of the corporate development department, and vice general manager of the integrated circuit business group.

Mr. Ma graduated from Zhejiang University with a bachelor's degree in semiconductor physics and devices in 1988. His current directorships include: Shanghai Belling Co., Ltd (600171.SH), Shanghai Huahong Integrated Circuit Co., Ltd., China Huada Integrated Circuit Design (Group) Corp., Ltd., CEC Huahong International Co., Ltd., Hua Yue Microelectronics Co., Ltd., Huahong Group, CEC-View Technology Co., Ltd. and Shanghai Xinxin Investment Co., Ltd. Except for Shanghai Belling Co., Ltd, a company listed in the Shanghai Stock Exchange, Mr. Ma does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Takayuki Morita, aged 54, has been a Non-Executive Director of our Company since July 2009. Mr. Morita is currently the executive vice president and the head of the global business unit at NEC and has held this position since July 2011. Mr. Morita joined NEC in April 1983. From 1983 to 2011 he held various positions in NEC, including the manager of the international planning division, and the senior vice president and executive general manager of the corporate business development unit. Mr. Morita brings to our Group significant experience and expertise in the areas of global business.

Mr. Morita graduated with a bachelor's degree in law from the University of Tokyo in 1983. He holds various board positions in subsidiaries and associated companies of NEC Corporation. He also served as an Auditor at Japan Aviation Electronics Industry Ltd (listed on Tokyo Stock Exchange) during June 24, 2008 to June 26, 2012. Mr. Morita does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Jun Ye, aged 41, has been a Non-Executive Director of our Company since February 2012. Mr. Ye has over 18 years of experience in finance and investment. Since 1996, Mr. Ye has held various positions within the business development and investment banking divisions of SAIL. In December 2009 he was promoted to his current position as vice president. Mr. Ye is also a director at Huahong Group, Shanghai Huali, Bank of Shanghai and Sino-US United MetLife Insurance Company Limited. Mr. Ye also serves as the chairman of Shanghai Zhaoxin Semiconductor Ltd. and SinoTherapeutics Inc.

Mr. Ye obtained a bachelor's degree in industrial and international trade and a master's degree in business administration in 1995 and 2003, respectively, both from Shanghai Jiao Tong University. He does not currently hold and has not held any directorships in any listed companies in the last three years.

Independent Non-Executive Directors

Mr. Stephen Tso Tung Chang, aged 65, is an Independent Non-Executive Director of our Company. Mr. Chang has been practicing as a certified public accountant in Hong Kong from 1978 to the end of 2003 and has extensive experience in accounting, auditing and financial management. He has held various positions at Ernst & Young since 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 in 2000 to managing partner of the professional services department, he was chairman of Ernst and Young's audit and advisory business services for four years. Before his retirement in 2003, he was a partner of Ernst and Young and also the Chairman of Ernst and Young China and Hong Kong.

Mr. Chang was a member of the Hong Kong Society of Accountants from May 1978 to the end of 2003 and has been a fellow member of the Institute of Chartered Accountants in England and Wales since January 1983.

Mr. Chang obtained a bachelor's of science degree in food science and chemistry from the University of London in 1973. 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 two Hong Kong listed companies, China Cinda Asset Management Co., Ltd. (stock code: 1359.HK) and Kerry Properties Limited (stock code: 683.HK), and was formerly an independent non-executive director of China Pacific Insurance (Group) Co., Ltd. (stock codes: 601601.SH and 2601.HK), a listed company in Hong Kong and Shanghai.

Mr. Kwai Huen Wong, JP, aged 62, is an Independent Non-Executive Director of our Company. Mr. Wong has been the president-elect of the Inter Pacific Bar Association since 2014, and a council member of the Law Society of Hong Kong since 2000. He was admitted as a fellow member of the Chartered Institute of Arbitrators in June 1999 and was the chairman of the Hong Kong International Arbitration Centre, and is currently a senior member of the Hong Kong Institute of Arbitrators. From December 2011 to November 2013, he was the chairman of the Copyright Tribunal. In addition, he has been a council member of the Hong Kong Institute of Directors and the deputy chairman of the Inland Revenue Board of Review since 2011, a board member of the Hong Kong Hospital Authority since 2012, and a member of the Competition Commission since 2014.

Mr. Wong was admitted to practise as a solicitor in Hong Kong in October 1985, and England & Wales in July 1989. He was appointed as the managing partner of Fried, Frank, Harris, Shriver & Jacobson from November 2006 to February 2011, and has held the position of a consultant to that firm since March 2011.

Mr. Wong graduated with a bachelor's degree in arts from Chinese University of Hong Kong, a certificate in Law from the University of London in 1985, and with a certificate in PRC Law issued by the China Law Society in October 1989. Mr. Wong is currently an independent non-executive director of China International Marine Containers (Group) Co., Ltd. (stock codes: 000039.SZ and 2039.HK) and PICC Asset Management Co. Ltd.

Mr. Long Fei Ye, aged 72, is an Independent Non-Executive Director of our Company. Mr. Ye held various positions in the Shanghai Municipal Government. Mr. Ye was relocated to Hong Kong in 1991, and served until 1995 as the chief executive of the "Shanghai Desk", which was a cooperation arrangement for promoting Shanghai between the Shanghai government and Arthur Andersen & Co. He then joined Kerry Holdings Limited in 1995, and served as the chairman and deputy chairman of Shangri-La Asia Limited from October 2000 to August 2003 and August 2003 to March 2007, respectively. He has been an advisor to Shangri-La Asia Limited since March 2007.

Mr. Ye obtained a bachelor's and master's degree, both in physics from Fudan University. He does not currently hold and has not held any directorships in any listed companies in the last three years.

SENIOR MANAGEMENT

The following table sets forth information regarding members of our senior management:

Name	Age	Position	Date of Joining our Group	Date of Appointment	Role and Responsibilities	Relationship with the Directors or senior management
Wenbiao Fu (傅文彪)........	59	Chairman	January 19, 2009	July 16, 2009	Overall management, operations and the charting and reviewing of corporate directions and strategies	N/A
Yu Wang (王煜)...........	42	President	January 4, 1998	February 6, 2012	Overall management, operations and business strategies	N/A
Wei Xu (徐偉)...	57	Executive Vice President	July 1, 1997	February 6, 2012	Manufacturing engineering, purchasing, planning, testing, quality, and human resources	N/A
Daniel Yu-Cheng Wang (王鼎) .	51	Executive Vice President	April 2, 2001	February 6, 2012	Finance, information technology, investor relations, stock administration, and international human resources	N/A
Cheng Fu (傅城)...........	36	Executive Vice President	May 15, 2006	February 6, 2012	Strategy, legal and compliance, science and technology projects	N/A
Weiran Kong (孔蔚然)........	51	Executive Vice President	March 20, 2003	February 6, 2012	Research, technology development and design services	N/A
Kai Gong (龔凱)...........	58	Executive Vice President	September 1, 1998	March 12, 2013	General office and government relations, general administration, security, environmental safety and health	N/A
Qi Li (李琦).......	51	Vice President	January 20, 2003	August 26, 2005	Purchasing and logistics.	N/A
Tony Chen (陳衛)...........	55	Vice President	March 3, 2006	March 3, 2006	Sales PRC, Taiwan and the Republic of Korea, and customer engineering	N/A
Steven Lin (林宏哲)........	52	Vice President	August 1, 2006	May 18, 2011	Sales in North America and Japan	N/A
Bill Lin (林俊毅)........	46	Vice President	August 21, 2000	September 1, 2011	FAB 3 Operations	N/A
Mirko Sonntag .	37	Vice President	October 6, 2008	December 24, 2012	Sales operations and services, and Sales Europe	N/A

Mr. Wenbiao Fu, aged 59, is an Executive Director and the chairman of our Company. Mr. Fu is primarily responsible for overall management, operations and the charting and reviewing of corporate directions and strategies of our Company. For more information about Mr. Fu's past experience and academic background, see the section headed "— Directors and Senior Management — Executive Directors".

Mr. Yu Wang, aged 42, is an Executive Director and the president of our Company. For more information about Mr. Wang's past experience and academic background, see the section headed "— Directors and Senior Management — Executive Directors".

Mr. Wei Xu, aged 57, is an Executive Vice President of our Group and joined HHNEC in July 1997. He is responsible for manufacturing and engineering, purchasing, planning, quality and human resources of our Group. Mr. Xu participated in the start-up of HHNEC in July 1997 and made significant contributions to the set-up of the first 200mm wafer semiconductor production line in Mainland China. He has since held various positions at HHNEC in manufacturing, technology and quality control. Since June 2012 and up to October 2013, Mr. Xu was the acting president of HHNEC. Prior to joining HHNEC, Mr. Xu worked with Wuxi Huajing Electronics Group in semiconductor engineering.

Mr. Xu graduated in 1982 from Xi'an Jiaotong University majoring in semiconductor physics and devices. He further enrolled in post-graduate studies at Tsinghua University. He does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Daniel Yu-Cheng Wang, aged 51, is an Executive Vice President of our Group and joined our Group in April 2001. He oversees finance, information technology, investor relations, stock administration and international human resources for our Group and he has been the board secretary of the Company since February 2012. Mr. Wang has played a central leadership role in each stage of Grace Shanghai's development. Prior to joining our Group, Mr. Wang worked at LSI Logic Corporation in Silicon Valley, U.S. from August 1995 to March 2001 as the division controller in the broadband entertainment division. Prior to joining LSI Logic Corporation, Mr. Wang was employed by Franklin Templeton Investments in the U.S. from 1990 to 1995.

Mr. Wang obtained a bachelor's of science degree in industrial engineering and operations research from College of Engineering, University of California, Berkeley in 1987 and a master's of business administration in finance and banking from the University of San Francisco in 1994. Mr. Wang does not currently hold and has not held any directorships in any listed companies in the last three years.

Dr. Cheng Fu, aged 36, is an Executive Vice President of our Group and is in charge of strategy, legal and compliance, science and technology projects. He joined our Group in May 2006. Dr. Fu has also held various positions at SAIL, starting from September 2005, where his primary responsibilities include investments in the technology sector. Dr. Fu holds the position of deputy director of technology and industry investments at SAIL concurrently with his responsibilities at our Group. Dr. Fu has been instrumental in setting the strategic direction of the Company.

Dr. Fu earned a bachelor's of engineering degree in computer science and technology in 2000 and a doctorate degree of engineering in computer software and theory in 2005, both from Shanghai Jiao Tong University. Dr. Fu does not currently hold and has not held any directorships in any listed company in the last three years.

Dr. Weiran Kong, aged 51, is an Executive Vice President of our Group and is in charge of technology development. He joined our Group in March 2003 and has more than 17 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 our Group, Dr. Kong was based in the U.S. and has worked for Sun Microsystems, Inc., LSI Logic Corporation and ISSI since 1997.

Dr. Kong holds seven U.S. patents, 21 PRC patents and co-authored over 20 technical papers. He obtained a bachelor's degree in physics from Nankai University in Tianjin in July 1985. He graduated with a master's of science degree in electrical engineering and a doctorate degree in applied physics in April 1993 and April 1996, respectively, both from Oregon Graduate Institute of Science & Technology in the U.S. Dr. Kong does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Kai Gong, aged 58, is an Executive Vice President of our Group. He joined our Group in 1998, and is in charge of general office, government relations, general administrative, security, environmental safety and health. Mr. Gong was the manager and director of the EHS and facility departments of our Group from September 1998 to October 2013, when he was promoted to his present responsibilities.

Mr. Gong started his career in the Acrylic Factory of Shanghai Petrochemical Company. He was promoted to factory chief from 1993 to 1995. From 1996 to 1998, he was the assistant to the general manager of Sinopec Shanghai Petrochemical Co, Ltd. and was in charge of basic construction and general administration.

He obtained a bachelor's degree in business administration from the Shanghai University of Technology in 1983 and a master's of business administration degree from China Europe International Business School in 1998. He was qualified as a senior economist in 2013 by Shanghai Municipal Human Resources and Social Security Bureau. Mr. Gong does not currently hold and has not held any directorships in any listed companies in the last three years.

Dr. Qi Li, aged 51, is a Vice President of our Group. He joined our Group in January 2003, and is currently responsible for purchasing and logistics. Dr. Li has approximately 20 years of professional working experience. Prior to joining our Group, he was the senior engineering manager at Applied Materials, Inc., in the U.S. from 1995 to 2002.

Dr. Li received a bachelor's degree in physics from Peking University in 1984 and his master's and doctorate's degrees in physics from the University of Maryland in 1987 and 1992, respectively. Dr. Li does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Tony Chen, aged 55, is a Vice President of our Group and joined our Group in March 2006. He currently leads the sales in the PRC, Taiwan and the Republic of Korea to drive regional marketing strategy and sales revenue, and also leads the customer engineering team of our Company. Mr. Chen has over 20 years of experience in the semiconductor industry. Prior to joining our Group, he worked for Chartered Semiconductor Manufacturing Ltd (which was later acquired by GLOBALFOUNDRIES) from January 1994 to March 2006 and was the chief representative for Chartered Semiconductor Manufacturing Ltd.'s Shanghai Representative Office from August 2002 until March 2006.

Mr. Chen received his bachelor's degree in semiconductor physics from the Sun Yat-Sen University in 1982. He obtained his master's degrees of Science (M.Sc.) and University Administration (M.U.A.) from the University of Glasgow in 1989 and 1990, respectively. Mr. Chen does not currently hold and has not held any directorships in any listed companies in the last three years.

Dr. Steven Lin, aged 52, is a Vice President of our Group and joined our Group in August 2006. He currently leads regional sales for North America and Japan. He also worked in various non-volatile memory technology development roles at leading semiconductor companies such as Simtek Corporation.

Dr. Lin received his bachelor's of science and master's of science degrees in electrical engineering from Massachusetts Institute of Technology in 1985, and a doctorate degree in electrical engineering from the California Institute of Technology in 1992. Dr. Lin does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Bill Lin, aged 46, is a Vice President of our Group and joined our Group in August 2000. He is currently responsible for our Fab 3 operations. Prior to this, he was the director of manufacturing, focusing on operational excellence and capacity expansion. He has approximately 19 years of working experience in the semiconductor industry. Before joining our Group, he worked for Texas Instruments-Acer Inc. (later merged with Taiwan Semiconductor Manufacturing Company Limited) from 1995 to August 2000.

Mr. Lin received his master's degree in chemical engineering from the National Taiwan University of Science and Technology (previous known as National Taiwan Institute of Technology in Taiwan) in 1992. Mr. Lin does not currently hold and has not held any directorships in any listed companies in the last three years.

Mr. Mirko Sonntag, aged 37, is a Vice President of our Group. He joined our Group in October 2008, and is currently responsible for sales operations and customer services and sales for Europe. His expertise encompasses demand and supply chain planning and business operations, with a strong foundation in business development. Mr. Sonntag was the marketing director from 2008 to 2011, where he was responsible for strategic and tactical marketing, as well as for worldwide marketing communication activities. Prior to joining our Group, he worked at Infineon Technologies AG in Germany until 2008.

Mr. Sonntag obtained a diploma in process engineering and economics from the University of Applied Sciences Berlin and School of Economics Berlin, Germany in 2001. Mr. Sonntag does not currently hold and has not held any directorships in any listed companies in the last three years.

JOINT COMPANY SECRETARIES

Mr. Xiaojun Wang (王小軍), aged 60, is our joint Company Secretary and was appointed on June 12, 2014. He is a practising solicitor admitted in the PRC, Hong Kong and England and Wales. He joined The Stock Exchange of Hong Kong Limited in 1992 and worked at Richards Butler from 1993 to 1996. In 1996, he was with Peregrine Capital Limited as an assistant director and from 1997 to 2001, he was with ING Barings Securities (Hong Kong) Limited as a director. In 2001, he established X. J. Wang & Co. which became associated with Jun He Law Offices in 2009. He is currently a partner of Jun He Law Offices. From 2011 to 2012, Mr. Wang was a managing director of CCB International (Holdings) Limited.

He was an independent non-executive director of Guangzhou Shipyard International Company Limited (stock codes: 317.HK and 600685.SH) from 2005 to 2011. Mr. Wang has served as an independent non-executive director of OP Financial Investments Limited (stock code: 1140.HK) since 2004, Yangzhou Coal Mining Company Limited (stock codes: 1171.HK, 600188.SH and YZC) from 2002 to 2008 and since 2011, NORINCO International Company Limited (stock code: 000065.SZ) since 2008, China Aerospace International Holdings Limited (stock code: 31.HK) since 2013, and Livzon Pharmaceutical Group Inc. (stock codes: 1513.HK and 000513.SZ) since 2013. Mr. Wang is familiar with corporate listing, mergers and acquisition, corporate restructuring, direct investment and possesses many years of relevant experience. Mr. Wang obtained a bachelor's degree in laws from the Renmin University of China in 1983 and a master of laws degree from the Chinese Academy of Social Sciences in 1986.

Ms. Rao Fu (付饒), aged 37, is our joint Company Secretary and was appointed on June 12, 2014. Ms. Fu joined our Group in 2007 and has held various positions within the Group, including manager of the legal department and senior legal counsel of the Group. Prior to joining our Group, Ms. Fu worked at International Information Products (Shenzhen) Co., Ltd., from October 2000 to January 2002. This company was subsequently acquired by Lenovo in 2005 and renamed Lenovo Information Products (Shenzhen) Co., Ltd.. She is very experienced on all legal matters of the Group including mergers and acquisitions, management of litigation, commercial contracts, financing, regulatory and compliance matters, as well as other matters for the Group's business.

Ms. Fu graduated with a bachelor's degree in economics from Jilin University of Finance and Economics (previously known as Changchun Taxation College) in July 1999. She also obtained her Juris Master's degree from Fudan University School of Law in June 2006 and her master of laws degree from Columbia Law School, the United States in 2013.

BOARD COMMITTEES

We have established the following three board committees: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board of Directors.

Audit Committee

We have established an audit committee pursuant to a resolution of our Directors passed on September 22, 2014 with written terms of reference in compliance with Rule 3.21 of and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our Board. At present, the audit committee consists of three members, being Mr. Stephen Tso Tung Chang, who will serve as the chairman of the audit committee, Mr. Long Fei Ye and Mr. Jun Ye.

Remuneration Committee

We have established a remuneration committee pursuant to a resolution of our Directors passed on September 22, 2014 with written terms of reference in compliance with Rule 3.25 of and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration policy for the directors and senior management of the Group and to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives. The remuneration committee consists of three members, being Mr. Kwai Huen Wong, JP, who will serve as the chairman of the remuneration committee, Mr. Long Fei Ye and Mr. Jianbo Chen.

Nomination Committee

We have established a nomination committee pursuant to a resolution of our Directors passed on September 22, 2014 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors. The nomination committee consists of three members, being Mr. Wenbiao Fu, who will serve as the chairman of the nomination committee, Mr. Long Fei Ye and Mr. Kwai Huen Wong, JP.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, no remuneration paid and benefits in kind were paid or granted to our Directors by us and our subsidiaries in their capacity as Directors. Our senior management receive remuneration in the form of salaries, housing and other allowances and benefits in kind and discretionary bonuses.

Save as disclosed in this prospectus, emoluments paid by any member of our Group to our Directors in respect of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 was nil, US$246,000, US$266,000 and US$80,000, respectively.

For additional information on Directors' remuneration during the Track Record Period and the compensation paid to the highest paid individuals, please refer to Notes 9 and 10 of the Accountants' Report set out in Appendix I to this prospectus.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending December 31, 2014 will be approximately RMB2.1 million.

COMPLIANCE ADVISOR

Our Company will appoint Anglo Chinese Corporate Finance, Limited as its compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise our Company in the following circumstances:

(a) the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Global Offering and assuming that the options granted under the Over-allotment Option have not been exercised, the following persons will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the total value of any class of share capital carrying rights to vote in all circumstance of general meetings of our Company:

Name	Capacity	Nature of interest	Number of Shares held as at the date of this prospectus	Approximate percentage of shareholding as at the date of this prospectus
Hua Hong International [1]	Legal and Beneficial owner	Long position	350,401,100	43.52%
Huahong Group	Interest in a controlled corporation	Long Position	350,401,100	43.52%
CEC[1]	Interest in a controlled corporation	Long position	350,401,100	43.52%
SAIL[2]	Interest in a controlled corporation	Long position	558,757,039	69.40%[3]
Sino-Alliance International, Ltd.[2]	Legal and Beneficial owner	Long position	173,436,585	21.55%
NEC	Legal and Beneficial owner	Long position	99,038,800	12.30%
Hylintek Limited	Legal and Beneficial owner	Long position	64,010,100	7.95%
Shanghai Belling Co., Ltd.	Interest in a controlled corporation	Long position	64,010,100	7.95%

Note:

(1) As at the Latest Practicable Date, Hua Hong International is a wholly-owned subsidiary of Huahong Group. As at the Latest Practicable Date, Huahong Group is 47.08% owned by CEC and 47.08% owned by SAIL. Therefore CEC and SAIL are deemed to be interested in all the Shares in which Huahong Group is interested in by virtue of Part XV of the SFO.

(2) As at the Latest Practicable Date, SAIL indirectly held interests in the Company through four wholly-owned subsidiaries. SAIL is deemed to be interested in such Shares by virtue of Part XV of the SFO, which equals an aggregate shareholding of 25.88%. In addition to the 173,436,585 Shares owned by it, as at the Latest Practicable Date, Sino-Alliance International, Ltd., a wholly-owned subsidiary of SAIL, was holding 3,645 shares in escrow pursuant to an escrow arrangement related to the Merger.

(3) As at the Latest Practicable Date, as a result of its deemed interest mentioned in notes (1) and (2) above, SAIL is deemed interested in 43.52% and 25.88% of the Company's shares.

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the total value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

This section presents certain information regarding our share capital prior to and following completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, our share capital comprised of 805,175,656 Shares.

	Number of Shares	Approximate percentage of total issued share capital
Shares in issue	805,175,656	100.00%

UPON COMPLETION OF THE GLOBAL OFFERING

Assuming the Over-allotment Option is not exercised at all, our share capital immediately following the Global Offering will be as follows:

	Number of Shares	Approximate percentage of total issued share capital
Shares in issue as at the date of this prospectus	805,175,656	77.88%
Shares to be issued after the Global Offering	228,696,000	22.12%
Shares in total	1,033,871,656	100.00%

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the Global Offering will be as follows:

	Number of Shares	Approximate percentage of total issued share capital
Shares in issue as at the date of this prospectus	805,175,656	75.38%
Shares to be issued after the Global Offering	263,000,000	24.62%
Shares in total	1,068,175,656	100.00%

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank pari passu in all respects with all Shares in issue and/or to be issued as set out in the above table, and will qualify for all dividends or other distribution declared, made or paid after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Assuming the Global Offering becomes unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to allot, issue and deal with Shares, subject to the requirement that the number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued shall not exceed 20% of the total number of Shares in issue immediately following the completion of the Global Offering (but before any exercise of the Over-allotment Option).

This mandate will expire at the earliest of:

(a) the conclusion of the Company's next annual general meeting;

(b) the expiration of the period within which the Company's next annual general meeting is required to be held under any applicable laws or the Articles of Association; or

(c) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate to issue shares, please see the section headed "Statutory and General Information — Resolutions of our Shareholders passed on September 20, 2014." in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Assuming the Global Offering becomes unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total number of Shares not more than 10% of the total number of Shares in issue immediately following the completion of the Global Offering (excluding Shares which may be issued upon the exercise of the Over-allotment Option).

This general mandate only relates to repurchase made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules.

This mandate will expire at the earliest of:

(a) the conclusion of the Company's next annual general meeting;

(b) the expiration of the period within which the Company's next annual general meeting is required to be held under any applicable laws or the Articles of Association; or

(c) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate to repurchase shares, please see the section headed "Statutory and General Information — Resolutions of our Shareholders passed on September 20, 2014." in Appendix V to this prospectus.

THE CORNERSTONE PLACING

As part of the International Offering, we have entered into a cornerstone investment agreement with each of the Cornerstone Investors, pursuant to which the Cornerstone Investors have agreed to subscribe for, at the Offer Price, such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) that may be purchased for an aggregate amount of US$25 million (approximately HK$193.8 million) (the "**Cornerstone Placing**"). Assuming an Offer Price of HK$11.15 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 17,376,000, representing approximately 1.7% of the Shares in issue and outstanding upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK$11.68 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 16,588,000, representing approximately 1.6% of the Shares in issue and outstanding upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK$12.20 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 15,881,000, representing approximately 1.5% of the Shares in issue and outstanding upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Each of the Cornerstone Investors is an independent third party, independent of each other, and is not our connected person. The Cornerstone Investors will subscribe for the Offer Shares pursuant to, and as part of, the International Offering. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering, other than pursuant to the respective cornerstone investment agreement.

The Offer Shares to be acquired by the Cornerstone Investors will rank pari passu with the fully paid Shares then in issue and to be listed on the Stock Exchange and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any representation on the Board or become our substantial shareholder. No special rights have been granted to the Cornerstone Investors as part of the Cornerstone Placing.

The Offer Shares to be acquired by the Cornerstone Investors will not be subject to re-allocation of Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering or be affected by any exercise of the Over-allotment Option to be granted by the Company to the Sole Global Coordinator and exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be issued by the Company on or around Tuesday, October 14, 2014.

OUR CORNERSTONE INVESTORS

We have entered into cornerstone investment agreement with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

Tongfang Guoxin Electronics Co. Ltd. (“***Tongfang Guoxin***”)

Tongfang Guoxin has agreed to subscribe for, through its wholly-owned subsidiary Tongxin Investment (Hong Kong) Co., Limited, such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for up to US$15 million (approximately HK$116.3 million) at the Offer Price. Assuming an Offer Price of HK$11.15 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares that Tongfang Guoxin would subscribe for would be 10,426,000 Shares, representing approximately 1.0% of the Shares in issue and outstanding immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK$11.68 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares that Tongfang Guoxin would subscribe for would be 9,953,000 Shares, representing approximately 1.0% of the Shares in issue and outstanding immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK$12.20 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares that Tongfang Guoxin would subscribe for would be 9,529,000 Shares, representing approximately 0.9% of the Shares in issue and outstanding immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Tongfang Guoxin is a company incorporated in the PRC and was listed on the Shenzhen Stock Exchange since 2005. Tongfang Guoxin principally engages in the design and sale of IC solutions including ICs for smart card and specialty applications through its two core subsidiaries, namely TMC and Shenzhen StateMicro Electronics Co.,Ltd..

TMC had been one of our top 10 customers during the Track Record Period and is one of the largest smart card IC solutions providers in China. The investment by Tongfang Guoxin is part of the continuing development of our strategic partnership with Tongfang Guoxin and TMC.

Cypress Semiconductor Technology Ltd. (“Cypress Technology”)

Cypress Technology has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for up to US$10 million (approximately HK$77.5 million) at the Offer Price. Assuming an Offer Price of HK$11.15 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares that Cypress Technology would subscribe for would be 6,950,000 Shares, representing approximately 0.7% of the Shares in issue and outstanding immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK$11.68 (being the mid-point of the indicative Offer

Price range stated in this prospectus), the total number of Offer Shares that Cypress Technology would subscribe for would be 6,635,000 Shares, representing approximately 0.6% of the Shares in issue and outstanding immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK$12.20 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares that Cypress Technology would subscribe for would be 6,352,000 Shares, representing approximately 0.6% of the Shares in issue and outstanding immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Cypress Technology was incorporated in the Cayman Islands and is a subsidiary of Cypress. Cypress was incorporated in California in December 1982. Its initial public offering on the NASDAQ took place in May 1986. In February 1987, Cypress was reincorporated in Delaware. Its stock is listed on the NASDAQ Global Select Market under the ticker symbol "CY".

Cypress delivers high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and exceptional system value. Cypress is a leader in capacitive user interface solutions. Cypress is also a significant participant in USB controllers, which enhance connectivity and performance in a wide range of consumer and industrial products. It is also a leader in SRAM and nonvolatile RAM memories. Cypress serves numerous major markets, including industrial, mobile handsets, consumer, computation, data communications, automotive, industrial, and military.

Cypress had been one of our top 10 customers during the Track Record Period and is one of our important, long-term technology partners. The investment by Cypress Technology is part of the continuing development of our strategic partnership with Cypress.

CONDITIONS PRECEDENT

The obligations of each of the Cornerstone Investors to subscribe for the Offer Shares under the respective cornerstone investment agreements are subject to, among other things, the following conditions precedent:

(a) the Underwriting Agreements having been entered into and become effective and unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) by no later than the time and date as specified in the respective Underwriting Agreements (or as subsequently waived or varied) and not having been terminated;

(b) the Listing Committee having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked prior to the commencement of dealings in the Shares or the Stock Exchange;

(c) no laws shall have been enacted or promulgated which prohibits the consummation of the investment under the relevant cornerstone investment agreement and there shall be no orders or injunctions of a court of competent and relevant jurisdiction in effect precluding or prohibiting consummation of such investment under the relevant cornerstone investment agreement; and

(d) the representations, warranties, acknowledgements and undertakings given by such Cornerstone Investor and the Company, respectively, under the relevant cornerstone investment agreement are (as of the date of the cornerstone investment agreement) and will be (as of the closing date) true, accurate and not misleading and that there is no breach of the relevant cornerstone investment agreement on the part of such Cornerstone Investor or the Company.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "**Lock-up Period**"), dispose of, or agree to dispose of, any of the Shares acquired under the relevant cornerstone investment agreement or any shares or other securities deriving from such Shares other than transfers to any of its wholly-owned subsidiaries (which are subject to restrictions under the relevant cornerstone investment agreement).

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements as of and for each of the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRS. Potential investors should read the whole Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to "Risk Factors".

OVERVIEW

We are a global, leading pure-play 200mm foundry. We primarily focus on manufacturing semiconductors on 200mm wafers for specialty applications. Our manufacturing expertise comes from many years of research and development of advanced and differentiated technologies for 200mm wafer manufacturing, in particular eNVM and power discretes. Our portfolio also includes several other advanced process technologies such as RFCMOS, analog and mixed signal, CMOS image sensor, PMIC and MEMS. The semiconductors we manufacture are incorporated into a wide range of products in diverse markets, including consumer electronics, communications, computing and industrial and automotive. We are well positioned to address new growth opportunities in these markets.

We are the trusted technology and manufacturing partner to our customers, who fall into two main categories: (i) IDMs, and (ii) systems and fabless companies. We develop and offer our customers a portfolio of advanced, differentiated wafer process technologies. Through our flexible and customizable manufacturing platform, we are able to support a variety of customer-specific requirements. We have a long operating track record through HHNEC and Grace Shanghai, which began operations in 1999 and 2003, respectively, and merged into HHGrace in 2013.

According to IBS, based on total 2013 revenue, we ranked second globally amongst pure-play 200mm foundries, and sixth amongst all the pure-play foundries worldwide. We currently have one of the largest 200mm wafer processing capacities in China through our three fabs in Shanghai, with an approximate total 200mm wafer manufacturing capacity of 124,000 wafers per month as of June 30, 2014.

Our revenue for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014 was US$609.8 million, US$571.5 million, US$584.7 million, US$281.8 million and US$324.5 million, respectively. Our net profit in 2011, 2012, 2013 and the six months ended June 30, 2013 and 2014 was US$95.6 million, US$59.7 million, US$61.8 million, US$30.4 million and US$44.7 million, respectively.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the Merger and the Restructuring as explained in the paragraph headed "The Merger and the Restructuring" in the section headed "Our History and Development", our Company became the holding company of the companies now comprising our Group on December 28, 2011. Before and after the Merger, the companies now comprising our Group were under common control. Accordingly, for the purpose of this report, the financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Merger had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented, or since the date when the subsidiaries and/or businesses first came under common control, where this is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2011, 2012 and 2013 and June 30, 2014 have been prepared to present the assets and liabilities of the subsidiary and/or businesses using the existing book values from the controlling shareholder's perspective. No adjustments have been made to reflect fair values, or recognize any new assets or liabilities, as a result of the Merger.

Equity interests in subsidiaries and/or businesses held by parties other than the controlling shareholder, and changes therein, prior to the Merger are presented as non-controlling interests in equity in applying the principles of merger accounting.

FACTORS AFFECTING OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe that a number of factors directly or indirectly affect our business, financial condition and results of operations, including those factors discussed below, some of which are beyond our control:

- Cyclicality of the semiconductor industry;
- Capacity utilization rates;
- Change in product mix and technology migration;
- Pricing;
- Government grants;
- Capital expenditures and capacity expansion;
- Taxation; and
- Fluctuations in foreign currency exchange rate.

Cyclicality of the semiconductor industry

The semiconductor industry is highly cyclical due mainly to the fluctuating end markets of the products that use semiconductors. This fluctuation in the semiconductor market is exacerbated by the tendency of semiconductor companies, including foundries, to make capital investments in or acquisitions of new or existing fabs or equipment during periods of high demand since it may require several years to plan, construct and commence operations at a fab. After commencement of commercial operations, fabs can increase production volumes rapidly. As a result, large amounts of semiconductor manufacturing capacity typically become available during the same period. Absent sustained growth in demand, this increase often leads to manufacturing overcapacity in the semiconductor market, which in the past has led in turn to a significant under-utilization of capacity and a sharp decline in semiconductor prices. In cyclical downturns, IDMs tend to reduce the outsourced portion of their production requirements and shift them to their own internal production facilities, and therefore foundries that rely on IDMs for a significant proportion of their customer base will be particularly affected. As a result of the cyclicality of the semiconductor industry, revenue and profits may vary significantly. The semiconductor industry is generally slow to react to declines in demand due to its capital-intensive nature and the need to make commitments for equipment purchases well in advance of the planned expansion.

Our total revenue decreased from 2011 to 2012 mainly due to fluctuations in demand from our US customers. In 2012 there was a decrease from one of our key customers in the United States following a particularly strong demand for its products in 2011, and a change in foundry sourcing strategy by another one of our US customers which resulted in a decrease in orders from that customer.

Nevertheless, we believe our strategic focus on providing our customers with advanced manufacturing solutions for 200mm wafers will continue to enable us to enjoy less volatile price swings, more stable margins and less capital expenditure than segments of the semiconductor market that manufacture on 300mm wafers.

Capacity utilization rates

Operations at or near full capacity utilization have a significant positive effect on our profitability because a portion of our cost of sales is of a fixed nature. For example, in 2011, 2012, 2013 and the six months ended June 30, 2013 and 2014, approximately 30.3%, 29.0%, 20.3%, 25.4% and 15.9%, respectively, of our cost of sales consisted of depreciation and amortization expense, which is a fixed cost. If we increase our utilization rates, the number of wafers we fabricate will increase, and therefore our average fixed costs per wafer will decrease. Therefore, our capacity utilization rates have a significant effect on our margins.

Our theoretical total production capacity is determined based on the capacity ratings of the equipment in each of our fabs, adjusted for, among other factors, expected product mix based on our production planning, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance and R&D pilot runs. As these factors include subjective elements, our method of measurement of capacity utilization rates may not be comparable to those of our competitors. Our average capacity utilization rate was 83%, 81%, 84% and 92% in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively.

Other factors affecting capacity utilization rates include overall industry conditions, the level of customer orders, the complexity and mix of the wafers produced, mechanical failures and other operational disruptions such as the expansion of capacity or the relocation of equipment, disruption of power supply, our ability to manage our production facilities and product flows efficiently and fire or natural disaster.

Change in product mix and technology migration

As the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our revenue and profitability. The value of a wafer is determined principally by the complexity and performance of the process technology used to produce the wafer, as well as by the yield and defect density. In addition, production of devices with higher levels of functionality and performance, with better yields and lower defect density as well as with greater system-level integration requires better manufacturing expertise and generally commands higher wafer prices. The increase in price of wafers generally has more than offset associated increases in unit production cost once an appropriate economy of scale is reached.

Prices for wafers of a given level of technology generally decline over the relevant process technology life cycle. As a result, we have continuously been upgrading and developing more advanced process technologies to maintain or improve our profitability. The Company seeks to migrate to higher margin and higher growth applications such as MCUs, bank cards and mobile payment SIM cards, and smaller technology nodes in order to produce more dies per wafer for these applications, resulting in higher average selling prices and revenue. Although these types of technology upgrades or migration require continuous capital and R&D investment, and we expect to continue to spend a substantial proportion of our planned capital expenditures on upgrading our technologies and capabilities, the resulting increase in average selling prices and revenue is expected to more than offset the increase in costs, leading to higher profitability for the Company. For example, we are introducing 90nm technology as multiple project wafers to customers in 2014 and we expect this technology to significantly increase the competitive advantages of our customers by providing enhanced device performance and functionality in a smaller die size manufactured on 200mm wafers.

Pricing

We price our foundry services primarily on a per wafer basis, and occasionally per die, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. As a portion of our costs and expenses are fixed or semi-fixed, fluctuations in the average selling prices of semiconductor wafers have historically had an impact on our margins. Generally in the semiconductor industry, average selling prices for the same product tend to decline over time. However, we believe that our ability to provide a broad range of advanced foundry services and process technologies as well as large 200mm manufacturing capacity provides us with significant pricing leverage. For example, our blended average selling price per wafer decreased by only 2.1% in 2013 compared to 2012 as a result of our efforts to offset general average selling price declines with product mix improvements.

Government grants

We received a significant amount of government grants during the Track Record Period. The PRC Government and provincial and local governments have provided, and continue to provide, grants for R&D to domestic companies in the semiconductor industry, including our company, in order to encourage the development of the industry. We received government grants of US$69.4 million, US$48.4 million, US$28.9 million, US$14.9 million and US$0.8 million in 2011, 2012, 2013 and the six months ended June 30, 2013 and 2014, respectively, which we have applied to partially offset our cost of sales and administrative expenses, to purchase project-related assets and to make payments to sub-contractors. The government grants are paid in lump sums, and for those amounts which are recorded on the balance sheet, we recognize them in the consolidated statement of profit or loss in accordance with the progress of the relevant projects which the grants support. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, US$46.1 million, US$40.7 million, US$15.3 million, US$7.8 million and US$12.1 million of government grants were released to the statement of profit or loss, which represented 48.2%, 68.2%, 24.6%, 25.7% and 27.1%, respectively, of our consolidated profit after taxation for those periods. The government grants may be reduced or eliminated by governmental authorities in the future. This, in turn, may adversely affect our business and operating results. Please see "Risk Factors — Risks Relating to Our Business — Expiration of, or changes to, certain government incentives, government grants and preferential tax treatments which we are entitled to could adversely affect our financial condition and results of operations."

Capital expenditures and capacity expansion

The semiconductor foundry industry may be characterized by substantial capital expenditures. According to IBS, a 300mm fab typically costs around US$4 billion to US$5 billion to construct. In contrast, given our focus on 200mm manufacturing, we will not be required to incur such substantial capital expenditures to construct and equip our fabs or acquire additional capacity in order to maintain our competitiveness.

Although our capital expenditures are significantly lower than 300mm fabs, fluctuations in our capital expenditures may still have a significant impact on our operating results. We currently expect that our capital expenditures in 2014 will be approximately US$139.0 million, subject to adjustment based on market conditions. Of this, we estimate that US$96.3 million will be used for capacity expansion and upgrades. The remainder will be used for day to day maintenance. Our actual expenditures may differ from our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, or customer requirements.

An increase in capacity may have a significant effect on our results of operations, both by allowing us to produce and sell more wafers and achieve higher sales, and as a cost component in the form of depreciation expenses. We anticipate increasing our existing 200mm capacity from 124,000 wafers per month to approximately 164,000 200mm wafers per month by the end of 2016, subject to market conditions. We adjust our capital expenditure plans based on the global economy, the semiconductor industry, the demands of our customers and our cash flow from operations.

Taxation

We currently benefit from various tax incentive policies in the PRC. HHGrace is entitled to a 15% preferential income tax rate which is effective until end of 2017. We will apply for renewal upon expiration. If we are unable to maintain our current effective tax rate in the future, our applicable income tax rate may increase to 25% and we may incur additional income tax expense, which could adversely affect our financial condition and results of operations.

Fluctuations in foreign currency exchange rates

Historically, more than half of our revenue has been denominated in US dollars, whereas the majority of our costs of sales were denominated in non-U.S. currencies, principally RMB. As we report the results of our operations in US dollars, and we convert our non-US dollar-based revenue, cost of sales and expenses based on average exchange rates for the applicable period, fluctuations in the exchange rates between the RMB and the US dollar could materially impact our results of operations and distort period to period comparison. Additionally we have loans denominated in US dollars, whereas our functional currency is RMB, and therefore there will be gains or losses resulting from fluctuations in the exchange rate. As of June 30, 2014, we had loans in the amount of US$345.8 million, among which US$227.2 million were denominated in US dollars. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. We have not entered into any financial transactions to hedge our foreign currency risk, but our US dollar denominated loans provide a natural hedge against the foreign currency risk resulting from the majority of our revenue being denominated in US dollars. In addition, when we receive any cash from our customers in currencies other than the RMB, we convert these currencies into RMB as soon as practicable to minimize our foreign currency risk.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those that require our management to exercise judgment in applying assumptions and making estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. We believe the following critical accounting policies involve the most significant judgments in the preparation of our consolidated financial statements.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the service has been rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and provision for impairment loss, if any. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The historical cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated using a straight-line method to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	25 years
Machinery and plant facilities	5-10 years
Office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the assets are derecognized as the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investments in associates

An associate is an entity, in which we have a long term interest of generally not less than 20% of the equity voting rights and over which we are in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Our investments in associates are stated in the consolidated statement of financial position at our share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Our share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate, we recognize our share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between our associates and us are eliminated to the extent of our investments in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of our investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The results of associates are included in our statement of profit or loss to the extent of dividends received and receivable. Our investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by us as an owner-occupied property becomes an investment property, we account for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the statement of profit or loss as other income in accordance with our revenue recognition policies.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

We evaluate whether the ability and intention to sell our available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, we are unable to trade these financial assets due to inactive markets, we may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes our new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is the estimated selling price, less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of our cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as profit or loss on a systematic basis over the periods that the costs, which it is intended to support, are expensed.

Grants related to income are deducted in reporting the related expense. If there was no specific expense to compensate, the grants are presented as part of profit or loss under other income.

Grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the related assets.

Impairment of non-financial assets

In determining if an asset is impaired or the event previously causing the impairment no longer exists, we have to exercise judgment in the area of asset impairment, particularly in assessing:

(1) whether an event has occurred that may affect asset value or such event affecting the asset value has not been in existence;

(2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continuing use of the asset or derecognition; and

(3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

We assess whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, we must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Judgments — Classification between investment properties and owner-occupied properties

We determine whether a property qualifies as an investment property, and have developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, we consider whether a property generates cash flows largely independently of the other assets held by us. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, we account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, we consider information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

Consolidated statements of profit or loss

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Revenue	609,844	571,480	584,719	281,837	324,455
Cost of sales[(1)]	(459,172)	(453,559)	(459,270)	(215,870)	(231,937)
Gross profit	150,672	117,921	125,449	65,967	92,518
Other income and gains[(2)]	50,998	26,492	30,605	14,026	10,446
Fair value gains on investment property	1,322	944	2,095	1,585	412
Selling and distribution expenses	(10,290)	(8,831)	(8,052)	(3,868)	(3,373)
Administrative expenses[(1)]	(61,327)	(55,097)	(69,043)	(35,089)	(38,358)
Other expenses	(5,618)	(448)	(199)	(190)	(1,827)
Finance costs	(19,168)	(16,928)	(16,479)	(8,159)	(6,539)
Share of profits of an associate	—	3,619	6,437	—	4,503
Profit before tax	106,589	67,672	70,813	34,272	57,782
Income tax expense	(10,966)	(7,993)	(8,964)	(3,884)	(13,085)
Profit for the year/period	95,623	59,679	61,849	30,388	44,697

Notes:

(1) Cost of sales and administrative expenses include government grants recognized as an offset item to the respective cost of sales and administrative expenses. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, we recognized government grants of US$23.2 million, US$20.3 million, US$10.7 million, US$5.4 million and US$8.3 million, respectively, as an offset item to the cost of sales, and we recognized government grants of US$22.9 million, US$20.4 million, US$4.6 million, US$2.4 million and US$3.8 million, respectively, as an offset item to R&D expenses within administrative expenses.

(2) Includes government subsidies of US$7.9 million, US$1.2 million, US$0.55 million, US$0.06 million and nil for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, respectively.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

We derive our revenue primarily from direct sales of our semiconductor wafers. Our total revenue decreased by 6.3% from US$609.8 million in 2011 to US$571.5 million in 2012. The decrease was primarily due to the reduced demand in 2012 for end products of certain of our key customers in the United States following a particularly strong demand for their products in 2011, and a change in foundry sourcing strategy by one of our US customers which resulted in a decrease in orders from this customer. Our revenue from China also declined during this period, offset by an increase in revenue from Asia (excluding China and Japan) and Europe. Our total revenue increased by 2.3% from US$571.5 million in 2012 to US$584.7 million in 2013. The increase was primarily due to an increase in wafer shipment driven by increased demand from our customers based in China, Japan and Europe, partially offset by a slight decrease in demand from certain of our customers based in United States. Our total revenue increased by 15.2% from US$281.8 million for the six months ended June 30, 2013 to US$324.5 million for the six months ended June 30, 2014. The increase was primarily due to an increase in wafer demand from our customers based in China and Europe, partially offset by decreased demand from certain customers based in the United States and Japan.

Revenue by type

The following table sets out a breakdown of our revenue by type, each expressed in the absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
Wafers	586,334	96.1	554,698	97.1	566,791	96.9	274,221	97.3	314,823	97.0
Others[1]	23,510	3.9	16,782	2.9	17,928	3.1	7,616	2.7	9,632	3.0
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Note:

(1) Includes masks, probe cards and design services.

Revenue by geography

We categorize our revenue based on the country in which the customer is headquartered. The following table sets out a breakdown of our revenue by geography, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
China[(1)]	295,381	48.4	277,157	48.5	291,414	49.8	137,668	48.8	176,986	54.5
United States	218,747	35.9	178,576	31.2	146,458	25.0	77,205	27.4	66,412	20.5
Japan[(2)]	39,239	6.4	32,305	5.7	53,154	9.1	22,223	7.9	20,020	6.2
Asia[(3)]	46,657	7.7	62,028	10.9	51,500	8.9	29,288	10.4	32,471	10.0
Europe	9,820	1.6	21,414	3.7	42,193	7.2	15,453	5.5	28,566	8.8
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Notes:

(1) Includes Hong Kong.

(2) Incudes a major customer in Japan that was acquired by a U.S. headquartered company during the Track Record Period.

(3) Excludes China and Japan.

During the Track Record Period, China was our largest market, contributing approximately 48.4%, 48.5% and 49.8% of our total revenue for the years ended 2011, 2012 and 2013, respectively, and 48.8% and 54.5% of our total revenue for the six months ended June 30, 2013 and 2014, respectively. The revenue contributed by our second largest market, the United States, constituted 35.9%, 31.2%, and 25.0% of our total revenue in 2011, 2012 and 2013, respectively, and 27.4% and 20.5% of our total revenue for the six months ended June 30, 2013 and 2014, respectively. The revenue contributed by the United States as a percentage of our total revenue decreased during the Track Record Period primarily due to the decreased demand for the end products of certain of our US customers and to a change in foundry sourcing strategy by one of our US customers which resulted in a decrease in orders from this customer. The revenue contributed by Europe increased throughout the Track Record Period due to increased demand for smart cards and logic products.

Revenue by technology platform

The following table sets out a breakdown of our revenue by technology platform, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
eNVM[(1)]	202,410	33.2	175,378	30.7	203,468	34.8	91,717	32.5	130,007	40.1
Logic & RF[(2)]	99,522	16.3	111,155	19.5	119,628	20.5	56,317	20.0	53,801	16.6
Discrete[(3)]	121,468	19.9	125,945	22.0	114,118	19.5	56,424	20.0	64,825	20.0
Analog & PM[(4)]	54,597	9.0	56,930	10.0	72,360	12.4	35,367	12.5	41,832	12.9
Standalone NVM[(5)]	106,774	17.5	83,360	14.6	67,051	11.5	37,095	13.2	31,447	9.7
Others[(6)]	25,073	4.1	18,712	3.2	8,094	1.3	4,917	1.8	2,543	0.7
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Note:

(1). eNVM products include MCUs used in remote controllers, home appliances, smart meters and etc., and smart cards (such as SIM cards, social security cards, national ID cards, USB keys and bank IC cards).

(2). Logic products include consumer audio products, memory card (SD) controllers; RF products include Bluetooth devices used in wireless keyboard or mouse, Electronic Toll Collection (ETC) and etc.

(3). Discrete products include MOSFET, SJNFET and IGBT silicon chips which can be used across a large variety of different market segments, such as consumer products (home appliances), computers, industrial products (such as welding machines) and automotive products (such as steering controls).

(4). Analog & PM products include audio amplifier ICs for mobile products, battery management ICs, AC-DC converter ICs for home appliances, computers and power adapters, and controller ICs for LED lighting bulbs.

(5). Standalone NVM products include NOR Flash memory and EEPROM, which are used across a large variety of different market segments, such as consumer products (home appliances), computers, communication products (such as mobile phones) and automotive products (such as infotainment systems).

(6). Includes high voltage.

We offer our customers a portfolio of differentiated technologies. In particular, we specialize in different types of eNVM technologies. During the Track Record Period, we continued to build our eNVM business focusing on higher margin and higher growth applications, such as eNVM with MCUs and smart cards, and reducing our focus on the lower growth standalone NVM business. As a result, the average selling price of our eNVM products increased during the Track Record Period and eNVM accounted for 33.2%, 30.7% and 34.8% of our revenue in 2011, 2012 and 2013 respectively, as compared with standalone NVM, which decreased from 17.5% of our revenue in 2011 to 14.6% in 2012, and further to 11.5% in 2013.

In the six months ended June 30, 2014, eNVM as a percentage of our revenue increased to 40.1% from 32.5% for the same period in 2013, while standalone NVM as a percentage of our revenue decreased to 9.7% from 13.2% for the same period in 2013.

We also focus our analog and power management business on higher margin and higher growth applications, such as LED lighting ICs using BCD 700V technology. As a result, our analog and power management business increased from 9.0% of our total revenue in 2011 to 12.4% in 2013. Our analog and power management business increased from 12.5% of our total revenue for the six months ended June 30, 2013 to 12.9% for the same period in 2014.

Our logic and RF business increased from 16.3% of our total revenue in 2011 to 20.5% in 2013 due to strong market demand for logic and RF products. In the six months ended June 30, 2014, our logic and RF business as a percentage of our revenue decreased to 16.6% from 20.0% for the same period in 2013 as a result of our strategic focus on higher margin and higher growth eNVM business and allocation of our production capacity from logic and RF products to eNVM products.

Other than our eNVM business, our average selling price for products on the other technology platforms have decreased during the Track Record Period in line with overall industry trends.

The following table sets out a breakdown of our sales volume by technology platform, each expressed as an absolute quantity and as a percentage of our total sales volume for the periods indicated.

	Year Ended December 31,						Six Months ended June 30,			
	2011		2012		2013		2013		2014	
	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%
eNVM	267.2	22.2	232.3	19.9	268.1	21.9	121.7	20.4	168.6	24.5
Logic & RF	158.6	13.2	190.4	16.3	204.4	16.7	98.4	16.5	98.1	14.3
Discrete	467.0	38.8	469.6	40.1	455.4	37.2	224.9	37.7	266.0	38.7
Analog & PM	121.0	10.1	126.3	10.8	183.9	15.0	89.4	15.0	103.9	15.1
Standalone NVM	141.9	11.8	117.2	10.0	97.7	8.0	54.4	9.1	46.0	6.7
Others	46.7	3.9	34.4	2.9	13.2	1.2	8.0	1.3	4.1	0.7
Total Sales Volume	1,202.4	100.0	1,170.2	100.0	1,222.7	100.0	596.8	100.0	686.7	100.0

Revenue by process technology node

We offer a broad portfolio of customizable processes across different technology nodes. The following table sets out a breakdown of our revenue by process technology node, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
							(unaudited)			
0.13μm and below(1)	136,465	22.4	158,464	27.7	183,936	31.5	76,713	27.2	123,551	38.1
0.15μm and 0.18μm	149,448	24.5	134,657	23.6	150,942	25.8	76,810	27.3	71,917	22.2
0.25μm	56,734	9.3	20,268	3.5	14,073	2.4	10,109	3.6	2,280	0.7
0.35μm and above	267,197	43.8	258,091	45.2	235,768	40.3	118,205	41.9	126,707	39.0
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

Note:

(1) Includes 0.13μm and 0.11μm.

While we continue to see business opportunities across all the process technology nodes, we are strategically focused on increasing our revenue contribution from the more advanced technology nodes, such as 0.13μm, 0.11μm and 90nm as more dies can be manufactured on a per wafer basis on these smaller technology nodes, resulting in higher average selling prices, revenue and profitability, due to lower than proportional increase in costs. As a result, our revenue from 0.13μm and below process technology nodes accounted for 22.4%, 27.7% and 31.5% of our total revenue in 2011, 2012 and 2013, respectively, and 27.2% and 38.1% of our total revenue for the six months ended June 30, 2013 and 2014. We are introducing 90nm technology as multiple project wafers to customers in 2014 and we expect this technology to significantly increase the competitive advantages of our customers by providing enhanced device performance and functionality in a smaller die size manufactured on 200mm wafers.

The average selling price for our products from process technology nodes of 0.13μm and below has increased during the Track Record Period whereas the average selling price for the other technology nodes greater than 0.13μm have decreased in line with overall industry trends.

The following table sets out a breakdown of our sales volume by technology node, each expressed as an absolute quantity and as a percentage of our total sales volume, for the periods indicated.

	Year Ended December 31,						Six Months ended June 30,			
	2011		2012		2013		2013		2014	
	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%	Wafer'000	%
0.13μm and below[(1)]	185.1	15.4	208.9	17.9	248.4	20.3	104.9	17.6	164.9	24.0
0.15μm and 0.18μm	220.0	18.3	217.3	18.6	240.6	19.7	123.2	20.6	119.4	17.4
0.25μm	71.3	5.9	28.8	2.5	20.9	1.7	15.0	2.5	4.1	0.6
0.35μm and above	726.0	60.4	715.2	61.0	712.8	58.3	353.7	59.3	398.3	58.0
Total Sales Volume	1,202.4	100.0	1,170.2	100.0	1,222.7	100.0	596.8	100.0	686.7	100.0

Note:

(1) Includes 0.13μm and 0.11μm.

Revenue by end market distribution

The semiconductors we manufacture are incorporated into a wide range of products in diverse markets, including consumer electronics, communications, computing, industrial and automotive. The table below sets forth the breakdown of our revenue by end market segment for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
							(unaudited)			
End Market Distribution										
Consumer Electronics	226,965	37.2	235,189	41.2	265,887	45.5	126,953	45.0	162,182	50.0
Communications	174,055	28.5	177,008	31.0	173,970	29.8	78,885	28.0	91,377	28.2
Computing	143,618	23.5	111,879	19.6	87,093	14.9	47,035	16.7	29,237	9.0
Industrial and Automotive	65,206	10.8	47,404	8.2	57,769	9.8	28,964	10.3	41,659	12.8
Total revenue	609,844	100.0	571,480	100.0	584,719	100.0	281,837	100.0	324,455	100.0

During the Track Record Period, consumer electronics was our largest end market segment. We generated revenue from consumer electronics of US$265.9 million in 2013 as compared to US$227.0 million in 2011, representing an increase to 45.5% of our total revenue in 2013 from 37.2% in 2011. For the six months ended June 30, 2013 and 2014, revenue generated from consumer electronics was US$127.0 million and US162.2 million, respectively, which accounted for 45.0% and 50.0% of our total revenue, respectively. We have also strategically reduced our exposure during this period to the computing segment. Our revenue from computing decreased from US$143.6 million in 2011 to US$87.1 million in 2013, representing a decrease from 23.5% of our total revenue in 2011 to 14.9% in 2013. For the six months ended June 30, 2013 and 2014, revenue generated from computing was US$47.0 million and US$29.2 million, respectively, which accounted for 16.7% and 9.0% of our total revenue.

Cost of sales

Our cost of sales primarily consists of material costs, depreciation and amortization, labor costs, utility expenses, overhead expenses, government grants recognized in cost of sales, and others. Government grants recognized in cost of sales is an offset item to the related cost of sales. It is recognized based on the status of our projects which the government grants are intended to support.

Our cost of sales decreased from US$459.2 million in 2011 to US$453.6 million in 2012 primarily due to a decline in volume of wafers sold and depreciation and amortization, partially offset by an increase in labor costs and utility expenses. Our cost of sales increased from US$453.6 million in 2012 to US$459.3 million in 2013 because of an increase in material costs, utility expenses, labor costs and reduction of government grants, partially offset by substantially lower depreciation and amortization costs. Our cost of sales increased from US$215.9 million for the six months ended June 30, 2013 to US$231.9 million for the six months ended June 30, 2014 primarily due to the increase in material costs from higher sales volume and labor costs from the wage increase at the beginning of 2014, partially offset by a decrease in depreciation and amortization. The table below sets forth a breakdown of our cost of sales, expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
							(unaudited)			
Material costs	157,172	25.8	152,794	26.7	155,005	26.5	76,395	27.1	87,237	26.9
Depreciation and amortization	138,984	22.8	131,430	23.0	93,273	16.0	54,904	19.5	36,913	11.4
Labor costs	61,702	10.1	68,991	12.1	75,108	12.8	34,286	12.2	44,788	13.8
Utility expenses	57,642	9.5	60,144	10.5	66,364	11.3	29,784	10.6	34,172	10.5
Overhead expenses	35,033	5.7	32,077	5.6	43,104	7.4	15,660	5.6	20,098	6.2
Others(1)	31,793	5.2	28,438	5.0	37,076	6.3	10,237	3.6	16,988	5.2
Total cost of sales	482,326	79.1	473,874	82.9	469,930	80.3	221,266	78.6	240,196	74.0
Government grants recognized in cost of sales	(23,154)	(3.8)	(20,315)	(3.5)	(10,660)	(1.8)	(5,396)	(1.9)	(8,259)	(2.5)
Net cost of sales	459,172	75.3	453,559	79.4	459,270	78.5	215,870	76.7	231,937	71.5

Note:

(1) Includes royalty, provisions on inventories, masks, probe cards and testing costs.

Material costs

Our fabrication processes use many types of raw materials, primarily silicon wafers, chemicals and special gases. Our material costs were US$157.2 million, US$152.8 million, US$155.0 million, US$76.4 million and US$87.2 million for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, respectively, and constituted 34.2%, 33.7%, 33.8%, 35.4% and 37.6% of our net cost of sales in 2011, 2012, 2013 and the six months ended June 30, 2013 and 2014 respectively.

The following table sets out a breakdown of our material costs by major types of raw materials during the Track Record Period, each expressed as a percentage of our total material costs, for the periods indicated.

	Year Ended December 31,						Six Months ended June 30,			
	2011		2012		2013		2013		2014	
	(US$'000)	%	(US$'000)	%	(US$'000)	%	(US$'000) (unaudited)	%	(USD'000)	%
Silicon wafers........	62,961	40.1	65,318	42.7	65,338	42.2	32,773	42.9	37,032	42.4
Chemicals	39,098	24.9	35,924	23.5	36,865	23.8	18,371	24.0	19,421	22.3
Special gases........	11,164	7.1	9,559	6.3	9,858	6.4	5,317	7.0	5,864	6.7
Other materials......	43,949	27.9	41,993	27.5	42,944	27.6	19,934	26.1	24,920	28.6
Total material costs	157,172	100.0	152,794	100.0	155,005	100.0	76,395	100.0	87,237	100.0

Gross profit and gross profit margin

As a result of the foregoing, our gross profit was US$150.7 million, US$117.9 million and US$125.4 million for 2011, 2012 and 2013, respectively. Our gross margin decreased from 24.7% in 2011 to 20.6% in 2012, and increased to 21.5% in 2013. Our gross profit for the six months ended June 30, 2013 and 2014 were US$66.0 million and US$92.5 million, respectively. Our gross margin increased to 28.5% for the six months ended June 30, 2014 from 23.4% for the same period in 2013, respectively. This increase can be primarily attributed to the decrease in depreciation embedded in our cost of sales.

Other Income and Gains

Our other income consists of rental income from leasing our manufacturing plant and providing related services to Shanghai Huali, interest income from entrusted loans to associates and from our bank deposits, government subsidies and others. Our other gains consist of gains on disposal of items of property, plant and equipment and prepaid land lease payment, which are gains from the transfer of construction and prepaid land use rights to Huahong Technology Development, and foreign exchange gains on our US dollar-denominated loans. We had other income and gains of US$51.0 million, US$26.5 million and US$30.6 million in 2011, 2012 and 2013, and US$14.0 million and US$10.4 million for the six months ended June 30, 2013 and 2014, respectively.

The following table sets forth a breakdown of the components of our other income and gains, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
Rental income	11,482	1.9	11,930	2.1	12,952	2.2	6,373	2.3	6,595	2.0
Interest income[(1)]	4,318	0.7	4,263	0.7	8,226	1.4	3,052	1.1	2,044	0.6
Government subsidies	7,907	1.3	1,178	0.2	550	0.1	61	0.0	—	—
Others[(2)]	2,016	0.3	3,405	0.6	2,831	0.5	1,157	0.4	1,607	0.5
	25,723	4.2	20,776	3.6	24,559	4.2	10,643	3.8	10,246	3.1
Gains on disposal of items of property, plant and equipment and prepaid land lease payments	7,240	1.2	4,145	0.7	795	0.1	—	—	200	0.1
Foreign exchange gains	18,035	3.0	1,571	0.3	5,251	0.9	3,383	1.2	—	—
	25,275	4.2	5,716	1.0	6,046	1.0	3,383	1.2	200	0.1
Total other income and gains	50,998	8.4	26,492	4.6	30,605	5.2	14,026	5.0	10,446	3.2

Notes:

(1) Interest income derived from entrusted loans to our associate and our bank deposits.

(2) Includes income from sale of scrap materials, income from the rendering of consultancy services and non-recurring engineering service.

Fair value gains on investment property

Our fair value gains on investment property represent property valuation gains through the annual appraisal of property leased to Shanghai Huali. For the years ended December 31, 2011, 2012 and 2013, we had fair value gains on investment property of US$1.3 million, US$0.9 million and US$2.1 million, respectively. For the six months ended June 30, 2013 and 2014, we had fair value gains on investment property of US$1.6 million and US$0.4 million, respectively.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of labor expenses for sales personnel and others. The following table sets forth a breakdown of the key components of our selling and distribution expenses, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
Labor expenses	6,828	1.1	6,198	1.1	5,742	1.0	2,896	1.0	2,819	0.9
Others[(1)]	3,462	0.6	2,633	0.5	2,310	0.4	972	0.3	554	0.2
Total	10,290	1.7	8,831	1.6	8,052	1.4	3,868	1.3	3,373	1.1

Note:

(1) Includes advertising and publicity expenses, freight costs, rental expenses of our overseas offices, professional services fees for overseas offices and traveling expense.

The decrease in our selling and distribution expenses during the Track Record Period was primarily due to the reduction in sales and distribution headcount in connection with the Merger and the closure of our Germany office.

Administrative Expenses

Our administrative expenses primarily consist of labor expenses for administrative, management and R&D personnel, engineering costs, depreciation and amortization, government grants recognized in R&D expenses, professional services fees and other operating expenses. Government grants recognized in R&D expenses is an offset item and it is recognized based on the status of our projects which the government grants are intended to support.

The following table sets forth a breakdown of the key components of our administrative expenses, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
Labor expenses	28,839	4.7	28,222	4.9	28,136	4.8	13,709	4.9	16,478	5.1
Engineering costs	15,327	2.5	16,201	2.8	15,421	2.6	7,541	2.7	6,537	2.0
Depreciation and amortization	13,192	2.2	13,147	2.3	13,269	2.3	6,618	2.3	6,192	1.9
Professional services fees	8,534	1.4	5,277	0.9	4,032	0.7	3,307	1.2	4,873	1.5
Impairment of construction in progress	5,555	0.9	—	—	—	—	—	—	—	—
Others(1)	12,816	2.1	12,624	2.2	12,751	2.2	6,315	2.2	8,124	2.5
Government grants recognized in R&D expenses	(22,936)	(3.8)	(20,374)	(3.5)	(4,566)	(0.8)	(2,401)	(0.9)	(3,846)	(1.2)
Total	61,327	10.0	55,097	9.6	69,043	11.8	35,089	12.4	38,358	11.8

Note:

(1) Includes data processing and maintenance expenses, traveling expenses, facilities expenses, masks and probe cards for technology development, conference and training expenses, taxes and general affairs.

Other expenses

Our other expenses consist of non-operating expenses and other operating expenses. For the years ended December 31, 2011, 2012 and 2013, our other expenses amounted to US$5.6 million, US$0.4 million and US$0.2 million, respectively. The significant decrease in our other expenses in 2012 was due to a one-time settlement fee of US$5.5 million to a potential customer recognized in 2011. According to the terms of a memorandum of understanding (the "**MOU**") executed in 2009, we commenced a project with a potential customer for the supply of certain customized wafers to such customer. The purpose of the MOU was to provide a framework to govern the initial transfer of certain technology necessary for the Group to carry out the foundry service and allow time for negotiation of a formal agreement. The MOU contained certain binding terms in relation to initial technology transfer, and a liquidated damages clause in which the Group agreed to pay to the customer liquidated damages of US$6.5 million in case of termination by the customer due to a breach by the Group or unilateral termination by the Group.

During the life of the MOU, certain initial engineering works were performed by the parties. However, the parties were unable to reach final agreement after lengthy discussions due to disagreement over the terms. As a result, a dispute arose in connection with the project, and we had accrued US$5.5 million of estimated compensation due to the potential customer as of December 31, 2011. The settlement amount was a result of negotiation between the parties taking into account various factors, including the terms of the MOU and the substantial investment in the project made by the parties. The payment was made by us to the customer, without admission of liability by either party, and the dispute was settled in 2012. Other than the settlement payment, the Company had made a capital investment of approximately US$10.1 million for the acquisition of assets, which were subsequently deployed in other projects of the Company and did not affect the amount of settlement, and incurred development expenses of approximately US$1.7 million (including purchase of material and spare parts and other expenses, excluding labor costs which were not captured on project basis) in relation to the project between 2009 and 2011.

For the six months ended June 30, 2013 and 2014, our other expenses amounted to US$0.2 million and US$1.8 million, primarily due to miscellaneous expenses and foreign exchange loss, respectively.

Finance costs

Our finance costs represent interest expense on bank loans and other borrowings and interest on finance lease. As of December 31, 2011, 2012 and 2013, we had bank loans and other borrowings of US$530.1 million, US$417.7 million and US$366.5 million, respectively. All these bank loans and other borrowings are expected to be paid by 2018. The weighted average effective interest rate of our bank borrowings was 3.7%, 3.9% and 3.8% per annum in 2011, 2012 and 2013, respectively. We had finance costs of US$19.2 million, US$16.9 million and US$16.5 million in 2011, 2012 and 2013, and US$8.2 million and US$6.5 million for the six months ended June 30, 2013 and 2014, respectively.

Share of profits of an associate

Our share of profits of an associate represents our share of profits from our associated company, Huahong Technology Development. For the years ended December 31, 2011, 2012 and 2013, our share of profits from Huahong Technology Development was nil, US$3.6 million and US$6.4 million, respectively. The year-on-year increases were primarily due to increased property sales by Huahong Technology Development. For the six months ended June 30, 2013 and 2014, our share of profits from Huahong Technology Development was nil and US$4.5 million respectively due to (i) the sale of properties held for sale by Huahong Real Estate, the subsidiary wholly owned by Huahong Technology Development, in the six months ended June 30, 2014, and (ii) the increased appraisal value of the dormitory building owned by Huahong Real Estate.

Income tax expense

Hong Kong

Our Company is incorporated in Hong Kong as a limited company. No provision for Hong Kong profits tax has been made during the Track Record Period as we did not generate any assessable profits arising in or derived from Hong Kong.

PRC

Pursuant to the EIT Law, a uniform 25% enterprise income tax rate is generally applied to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies.

Beginning in October 2011 and September 2010, respectively, HHNEC and Grace Shanghai were entitled to a preferential income tax rate of 15% according to the EIT Law and its implementation rules, as they were recognized as high and new technology enterprises by the relevant government authorities in Shanghai. Such preferential income tax treatment was effective until October 2014 and September 2013, respectively. However, during the Track Record Period Grace Shanghai did not incur any income tax expense as it was still in an accumulated tax loss period.

HHGrace is entitled to a 15% preferential income tax rate which is effective from 2013 until the end of 2017. We will apply for renewal upon expiration. If we are unable to maintain our current effective tax rate in the future, our applicable income tax rate may increase to 25% and we may incur additional income tax expense, which could adversely affect our financial condition and results of operations. See "Risk Factors — Risks Relating to Our Business — Expiration of, or changes to, certain government incentives, government grants and preferential tax treatments which we are entitled to could adversely affect our financial condition and results of operations". As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

United States

Our subsidiary incorporated and operating in the United States was subject to a federal corporation income tax rate of 25% in 2011 and 2012 and 34% in 2013 and for the six months ended June 30, 2014, and a state tax rate of 8.84% during the Track Record Period. During the Track Record Period, we fulfilled our tax obligations in the United States.

Japan

Our subsidiary in Japan was subject to a corporate tax rate of 30% in 2011 and 2012 and 25.5% in 2013 and for the six months ended June 30, 2014. During the Track Record Period, we fulfilled our tax obligations in Japan.

Germany

The Company's subsidiary incorporated and operating in Germany was subject to a corporate tax rate of 25% in 2011 and 2012. This subsidiary ceased operations and was wound up in December 2012. During the Track Record Period, we fulfilled our tax obligations in Germany.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2014 compared to six months ended June 30, 2013

Revenue

Our total revenue increased by 15.2% from US$281.8 million for the six months ended June 30, 2013 to US$324.5 million for the six months ended June 30, 2014. The increase was primarily due to an increase in wafer demand from our customers based in China and Europe, partially offset by decreased demand from certain customers based in the United States and Japan.

In terms of technology, the increase was primarily due to an increase in revenue from eNVM of US$38.3 million, reflecting our strategic focus on the higher margin and higher growth opportunities within the eNVM business. This increase was partially offset by a decrease in revenue from standalone NVM of US$5.6 million.

In terms of process technology nodes, the increase was primarily due to an increase in revenue from 0.13μm and below process technology nodes of US$46.8 million, which was partially offset by a decrease in revenue from 0.25μm process technology nodes of US$7.8 million, as we strategically focused on increasing our revenue contribution from more advanced technology nodes, such as 0.13μm, 0.11μm and 90nm.

In terms of wafer revenue by customer type, the increase was primarily due to an increase in revenue from systems and fabless companies of US$58.4 million, as a result of increased sales to fabless companies, such as TMC and Huada.

Cost of sales

Our cost of sales increased by 7.4% from US$215.9 million for the six months ended June 30, 2013 to US$231.9 million for the six months ended June 30, 2014 which was primarily attributable to the increase in sales volume and labor costs from the wage increase at the beginning of 2014, partially offset by a decrease in depreciation and amortization expenses.

Gross profit

As a result of the foregoing factors, our gross profit increased by 40.2% from US$66.0 million for the six months ended June 30, 2013 to US$92.5 million for the six months ended June 30, 2014, and our gross profit margin increased from 23.4% in the six months ended June 30, 2013 to 28.5% for the same period in 2014. This increase can be primarily attributed to an increase in the average utilization rate of our fabs and the decrease in depreciation embedded in our cost of sales.

Other income and gains

Our other income and gains decreased by 25.7% from US$14.0 million for the six months ended June 30, 2013 to US$10.4 million for the six months ended June 30, 2014. The decrease was primarily attributable to a decrease of US$3.4 million in foreign exchange gains due to a general depreciation of the RMB against the US dollar in the first six months of 2014, while the RMB generally appreciated against the US dollar for the same period in 2013.

Fair value gains on investment property

Our fair value gains on investment property decreased by 75.0% from US$1.6 million for the six months ended June 30, 2013 to US$0.4 million for the six months ended June 30, 2014, primarily because the value of our investment properties increased at a slower pace in the six months ended June 30, 2014 than the same period in 2013, as a result of the general trends in the real estate market in China.

Selling and distribution expenses

Our selling and distribution expenses decreased by 12.8% from US$3.9 million for the six months ended June 30, 2013 to US$3.4 million for the six months ended June 30, 2014. The decrease was primarily attributable to a decrease in business travelling and market research expenses.

Administrative expenses

Our administrative expenses increased by 9.4% from US$35.1 million for the six months ended June 30, 2013 to US$38.4 million for the six months ended June 30, 2014. This increase was primarily due to (i) an increase in labor expenses of US$2.8 million as we had a wage raise at the beginning of 2014, (ii) the incurrence of listing expenses of US$2.7 million, and (iii) the rent of US$1.1 million accrued in relation to the dormitory we rented from Huahong Real Estate, partially offset by an increase of US$1.4 million in government grants recognized in R&D expenses and a decrease of US$1.0 million in engineering costs compared to the same period in 2013.

Other expenses

Our other expenses increased from US$0.2 million for the six months ended June 30, 2013 to US$1.8 million for the six months ended June 30, 2014, primarily due to a foreign exchange loss.

Finance costs

Our finance costs decreased by 20.7% from US$8.2 million for the six months ended June 30, 2013 to US$6.5 million for the six months ended June 30, 2014, as a result of a decrease of bank loan principal we repaid during the six months ended June 30, 2014.

Share of profits of an associate

Our share of profits of an associate amounted to US$4.5 million for the six months ended June 30, 2014 due to (i) the sale of properties by Huahong Real Estate, the subsidiary wholly owned by Huahong Technology Development, in the six months ended June 30, 2014, and (ii) the increased appraisal value of the dormitory building owned by Huahong Real Estate.

Profit before tax

As a result of the foregoing factors, our profit before income tax increased by 68.5% from US$34.3 million for the six months ended June 30, 2013 to US$57.8 million for the six months ended June 30, 2014.

Income tax expense

Our income tax expense increased by 235.9% from US$3.9 million for the six months ended June 30, 2013 to US$13.1 million for the six months ended June 30, 2014, as a result of withholding tax for net profit from HHGrace and an increase in our taxable income. Our effective tax rate increased from 11.3% for the six months ended June 30, 2013 to 22.6% for the six months ended June 30, 2014 , because: (i) Grace Shanghai, which previously incurred no taxes due to accumulated losses, is now fully integrated and taxed under HHGrace, and (ii) a 10% withholding tax for onshore to offshore dividends has been factored in the six months ended June 30, 2014. There was no withholding tax impact in the prior period because the two pre-restructuring entities each had accumulated losses and hence no capacity to issue dividends.

Profit for the period

As a result of the cumulative effect of the above factors, our profit increased from US$30.4 million for the six months ended June 30, 2013 to US$44.7 million for the six months ended June 30, 2014.

Year ended December 31, 2013 compared to year ended December 31, 2012

Revenue

Our revenue increased by 2.3% from US$571.5 million in 2012 to US$584.7 million in 2013. The increase was primarily due to an increase in wafer sales driven by increased demand from our customers based in China, Japan and Europe, partially offset by a decrease in demand from certain of our customers based in the United States. In 2013, the volume of wafers sold increased by 4.5% as compared to 2012 and our blended average selling price of wafers declined by 2.1% in the same period.

In terms of technology, the increase was primarily due to an increase in revenue from eNVM of US$28.1 million and an increase in revenue from analog and power management of US$15.4 million, reflecting our strategy to concentrate on higher margin and higher growth products, such as MCUs, smart cards and LED lighting ICs using BCD 700V technology. This was partially offset by a decrease in revenue from discretes of US$11.8 million and a decrease in revenue from standalone NVM of US$16.3 million.

In terms of process technology nodes, the increase was primarily due to an increase in revenue from 0.13μm and below process technology nodes of US$25.5 million, which was partially offset by a decrease in revenue from 0.35μm and above process technology nodes of US$22.3 million, as we strategically focused on increasing our revenue contribution from more advanced technology nodes, such as 0.13μm, 0.11μm and 90nm.

In terms of wafer revenue by customer type, the increase was due to an increase in revenue from systems and fabless companies of US$23.2 million, as a result of increased sales to systems and fabless companies in China and Europe.

Cost of sales

Our cost of sales increased by 1.3% from US$453.6 million in 2012 to US$459.3 million in 2013. This increase in cost of sales was largely driven by an increase of US$11.0 million in overhead expenses primarily related to a one-off maintenance and upgrade of our fabs, a decrease in government grants recognized in cost of sales of US$9.7 million, an increase of US$6.2 million in utility expenses due to an increase in unit price, an increase of US$6.1 million in labor costs due to a pay raise for our manufacturing employees and higher social security payment base requirements, an increase of US$2.2 million in material costs due to an increase in the volume of wafers sold, and an increase of US$8.6 million in other costs. These increases were largely offset by a substantial decrease of US$38.2 million in depreciation of our fabs.

Gross profit

As a result of the foregoing factors, our gross profit increased by 6.4% from US$117.9 million in 2012 to US$125.4 million in 2013, and our gross profit margin increased from 20.6% in 2012 to 21.5% in 2013.

Other income and gains

Our other income and gains increased by 15.5% from US$26.5 million in 2012 to US$30.6 million in 2013. The increase was primarily attributable to (i) an increase of US$4.0 million in interest income from an additional loan extended to an associate in 2013 and (ii) an increase of US$3.7 million in foreign exchange gains due to higher appreciation of the RMB against the US dollar in 2013 compared to 2012. The increase was partially offset by a decrease of US$3.3 million in gains on disposal of items of property, plant and equipment in progress and prepaid land lease payment because most of the transfer of construction and prepaid land use right to Huahong Technology Development was completed by 2012 resulting in lower gains of US$0.8 million in 2013 compared to US$4.1 million in 2012.

Fair value gains on investment property

Our fair value gains on investment property amounted to US$0.9 million and US$2.1 million in 2012 and 2013, respectively.

Selling and distribution expenses

Our selling and distribution expenses decreased by 8.0% from US$8.8 million in 2012 to US$8.1 million in 2013. The decrease was primarily attributable to a decrease of US$0.5 million in labor expenses for sales personnel primarily due to a reduction in sales headcount.

Administrative expenses

Although our labor expenses and engineering costs were stable between 2012 and 2013, our administrative expenses increased by 25.2% from US$55.1 million in 2012 to US$69.0 million in 2013. This increase was primarily due to a decrease of US$15.8 million in government grants recognized in R&D expenses.

Other expenses

Our other expenses decreased by 50.0% from US$0.4 million in 2012 to US$0.2 million in 2013.

Finance costs

Our finance costs remained relatively stable at US$16.9 million in 2012 and US$16.5 million in 2013.

Share of profits of an associate

Our share of profits of an associate increased by 77.8% from US$3.6 million in 2012 to US$6.4 million in 2013 primarily due to increased property sales by Huahong Technology Development.

Profit before tax

As a result of the foregoing factors, our profit before income tax increased by 4.6% from US$67.7 million in 2012 to US$70.8 million in 2013.

Income tax expense

Our income tax expense increased by 12.5% from US$8.0 million in 2012 to US$9.0 million in 2013, as a result of an increase in our taxable income. Our effective tax rate increased from 11.8% in 2012 to 12.7% in 2013.

Profit for the year

As a result of the cumulative effect of the above factors, our profit for the year increased from US$59.7 million in 2012 to US$61.8 million in 2013. Our net margin remained relatively stable at 10.4% and 10.6% in 2012 and 2013, respectively.

Year ended December 31, 2012 compared to year ended December 31, 2011

Revenue

Our revenue decreased by 6.3% from US$609.8 million in 2011 to US$571.5 million in 2012. The decrease was primarily due to lower wafer sales in 2012, resulting from the reduced demand for end products of one of our key customers in the United States following particularly strong demand for its products in 2011, and change in foundry sourcing strategy of another US customer, following its acquisition of a fab, which resulted in a decline in orders from that customer. In 2012, the volume of wafers sold decreased by 2.7% as compared to 2011 and our blended average selling price of wafers declined by 2.8% in the same period.

Our revenues derived from eNVM technology decreased by US$27.0 million, primarily due to a decrease in demand for MCU products from one of our key US customers. Our revenues derived from standalone NVM decreased by US$23.4 million, primarily due to lower demand for such products from one US and one Japanese customer. These decreases were partially offset by an increase of US$11.6 million in demand for logic products in Japan and Asia.

In terms of process technology nodes, the decrease was primarily due to a decrease in revenue from 0.25μm process technology node of US$36.5 million, which was partially offset by an increase in revenue from 0.13μm and below process technology nodes of US$22.0 million, as we strategically focused on increasing our revenue contribution from more advanced technology nodes, such as 0.13μm, 0.11μm and 90nm.

In terms of wafer revenue by customer type, the increase was due to a decrease in revenue from IDMs of US$34.8 million, as a result of the reduced demand in 2012 for end products of certain of our key customers in the United States following a particularly strong demand for their products in 2011, and a change in foundry sourcing strategy by one of our US customers, which resulted in a decrease in orders from this customer.

Cost of sales

Our cost of sales decreased by 1.2% from US$459.2 million in 2011 to US$453.6 million in 2012. This decrease in cost of sales was largely driven by a decrease of US$4.4 million in material costs due to a decrease in the volume of wafers sold, a decrease of US$7.6 million in depreciation and amortization, a decrease of US$3.0 million in overhead expenses because we performed preventive maintenance in certain of our fabs in 2011, as well as a decrease of US$3.4 million in other costs. The decrease was partially offset by an increase of US$7.3 million in labor costs due to increased social security payment base requirements and an increase of US$2.5 million in utility expenses due to an increase in unit price.

Gross profit

As a result of the foregoing factors, our gross profit decreased by 21.8% from US$150.7 million in 2011 to US$117.9 million in 2012, and our gross profit margin decreased from 24.7% in 2011 to 20.6% in 2012.

Other income and gains

Our other income and gains decreased by 48.0% from US$51.0 million in 2011 to US$26.5 million in 2012. The decrease was primarily attributable to (i) a decrease of US$16.5 million in foreign exchange gains from our US dollar loans due to a slower appreciation of the RMB against the US dollar in 2012 compared to 2011 and a lower bank loans balance in 2012, (ii) a decrease of US$6.7 million in subsidies granted by the municipal government, and (iii) a decrease of US$3.1 million in gains on disposal of items of property, plant and equipment in progress and prepaid land lease payment due to lower amount of construction and prepaid land use rights transferred to Huahong Technology Development in 2012 compared to 2011.

Fair value gains on investment property

Our fair value gains on investment property decreased by 30.8% from US$1.3 million in 2011 to US$0.9 million in 2012.

Selling and distribution expenses

Our selling and distribution expenses decreased by 14.6% from US$10.3 million in 2011 to US$8.8 million in 2012. The decrease was primarily attributable to (i) a decrease of US$0.6 million in labor expenses for sales personnel due to a reduction in sales headcount, and (ii) a decrease of US$0.8 million in others primarily due to the closure of our Germany office at the end of 2012.

Administrative expenses

Our administrative expenses decreased by 10.1% from US$61.3 million in 2011 to US$55.1 million in 2012. This decrease was primarily due to (i) a decrease of US$5.6 million in one-time impairment on construction in progress recognized in 2011 as a result of annual impairment assessment and (ii) a decrease of US$3.3 million in professional services fees due to higher professional services fees incurred in 2011 as a result of the Merger concluded that year, partially offset by a decrease of US$2.6 million in government grants.

Other expenses

Our other expenses decreased by 92.9% from US$5.6 million in 2011 to US$0.4 million in 2012. This decrease was primarily due to a one-time settlement fee of US$5.5 million to a potential customer incurred in 2011 in connection with the MOU.

Finance costs

Our finance costs decreased from US$19.2 million in 2011 to US$16.9 million in 2012 due to decreased interest payments of US$0.6 million following our repayment of certain bank loans in 2011 and a decrease of US$1.3 million in interest on finance leases.

Share of profits of an associate

Our share of profits of an associate amounted to US$3.6 million in 2012. We did not have any share of profits of an associate in 2011.

Profit before tax

As a result of the foregoing factors, our profit before income tax decreased by 36.5% from US$106.6 million in 2011 to US$67.7 million in 2012.

Income tax expense

Our income tax expense decreased by 27.3% from US$11.0 million in 2011 to US$8.0 million in 2012, primarily as a result of a decrease in taxable income. Our effective tax rate increased from 10.3% in 2011 to 11.8% in 2012.

Profit for the year

As a result of the cumulative effect of the above factors, our profit for the year decreased by 37.6% from US$95.6 million in 2011 to US$59.7 million in 2012. Our net margin decreased from 15.7% in 2011 to 10.4% in 2012.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations primarily with net cash generated from our operations, capital contributions by investors and bank borrowings. As of June 30, 2014, we had US$298.1 million in cash and cash equivalents, of which US$213.4 million were denominated in RMB, while the remaining balances were mainly denominated in US dollars. Our cash and cash equivalents primarily consist of cash and bank balances and time deposits.

Extracts of consolidated statements of cash flows

The following table sets forth a summary of our consolidated statements of cash flows for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Net cash generated from operating activities	232,379	168,932	184,234	74,233	67,884
Net cash used in investing activities	(97,623)	(149,560)	(16,754)	(27,088)	(59,061)
Net cash (used in)/ generated from financing activities	(106,730)	(130,644)	(72,059)	17,330	(26,131)
Net increase/(decrease) in cash and cash equivalents	28,026	(111,272)	95,421	64,475	(17,308)
Cash and cash equivalents at beginning of the year/period	309,851	329,738	218,170	218,170	317,045
Effect of foreign exchange rate changes, net	(8,139)	(296)	3,454	2,633	(1,601)
Cash and cash equivalents at end of the year/period	329,738	218,170	317,045	285,278	298,136

Operating activities

We derive our cash inflows from operations principally from the receipts in respect of the sales of our products. Our cash outflows from operations are principally payments for purchases of products and raw materials, selling and distribution expenses, administrative expenses and other operating expenses.

Cash generated from operations reflects our profit before income tax, adjusted for (i) the cash flow effects of certain income statement items, including finance costs, share of profits of an associate, interest income, gain on disposal of items of property, plant and equipment and prepaid land lease payment, depreciation, changes in fair value of an investment property, write-down of inventories to net realizable value, impairment of trade receivables and other receivables, impairment of items of property, plant and equipment, amortization of intangible assets and amortization of prepaid land lease payments, and (ii) the effects of changes in our working capital, including changes in inventories, trade and note receivables, prepayments, deposits and other receivables, amounts due from related parties, pledged and time deposits, trade payables, other payables, advances from customers and accruals, government grants and amounts due to related parties.

In the six months ended June 30, 2014, net cash generated from operating activities was US$67.9 million, consisting of cash generated from operations of US$76.0 million and income tax paid of US$8.1 million. Our profit before working capital adjustments was US$101.5 million. Negative working capital adjustments reflected (i) an increase in trade and note receivables of US$20.9 million due to an increase in sales volume, (ii) a decrease in government grants of US$14.4 million, and (iii) an increase in amounts due from related parties of US$7.4 million. Such negative adjustments were partially offset by a decrease in inventories of US$16.7 million because of a decrease in unit costs as a result of an increase in the average utilization rate of our fabs.

In 2013, net cash generated from operating activities was US$184.2 million, consisting of cash generated from operations of US$192.5 million and income tax paid of US$8.3 million. Our profit before working capital adjustments was US$179.7 million. Positive working capital adjustments reflected (i) a decrease in amounts due from related parties of US$18.9 million primarily as a result of a decrease in sales to certain of our related parties, (ii) an increase in government grants of US$4.7 million and (iii) an increase in other payables, advances from customers and accruals of US$5.3 million mainly due to an increase in accruals related to utility expenses incurred. Such positive adjustments were partially offset by (i) a decrease in amounts due to related parties of US$12.4 million as a result of the rental prepayment of Shanghai Huali being recognized into other income, and (ii) an increase in inventories of US$5.0 million primarily as a result of increased production in the fourth quarter of 2013 compared to the corresponding period in 2012.

In 2012, net cash generated from operating activities was US$168.9 million, consisting of cash generated from operations of US$173.5 million and income tax paid of US$4.5 million. Our profit before working capital adjustments was US$216.3 million. Negative working capital adjustments reflected (i) an increase in amounts due from related parties of US$17.7 million primarily as a result of an increase in sales to certain of our related parties in the fourth quarter of 2012 compared to the corresponding period in 2011, (ii) an increase in trade receivables of US$14.1 million resulting from higher sales in the fourth quarter of 2012 compared to the corresponding period in 2011, (iii) a decrease in government grants of US$10.6 million, and (iv) a decrease in amounts due to related parties of US$9.7 million due to the rental prepayment of Shanghai Huali being recognized as other income. Such negative adjustments were offset in part by (i) a decrease in inventories of US$8.0 million primarily as a result of a decrease in work in progress of US$13.9 million and a decrease in raw materials of US$8.0 million, partially offset by an increase in finished goods of US$7.2 million, as described in more detail below under "— Analysis of Selected Consolidated Balance Sheet Items — Inventories", and (ii) an increase in trade payables and accruals of US$3.6 million due to higher sales in the fourth quarter of 2012 compared to the corresponding period in 2011.

In 2011, net cash generated from operating activities was US$232.4 million consisting of cash generated from operations of US$232.4 million. Our profit before working capital adjustments was US$273.5 million. Negative working capital adjustments reflected (i) an increase in amounts due from related parties of US$30.3 million primarily as a result of an increase in sales to certain of our related parties, (ii) a decrease in trade payables of US$13.7 million due to lower purchases because of lower wafer demand in the fourth quarter of 2011 compared to the corresponding period in 2010, (iii) a decrease in amounts due to related parties of US$9.5 million due to the rental prepayment of Shanghai Huali being recognized in other income, and (iv) a decrease in government grants of US$8.9 million. Such negative adjustments were offset in part by a decrease in trade receivables of US$23.9 million due to decreased sales in the fourth quarter of 2011 compared to the corresponding period in 2010.

Investing activities

Our cash outflows from investing activities reflect purchases of items of property, plant and equipment, purchases of items of intangible assets, acquisitions of an associate, advances of loans to an associate, purchases of available-for-sale investments, and decrease in pledged and time deposits. Our cash inflows from investing activities reflect interest received, dividend received from an associate, proceeds from disposal of items of property, plant and equipment and prepaid land lease payments, recovery of loans from an associate, receipt of government grants and increase in pledged and time deposits.

Net cash used in the investing activities for the six months ended June 30, 2014 was US$59.1 million, which was primarily attributable to the following: (i) purchases of available-for-sale investments of US$57.1 million in connection with the payment of our final installment of our investment in Shanghai Huali, and (ii) purchases of items of property, plant and equipment of US$28.9 million, which were partially offset by recovery of loans from an associate of US$24.5 million and dividends received from an associate of US$8.2 million.

Net cash used in investing activities in 2013 was US$16.8 million, which was primarily attributable to the following: (i) purchases of items of property, plant and equipment of US$32.2 million in connection with expansion of and upgrades to our fabs, and (ii) advances of loans to an associate of US$24.5 million, which were partially offset by recovery of loans to an associate of US$31.5 million and interest received of US$8.2 million.

Net cash used in investing activities in 2012 was US$149.6 million, which was primarily attributable to (i) purchases of available-for-sale investments of US$111.2 million in relation to investments in Shanghai Huali, (ii) purchases of items of property, plant and equipment of US$51.4 million in connection with expansion of and upgrades to our fabs, (iii) advances of loans to an associate of US$31.8 million, and (iv) investment in an associate of US$13.8 million, which were partially offset by (i) a decrease in pledged and time deposits of US$34.4 million, and (ii) proceeds from disposal of items of property, plant and equipment and prepaid land lease payments of US$16.6 million in connection with the transfer of the construction in progress and the related prepaid land use rights to Huahong Technology Development.

Net cash used in investing activities in 2011 was US$97.6 million, which was primarily attributable to the following: (i) purchases of items of property, plant and equipment of US$89.2 million in connection with expansion of and upgrades to our fabs, and (ii) an increase in pledged and time deposits of US$34.4 million, and (iii) investment in an associate of US$28.9 million, partially offset by proceeds from disposal of items of property, plant and equipment and prepaid land lease payments of US$43.3 million in connection with the transfer of the construction in progress and the related prepaid land use rights to Huahong Technology Development.

Financing activities

Our cash inflows from financing activities primarily include cash received from exercise of share options and new bank loans. Our cash outflows from financing activities primarily include interest paid, repayment of bank loans, repayment of convertible bonds, acquisition of non-controlling interests and capital element of finance lease rental payments.

Net cash used in financing activities for the six months ended June 30, 2014 was US$26.1 million, which was attributable to the following: (i) repayment of bank loans of US$19.6 million, and (ii) interest paid of US$6.5 million.

Net cash used in financing activities in 2013 was US$72.1 million, which was attributable to (i) repayments of borrowings of US$100.6 million and (ii) interest paid of US$16.5 million, partially offset by new bank loans of US$45.0 million.

Net cash used in financing activities in 2012 was US$130.6 million, which was attributable to (i) repayment of bank loans of US$95.5 million, (ii) repayment of convertible bonds of US$69.0 million and (iii) interest paid of US$17.1 million, partially offset by new bank loans of US$51.0 million.

Net cash used in financing activities in 2011 was US$106.7 million, which was primarily attributable to: (i) repayment of bank loans of US$100.6 million and (ii) acquisition of non-controlling interests of US$32.0 million, partially offset by cash received from exercise of share options of US$40.7 million.

CAPITAL EXPENDITURES

Our capital expenditures decreased from US$94.9 million in 2011 to US$59.4 million in 2012, and further decreased to US$34.8 million in 2013. Our capital expenditures were US$6.8 million and US$29.7 million, respectively, for the six months ended June 30, 2013 and 2014. Our capital expenditures were used primarily for expansion and upgrades to our fabs. The following table sets forth our capital expenditures for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Additions to:					
Property, plant and equipment	89,190	51,358	32,201	5,113	28,855
Intangible assets	5,712	8,088	2,615	1,670	867
Total	94,902	59,446	34,816	6,783	29,722

During the Track Record Period, we financed our capital expenditures primarily with cash generated from operations and bank loans. For the years ending December 31, 2014, 2015 and 2016, our planned capital expenditure will be approximately US$139.0 million, US$326.0 million and US$87.5 million, respectively, subject to adjustment based on market conditions. Of these, we estimate that approximately US$96.3 million, US$263.0 million and US$24.5 million will be used for capacity expansion and upgrades for the corresponding period, with the remainder to be used for maintenance and other purposes. We plan to fund our planned capital expenditure by using the cash on our balance sheet, the cash flow generated from our operations and the net proceeds received from this Global Offering. Please see the section headed "Future Plans and Use of Proceeds — Future Plans" for more details.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Capital commitments

The table below sets forth the total amount of our capital expenditures contracted for but not yet incurred as of the dates indicated.

	As of December 31,			As of June 30, 2014
	2011	2012	2013	
	US$'000	US$'000	US$'000	US$'000
Property, plant and equipment	5,842	3,473	16,405	31,142
Equity investment	166,642	55,684	57,406	—

Operating lease commitments

(a) *Our Company as lessor*

We lease our investment property to Shanghai Huali under an operating lease arrangement, with a lease term of 20 years, which will expire by 2030. The terms of the lease generally also require the tenant to provide for periodic rent adjustments according to the then prevailing market conditions. The table below sets forth the aggregate future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	As of December 31,			As of June 30, 2014
	2011	2012	2013	
	US$'000	US$'000	US$'000	US$'000
Within a year	12,383	12,413	12,797	12,681
In the second to fifth years, inclusive	49,532	49,653	51,189	50,724
More than five years	163,043	151,029	142,904	135,265
	224,958	213,095	206,890	198,670

In 2010, we received an advance from Shanghai Huali in the amount of US$56.1 million for the minimum lease payment of a five-year term. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balance of such advance was US$39.5 million, US$27.7 million, US$16.1 million and US$9.6 million, respectively.

(b) *Our Company as lessee*

We also lease certain of our office and dormitory properties as lessee under operating lease arrangements. The terms of the operating lease arrangements vary from one to twenty years with an option for renewal after the end of the lease terms, at which time all terms will be renegotiated. The table below sets forth the aggregate future minimum lease payments under non-cancellable operating leases falling due as follows:

	As of December 31,			As of June 30, 2014
	2011	2012	2013	
	US$'000	US$'000	US$'000	US$'000
Within one year	397	1,004	350	1,189
In the second to fifth years, inclusive	86	106	—	6,563
More than five years	—	—	—	24,611
	483	1,110	350	32,363

As of June 30, 2014, our advance payments to Hua Hong Real Estate under the lease agreements for the two dormitories amounted to US$4.1 million.

WORKING CAPITAL

The table below sets forth the details of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of August 31,
	2011	2012	2013	2014	2014
	US$'000	US$'000	US$'000	US$'000	US$'000 (unaudited)
Current assets					
Inventories	105,670	97,586	99,229	81,353	81,547
Trade and notes receivables	91,107	105,158	105,525	126,437	114,972
Prepayments, deposits and other receivables	4,789	7,456	7,193	5,134	4,420
Due from related parties	47,887	97,377	72,722	55,638	59,985
Pledged and time deposits	35,339	687	2,072	15,368	12,459
Cash and cash equivalents	329,738	218,170	317,045	298,136	326,157
Total current assets	614,530	526,434	603,786	582,066	599,540
Current liabilities					
Trade payables	53,674	57,299	60,227	62,287	61,910
Other payables, advances from customers and accruals	56,549	56,782	65,649	78,546	70,047
Interest-bearing bank and other borrowings	163,742	99,750	101,513	100,980	100,867
Government grants	67,443	56,955	63,462	48,567	53,841
Due to related parties	44,138	34,444	22,009	20,761	17,614
Income tax payable	6,918	9,053	10,999	12,718	15,063
Total current liabilities	392,464	314,283	323,859	323,859	319,342
Net current assets	222,066	212,151	279,927	258,207	280,198

Our net current assets decreased by US$21.7 million from US$279.9 million as of December 31, 2013 to US$258.2 million as of June 30, 2014, primarily due to (i) a decrease in cash and cash equivalents of US$18.9 million, (ii) a decrease in inventories of US$17.9 million, (iii) a decrease in amounts due from related parties of US$17.1 million, and (iv) an increase in other payables, advances from customers, and accruals of US$12.9 million, partially offset by (i) an increase in trade and notes receivables of US$20.9 million, (ii) an increase in pledged and time deposits of US$13.3 million, and (iii) a decrease in government grants of US$14.9 million.

Our net current assets increased by US$67.7 million from US$212.2 million as of December 31, 2012 to US$279.9 million as of December 31, 2013, primarily due to (i) an increase in cash and cash equivalents of US$98.9 million and (ii) a decrease in amounts due to related parties of US$12.4 million, partially offset by (i) a decrease in amounts due from related parties of US$24.7 million, (ii) an increase in other payables, advances from customers and accruals of US$8.9 million, and (iii) an increase in government grants of US$6.5 million.

Our net current assets decreased by US$9.9 million from US$222.1 million as of December 31, 2011 to US$212.2 million as of December 31, 2012, primarily due to (i) a decrease in cash and cash equivalents of US$111.6 million, (ii) a decrease in pledged and time deposits of US$34.7 million and (iii) a decrease in inventories of US$8.1 million, partially offset by (i) a decrease in interest-bearing bank and other borrowings of US$64.0 million, (ii) an increase of US$49.5 million in amounts due from related parties, (iii) an increase in trade and notes receivables of US$14.1 million, (iv) a decrease in government grants of US$10.5 million and (v) a decrease in amounts due to related parties of US$9.7 million.

Working Capital Sufficiency

Taking into account cash and cash equivalents on hand, our operating cash flows, banking facilities and the net proceeds available to us from the Global Offering, our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus. As of August 31, 2014, we had cash and cash equivalents of US$326.2 million.

Our future cash requirements will depend on many factors, including our operating income, capital expenditures on property, plant and equipment, land use rights and intangible assets, market acceptance of our products or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, issue debt securities or borrow from lending institutions. See “Risk Factors — Risks Relating to Our Business — We may not be able to implement our planned growth or development if we are unable to obtain sufficient financial resources to meet our future capital requirements”.

INDEBTEDNESS

Save as disclosed in this prospectus, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities, or unutilized bank facilities as of August 31, 2014, being the latest practicable date for our indebtedness statement. Since August 31, 2014 and up to the date of this prospectus, there has not been any material adverse change in our indebtedness and contingent liabilities. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise. Our Directors confirm that the Company does not have any external financing plans as of the Latest Practicable Date.

There are no material restrictive covenants relating to any of our outstanding debts. During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not breach any restrictive covenants.

ANALYSIS OF SELECTED CONSOLIDATED BALANCE SHEET ITEMS

Property, plant and equipment

Our property, plant and equipment decreased by US$87.7 million from US$703.2 million as of December 31, 2011 to US$615.5 million as of December 31, 2012, primarily due to depreciation of plant and machinery of US$112.4 million, partially offset by additions to construction in progress of US$42.2 million mainly due to capacity expansion and upgrades.

Our property, plant and equipment decreased by US$36.2 million from US$615.5 million as of December 31, 2012 to US$579.3 million as of December 31, 2013 primarily due to depreciation of plant and machinery of US$73.9 million, partially offset by additions to construction in progress of US$32.7 million. Transfers of construction in progress were primarily related to capacity expansion and upgrades.

Our property, plant and equipment decreased by US$7.3 million from US$579.3 million as of December 31, 2013 to US$572.0 million as of June 30, 2014 primarily due to (i) depreciation of buildings, plant and machinery of US$32.5 million, and (ii) exchange realignment of US$5.3 million, partially offset by additions to construction in progress of US$31.5 million primarily related to the fab maintenance and planned capacity expansion and upgrade.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. To minimize the risk of building up inventory, we review our inventory levels on a monthly basis. We believe that maintaining appropriate levels of inventories can help us deliver our products to meet the market demand in a timely manner without straining our liquidity. The value of our inventories accounted for approximately 17.2%, 18.5%, 16.4% and 14.0% of our total current assets as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively.

The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Raw materials	47,485	39,508	39,283	40,983
Work in progress	48,677	34,745	43,276	31,178
Finished Goods	19,995	27,211	23,910	17,516
Less: provision for inventories	(10,487)	(3,878)	(7,240)	(8,324)
	105,670	97,586	99,229	81,353

Our inventory decreased from US$105.7 million as of December 31, 2011 to US$97.6 million as of December 31, 2012, primarily due to a decrease in work in progress of US$13.9 million mainly due to our improved testing capacity and capability in 2012 and a decrease in raw materials of US$8.0 million. Such decrease occurred mainly because we strategically increased our raw material inventory level in light of the Japanese earthquake and tsunami incident in March 2011 and such inventory level normalized in 2012, and was partially offset by an increase in finished goods of US$7.2 million mainly due to a build-up in the inventory of certain products at a customer's request during a period of weak market demand and a decrease of US$6.6 million in provision for inventories.

Our inventory increased from US$97.6 million as of December 31, 2012 to US$99.2 million as of December 31, 2013, primarily due to an increase in work in progress of US$8.5 million mainly due to an increase in the average utilization rate of our fabs in the fourth quarter of 2013, partially offset by a decrease in finished goods of US$3.3 million mainly as a result of strong market demand and an increase in provision for inventories of US$3.4 million.

Our inventory decreased from US$99.2 million as of December 31, 2013 to US$81.4 million as of June 30, 2014, primarily due to a decrease in work in progress of US$12.1 million due to a decrease in unit costs as a result of an increase in the average utilization rate of our fabs, partially offset by a slight increase in raw materials of US$1.7 million.

As of August 31, 2014, approximately US$54.8 million, or 67.3% of our inventories as of June 30, 2014 had been used or consumed subsequent to June 30, 2014.

The following table sets forth our inventory turnover days for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
Inventory turnover days[(1)]	82	82	78	71

Note:

(1) Inventory turnover days are derived by dividing the average inventory for the relevant period by cost of sales and multiplying by 365 days or 183 days during the year/period.

Our inventory turnover days remained unchanged at 82 days in 2011 and 2012, and slightly decreased to 78 days in 2013 and further decreased to 71 days in the six months ended June 30, 2014, primarily due to our stringent inventory control. We aim to continue to actively manage our inventory turnover days in the future.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, write-down of inventories was US$2.5 million, US$0.1 million, US$3.4 million and US$1.2 million, respectively, representing approximately 0.4%, 0.01%, 0.6% and 0.4%, respectively, of our revenue for the same periods. At each balance sheet date, we state inventory at the lower of cost and net realizable value. If the cost is higher than the net realizable value, we will make the provision for inventory losses through profit or loss. If factors that resulted in the provision for the inventory have disappeared and the net realizable value therefore became higher than the book value, we will reverse the amount of write-down, and recognize the reversed amount in the income statement for the current period.

Trade and notes receivables

The following table sets forth our trade and notes receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Trade receivables	62,923	90,950	88,778	93,561
Notes receivable	29,988	16,022	18,612	34,725
	92,911	106,972	107,390	128,286
Less: Impairment of trade receivables	(1,804)	(1,814)	(1,865)	(1,849)
Trade receivables — net	91,107	105,158	105,525	126,437

Our trade and notes receivables represent receivables from our customers. We generally grant our customers a credit period of 30 to 45 days. For our major customers, we generally grant a credit period of 60 days.

Our trade receivables and notes receivables increased from US$91.1 million as of December 31, 2011 to US$105.2 million as of December 31, 2012 primarily because of an increase in sales in the fourth quarter of 2012 compared to the corresponding period in 2011. Our trade receivables remained stable at US$105.2 million as of December 31, 2012 and US$105.5 million as of December 31, 2013. Our trade and notes receivables increased from US$105.5 million as of December 31, 2013 to US$126.4 million as of June 30, 2014, primarily due to an increase in sales volume.

The following table sets forth our trade and notes receivables turnover days for the periods indicated.

	Year Ended December 31,			Six Months Ended
	2011	2012	2013	June 30, 2014
Trade and notes receivables turnover days[(1)]	62	63	66	65

Note:

(1) Trade receivables turnover days are equal to the average balance of trade and notes receivables at the beginning and the end of the relevant period divided by revenue for such period and multiplied by 365 days or 183 days during the year/period.

Our trade and notes receivables turnover days increased from 62 days in 2011 to 63 days in 2012, and further increased to 66 days in 2013, primarily due to the increase in balances of trade receivables as a result of increased sales to our domestic customers to whom we typically grant longer credit periods. Our trade and notes receivables turnover days decreased to 65 days for the six months ended June 30, 2014. We intend to maintain our trade and notes receivables turnover days at a level of less than 60 days and have undertaken measures aimed at reducing our trade and notes receivables turnover days. We regularly review our customers' payment history and also review the aging of our trade receivables on a monthly basis. We believe our credit control policy is appropriate.

The following table sets forth the aging analysis of our trade receivables as of the dates indicated, based on the invoice date and net of provisions.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Within 90 days	55,080	76,145	79,768	87,091
Over 90 days and within 180 days	5,830	12,194	6,686	3,986
Over 180 days and within 1 year	209	797	459	635
	61,119	89,136	86,913	91,712

The following table sets forth the aging analysis of our trade receivables that were not individually nor collectively considered to be impaired as of the dates indicated.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Neither past due nor impaired	53,007	60,817	67,516	69,548
Less than 1 month past due	4,472	18,803	12,324	18,377
1-3 months past due	2,681	7,042	5,497	3,034
4-6 months past due	908	1,940	1,331	724
7-12 months past due	51	534	245	29
	61,119	89,136	86,913	91,712

We consider an amount that is not paid on schedule pursuant to the agreement with us to be past due. Our trade and notes receivables past due were primarily due to late payments. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the amounts past due but not impaired of our trade and notes receivables were US$8.1 million, US$28.3 million, US$19.4 million and US$22.2 million, accounting for 13.3%, 31.8%, 22.3% and 24.2% of our total trade and notes receivables, respectively. The significant increase in the amounts past due of our trade and notes receivables in 2012 was due to the delayed payment from one of our customers due to a temporary cash shortage, which had been settled by March of 2013. The decrease in the amounts past due of our trade receivables in 2013 was primarily due to the adoption of a stricter policy on trade receivables collection. We do not hold any collateral against our trade receivables. We review the aging of trade receivables on a monthly basis. As of the Latest Practicable Date, 93.5% of our trade receivables as of June 30, 2014 had been settled subsequent to June 30, 2014.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, US$1.8 million, US$1.8 million, US$1.9 million and US$1.8 million, respectively, of trade and notes receivables were past due and impaired.

Prepayments, deposits and other receivables

The following table sets forth our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Other receivables	1,312	2,339	2,284	2,475
Prepayments	2,711	4,417	4,187	1,943
Current portion of prepaid land lease payments	766	700	722	716
	4,789	7,456	7,193	5,134

Our prepayments, deposits and other receivables increased by US$2.7 million from US$4.8 million as of December 31, 2011 to US$7.5 million as of December 31, 2012 primarily due to an increase of US$1.0 million in other receivables as a result of increased masks income. Our prepayments, deposits and other receivables decreased by US$0.3 million from US$7.5 million as of December 31, 2012 to US$7.2 million as of December 31, 2013. Our prepayments, deposits and other receivables decreased by US$2.1 million from US$7.2 million as of December 31, 2013 to US$5.1 million as of June 30, 2014 due to a decrease in prepayments of US$2.2 million, which was partially offset by an increase in other receivables of US$0.2 million.

Available-for-sale investment

Our available-for-sale investment represents our equity interest in an unlisted company, Shanghai Huali. We made capital contributions for this investment by installment. Our available-for-sale investment increased by US$111.6 million from US$55.5 million as of December 31, 2011 to US$167.1 million as of December 31, 2012 as a result of the installments we made, and further to US$172.2 million as of December 31, 2013, primarily as a result of foreign exchange rate movements. Our available-for-sale investments increased by US$57.0 million from US$172.2 million to US$229.2 million, as we paid the final installment of our investment in Shanghai Huali in the amount of RMB350 million in February 2014, which resulted in us holding a 17.72% equity interest in Shanghai Huali.

Pledged and time deposits and cash and cash equivalents

Pledged and time deposits represent guaranteed bank deposits in a designated bank account as collateral for our letters of credit we received from bank, long-term bank loans and time deposit with original maturity more than three months. Cash and cash equivalents comprise bank balances and cash held by us and time deposits with an original maturity term of three months or less. During the Track Record Period, pledged bank deposits and bank balances carried interest at interest rates ranging from 0.05% to 3.5% per annum.

The following table sets forth a breakdown of our cash and cash equivalents as of the dates indicated.

	As of December 31,			As of June 30,	As of August 31,
	2011	2012	2013	2014	2014
	US$'000	US$'000	US$'000	US$'000	US$'000 (unaudited)
Cash and bank balances	151,291	115,887	185,831	153,992	134,816
Time deposits	213,786	102,970	133,286	159,512	203,800
Less: pledged deposits					
Pledged for letter of credit	(927)	(687)	(2,072)	(5,368)	(2,459)
Pledged for long term bank loans	(34,412)	—	—	—	—
Time deposits with original maturity of more than three months	—	—	—	(10,000)	(10,000)
Cash and cash equivalents	329,738	218,170	317,045	298,136	326,157

As of December 31, 2011, 2012 and 2013 and June 30, 2014, cash and bank balances and time deposits in the amount of US$264.0 million, US$180.8 million, US$262.0 million and US$213.4 million were denominated in RMB, while the remaining balances were denominated in US dollars. Our cash and bank balances and time deposits decreased by US$146.2 million from US$365.1 million as of December 31, 2011 to US$218.9 million as of December 31, 2012 primarily attributable to the net cash outflows from financing activities and investing activities in 2012. Our bank cash and bank balances and time deposits increased by US$100.2 million from US$218.9 million as of December 31, 2012 to US$319.1 million as of December 31, 2013 primarily due to the net cash inflows from operating activities. Our cash and bank balances and time deposits were US$313.5 million and US$338.6 million as of June 30, 2014 and August 31, 2014.

Amounts due from related parties

As of December 31, 2011, 2012 and 2013 and June 30, 2014, amounts due from related parties were US$47.9 million, US$97.4 million, US$72.7 million and US$55.6 million, respectively.

The following table sets forth a breakdown of our amounts due from related parties as of the dates indicated. For a discussion of related party transactions, see Note 36 to the Accountants' Report in Appendix I.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Amounts due from related parties				
Huahong Technology Development	—	32,459	24,643	—
Huada	26,603	48,193	30,068	32,787
Shanghai Huahong IC	16,901	9,884	4,671	6,972
Shanghai Huali	2,291	3,692	4,152	4,998
Huahong Zealcore	830	1,706	2,500	5,276
Shanghai Belling	664	792	1,056	1,268
Hongri	543	601	127	141
ICRD	55	50	329	—
Huahong Real Estate	—	—	5,176	4,097
QST	—	—	—	99
	47,887	97,377	72,722	55,638

Trade payables

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our trade payables totaled US$53.7 million, US$57.3 million, US$60.2 million and US$62.3 million, respectively.

Our trade payables mainly relate to the purchase of raw materials from our suppliers. Our suppliers generally granted us credit terms of 30 to 60 days during the Track Record Period. Our trade payables increased by 6.7% from US$53.7 million in 2011 to US$57.3 million in 2012 primarily due to an increase in raw materials purchases as a result of a higher capacity utilization in the fourth quarter of 2012 compared to the corresponding period in 2011. Our trade payables increased by 5.1% from US$57.3 million in 2012 to US$60.2 million in 2013. Our trade payables were US$62.3 million as of June 30, 2014.

The following table sets forth our trade payables turnover days for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
Trade payables turnover days[(1)]	48	45	47	48

Note:

(1) Trade payables turnover days equal to the average trade balance of trade payables at the beginning and the end of the relevant period divided by cost of sales for such period and multiplied by 365 days or 183 days during the year/period.

Our trade payables turnover days decreased from 48 days in 2011 to 45 days in 2012, primarily because we settled our longer dated trade payables following the Merger. Our trade payables turnover days increased from 45 days in 2012 to 47 days in 2013 primarily due to our stronger bargaining power following the Merger and the Restructuring. Our trade payables turnover days were 48 days for the six months ended June 30, 2014.

The following table sets forth the aging analysis of our trade payables as of the dates indicated, based on the invoice date.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Within 30 days	30,646	33,470	34,388	43,254
Between 31 and 90 days	14,596	16,881	17,274	12,389
Between 91 and 180 days	3,198	2,728	2,428	2,459
Between 181 and within 365 days	985	1,237	1,719	1,068
Over 1 year	4,249	2,983	4,418	3,117
	53,674	57,299	60,227	62,287

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not default in payment of any trade and non-trade payables.

Other payables, advances from customers and accruals

The following table sets forth a breakdown of our accruals and other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Other payables	31,255	27,299	39,906	49,206
Advances from customers	12,365	12,724	11,741	13,713
Payroll and bonus payables	12,337	16,148	13,409	15,121
Accruals	592	811	593	506
	56,549	56,782	65,649	78,546

Our other payables, advances from customers and accruals increased by 0.4% from US$56.5 million as of December 31, 2011 to US$56.8 million as of December 31, 2012 primarily due to (i) an increase of US$0.4 million in advances from customers, (ii) an increase of US$0.2 million in accruals and (iii) an increase of US$3.8 million in payroll and bonus payables, partially offset by a decrease of US$4.0 million in other payables.

Our other payables, advances from customers and accruals increased by 15.5% from US$56.8 million as of December 31, 2012 to US$65.6 million as of December 31, 2013 primarily due to an increase of US$12.6 million in other payables mainly because of an increase in the accruals of utilities and maintenance costs, partially offset by a decrease of US$1.0 million in advances from customers and a decrease of US$2.7 million in payroll and bonus payables.

Our other payables, advances from customers and accruals were US$78.5 million as of June 30, 2014.

Interest-bearing bank and other borrowings

During the Track Record Period, we used bank loans to manage our working capital requirements. The table below sets forth the breakdown of our bank loans as of the dates indicated.

	As of December 31,			As of June 30,	As of August 31,
	2011	2012	2013	2014	2014
	US$'000	US$'000	US$'000	US$'000	US$'000
					(unaudited)
Non-current					
Secured bank loans..........	366,400	317,981	265,012	244,777	244,660
Total non-current...........	366,400	317,981	265,012	244,777	244,660
Current					
Current portion of long term bank loans - secured.........................	95,482	99,750	101,513	100,980	100,867
Convertible bonds............	68,260	—	—	—	—
Total current..................	163,742	99,750	101,513	100,980	100,867
Total interest-bearing bank and other borrowings..................	530,142	417,731	366,525	345,757	345,527

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the weighted average effective interest rate of our bank loans was 3.7%, 3.9%, 3.8% and 3.6% per annum, respectively.

Government grants

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had a balance of government grants of US$67.4 million, US$57.0 million, US$63.5 million and US$48.6 million, respectively. The government grants are paid in lump sums. We recorded government grants as cash liabilities on the balance sheet, and amortized them over the years in accordance with the progress and the status of the projects that such grants are intended to support. We participated in several government sponsored National Science and Technology Major Projects focusing on the research and development of advanced technologies, such as eFlash process, high voltage and high power IGBT process, CIS process, intelligent sensors products manufacture process, RF LDMOS process and Si-based RF power process. We generally acted as the leading contractor for such projects and were supported by relevant subcontractors determined in accordance with the filing guidance published by the major projects implementation management bureau and the implementation plan approved by the State Council. The subcontractors were selected and determined by the relevant PRC

Government and should be capable of organically integrating the upstream and downstream industrial chain, achieving the close cooperation of production, research and development, and conducting market surveys. We and each of the subcontractors conducted independent research, lab tests, experimental work and development of the contracted projects and was responsible for its own work products and therefore, the work products and operations of the subcontractors have no impact to our production. We paid US$19.1 million, US$6.9 million, US$6.2 million and nil to 14, 8, 11 and none of our subcontractors for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively. The amounts we paid to each subcontractor were prescribed in the contracts that such subcontractor entered into with us and the relevant PRC Government. We played a coordinating role to ensure the amounts prescribed in those contracts were properly and promptly paid to the subcontractors in accordance with the guidance of the PRC Government. As the subcontractors were not in any way involved in our operations, the amounts of government grants paid to, and the work products of, the subcontractors did not impact our statement of profit or loss. The table below sets forth our government grants as of the dates indicated.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
At beginning of year/period	72,816	67,443	56,955	63,462
Received during the year/period	69,356	48,412	28,851	801
Paid to subcontractors during the year/period	(19,091)	(6,908)	(6,167)	—
Released to offset with cost of sales	(23,154)	(20,315)	(10,660)	(8,259)
Released to offset with research and development costs	(22,936)	(20,374)	(4,566)	(3,846)
Offset with long-term assets	(13,040)	(11,454)	(2,788)	(3,080)
Exchange realignment	3,492	151	1,837	(511)
	67,443	56,955	63,462	48,567

Amounts due to related parties

As of December 31, 2011, 2012 and 2013 and June 30, 2014, amounts due to related parties were US$44.1 million, US$34.4 million, US$22.0 million and US$20.8 million, respectively.

The following table sets forth a breakdown of our amounts due to related parties as of the dates indicated. For a discussion of related party transactions, see Note 36 to the Accountants' Report in Appendix I.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Amounts due to related parties				
Shanghai Huali	42,405	32,070	20,541	15,536
SAIL International	975	975	975	975
Hylintek	183	410	1	932
Hongri	109	202	252	691
EDO	—	733	—	—
NEC	—	54	—	—
Huahong Technology Development	189	—	—	—
Huahong Zealcore	143	—	181	477
NEC Management(1)	131	—	3	167
Jitong	3	—	—	8
Huahong Real Estate	—	—	49	—
Shanghai Belling	—	—	7	—
QST	—	—	—	989
ICRD	—	—	—	839
Beijing Huahong IC	—	—	—	62
Huajin	—	—	—	85
	44,138	34,444	22,009	20,761

Note:

(1) Previously known as NEC Purchasing Service, Ltd.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or R&D services with us.

MAJOR FINANCIAL RATIOS

The table below sets forth a summary of our key financial ratios as of the dates or for the periods indicated.

Financial Ratios	Formulae	As of/for the year ended December 31, 2011	2012	2013	As of/for the six months ended June 30, 2014
Profitability ratios:					
1. Growth					
a. Revenue growth	a. Period-on-period growth	—	(6.3)%	2.3%	15.2%
b. Net profit growth ...	b. Period-on-period growth	—	(37.6)%	3.6%	47.1%
2. Profit margins					
a. Gross margin	a. Gross profit/Revenue x 100.0%	24.7%	20.6%	21.5%	28.5%
b. Net profit margin ...	b. Profit for the period /Revenue x 100.0%	15.7%	10.4%	10.6%	13.8%
3. Return on equity					
a. Return on equity ...	a. Profit for the period/ Average total equity x 100.0%	11.7%	6.4%	6.1%	4.2%
b. Return on total assets	b. Profit for the period/ Average total assets x 100.0%	5.8%	3.6%	3.8%	2.7%
Liquidity ratios:					
1. Liquidity ratios					
a. Current ratio	a. Current assets/Current liabilities	1.6	1.7	1.9	1.8
b. Quick ratio	b. (Current assets — Inventories)/Current liabilities	1.3	1.4	1.6	1.5

Financial Ratios	Formulae	As of/for the year ended December 31, 2011	2012	2013	As of/for the six months ended June 30, 2014
2. Turnover ratios					
a. Inventory turnover days......................	a. Average inventories/Cost of sales x 365 days or 183 days	82	82	78	71
b. Receivables turnover days (average collection period)..................	b. Average trade receivables/Revenue x 365 days or 183 days	62	63	66	65
c. Payables turnover days (average payment period)	c. Average trade payables/Cost of sales x 365 days or 183 days	48	45	47	48
Capital adequacy ratios:					
1. Gearing ratio............	Total bank borrowings and other borrowing — cash and cash equivalents and pledged and time deposits /Total equity x 100.0%	18.3%	20.6%	4.5%	3.0%
2. Interest coverage	Profit before finance cost and income tax expense/Finance cost	6.6	5.0	5.3	9.8

Return on equity ratio. The return on equity ratio decreased from 11.7% for the year ended December 31, 2011 to 6.4% for the year ended December 31, 2012 mainly due to a decrease in profit for the year in 2012. The return on equity ratio decreased from 6.4% for the year ended December 31, 2012 to 6.1% for the year ended December 31, 2013 primarily because of increased equity. The return on equity ratio was 4.2% for the six months ended June 30, 2014.

Return on assets ratio. The return on assets ratio decreased from 5.8% for the year ended December 31, 2011 to 3.6% for the year ended December 31, 2012 mainly due to a decrease in profit for the year in 2012. The return on assets ratio remained stable at 3.6% and 3.8% for the year ended December 31, 2012 and 2013, respectively. The return on assets ratio was 2.7% for the six months ended June 30, 2014.

Current ratio. The current ratio increased from 1.6 as of December 31, 2011 to 1.7 as of December 31, 2012 and further to 1.9 as of December 31, 2013 primarily due to an increase in trade and notes receivable and amounts due from related parties, and a decrease in short-term loans. The current ratio was 1.8 as of June 30, 2014.

Quick ratio. The quick ratio increased from 1.3 as of December 31, 2011 to 1.4 as of December 31, 2012 and further to 1.6 as of December 31, 2013 primarily due to an increase in trade and notes receivable and amounts due from related parties, and a decrease in short-term loans. The quick ratio was 1.5 as of June 30, 2014.

CONTINGENT LIABILITIES

As of December 31, 2011, 2012 and 2013 and revert to June 30, 2014, respectively, we did not have any significant contingent liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

We are exposed to foreign exchange risks. Such exposures arise when transactions of our PRC operating subsidiary are denominated in US dollars, rather than its functional currency which is RMB. In 2011, 2012 and 2013 and six months ended June 30, 2013 and 2014, approximately 60%, 60%, 55%, 59% and 52%, respectively, of our sales were denominated in currencies other than the functional currency of the subsidiary making the sale, while 62%, 64%, 65%, 70% and 65%, respectively, of our cost of sales were denominated in the subsidiary's functional currency.

As of December 31, 2011, 2012 and 2013 and June 30, 2013 and 2014, if US dollars had weakened/strengthened against the RMB by 5%, with all other variables held constant, our profit before tax for the year would have been approximately US$7.1 million higher/lower, US$9.6 million higher/lower, US$5.7 million higher/lower, US$7.4 million higher/lower and US$5.0 million higher/lower, respectively.

Interest rate risk

Our exposure to risk of changes in market interest rates relates primarily to our interest-bearing loans and borrowings with a floating interest rate. Our policy is to manage our interest costs using a mix of fixed and variable rate debts.

As of December 31, 2011, 2012 and 2013 and June 30, 2013 and 2014, if interest rates on bank loans had been 1% higher/lower with all other variables held constant, our profit before tax for the year would have been approximately US$178,000 lower/higher, US$162,000 lower/higher, US$165,000 lower/higher, US$82,000 lower/higher and US$64,000 lower/higher, respectively, as a result of higher/lower interest expenses.

Credit risk

We have policies in place to ensure credit terms are only granted to customers with an appropriate credit history, and we perform periodic credit evaluations on them, taking into account their financial position, past experience and other factors. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, all of our cash and cash equivalents were deposited with major financial institutions in the PRC and Hong Kong, which do not have recent history of default. Our management does not expect to incur any loss from non-performance by these financial institutions.

The carrying amounts of cash and cash equivalents, trade receivables and financial assets included in prepayments, deposits and other receivables included in the consolidated statements of financial position represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk.

Liquidity risk

Our liquidity position is monitored closely by our management. In the management of our liquidity risk, we maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. See Note 39 of the Accountants' Report in Appendix I for details.

RELATED PARTY TRANSACTIONS

As of December 31, 2011 and 2012 and 2013 and June 30, 2014, amounts due to related parties were US$44.1 million, US$34.4 million, US$22.0 million and US$20.8 million, respectively. As of December 31, 2011 and 2012 and 2013 and June 30, 2014, amounts due from related parties were US$47.9 million, US$97.4 million, US$72.7 million and US$55.6 million, respectively.

On April 12, 2010, the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government promulgated the Circular on the Publication of Opinion on Enhancing Capital Management of Enterprises Funded by Municipal State-owned Assets Supervision and Administration Commission (《關於印發<關於加强市國資委出資企業資金管理的意見>的通知》，滬國資委評價 [2010]111號, the "**Circular**"), which encouraged all enterprises financed by the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government to enhance capital management and improve efficiency in the utilization of capital. In particular, the Circular encouraged enterprises with a large and unitary business operations and large management structure to adopt cash pooling arrangement as a capital management method. Against this background, Huahong Group, our Controlling Shareholder, entered into a capital management agreement with Bank of China, Pudong Branch on April 11, 2011 with a view to enhance the overall cash management among its group companies. Bank of China, Pudong Branch agreed to provide various capital management services, including cash pooling arrangement, to Huahong Group and its subsidiaries. In addition, HHNEC and Huahong Group entered into an entrusted loan arrangement with Bank of China, Pudong Branch with a credit limit of RMB2 billion.

Under the above arrangement, HHNEC and Huahong Group provided entrusted loans of RMB900 million and RMB900 million in aggregate to each other in April and July 2011 to enhance overall liquidity and maximize cashflow efficiency among the group companies. The amount under such loans fully offset each other. Our PRC Legal Advisor is of the view that the provision and settlement of the above entrusted loans complies with the PRC Contract Law (《中華人民共和國合同法》) and the General Rules of Loans (《貸款通則》). The entrusted loan arrangement has been terminated in June 2014 and we do not intend to enter into any similar arrangement in the future.

On June 9, 2014, HHNEC and Huahong Group settled the receivables and payables of such loans on a net basis and terminated such loans. We do not intend to enter into any other cash pooling arrangements with any other entity.

For a discussion of related party transactions, see Note 36 to the Accountants' Report in Appendix I. Our Directors confirm that these transactions were conducted in the ordinary and usual course of business and on normal commercial terms, and that all non-trade balances and guarantees with related parties will be settled and released before Listing. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period.

DIVIDEND POLICY

We did not declare any dividend during the Track Record Period and currently we have no intention to pay dividends in 2014. Although there are accumulated losses on the consolidated financial statements of the Group, such accumulated losses mainly resulted from the accumulated losses of HHNEC and Grace Shanghai from their pre-Restructuring historical operations. On the other hand, HHGrace, currently our key operating entity, has recorded retained earnings in its statutory financial statements for the year ended December 31, 2013, which would be distributable to the Company and would therefore be available for distribution by the Company to its shareholders, should the Company choose to do so. As a result, it is expected that the accumulated losses in the consolidated accounts of the Group would not affect the Company's ability to declare dividends. We will re-evaluate our dividend policy annually but we cannot assure you that dividends of any amount will be declared or distributed in any given year.

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. The Board will review the dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our results of operations;
- our cash flows;
- our financial condition;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

We are a holding company incorporated in Hong Kong. Our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, each of our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, each of our PRC subsidiaries is required to set aside a certain amount of its accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if we or any of our subsidiaries incur debt on our or its own behalf in the future, the instruments governing the debt may restrict our or their ability to pay dividends or make other payments to our Shareholders or to us.

DISTRIBUTABLE RESERVES

As of June 30, 2014, our Company had no distributable reserves available for distribution to our Shareholders.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since June 30, 2014, and there is no event since June 30, 2014 which would materially affect the information shown in the Accountants' Report in Appendix I.

LISTING EXPENSE INCURRED AND TO BE INCURRED

For the three years ended December 2011, 2012 and 2013, respectively, we did not incur any listing expenses. For the six months ended June 30, 2014, we incurred listing expenses of approximately US$2.7 million. We expect to incur total listing expenses (excluding underwriting commission) of approximately US$7.0 million for the year ending December 31, 2014, of which US$5.4 million is expected to be recognized as administrative expenses and US$1.6 million is expected to be recognized as a deduction in equity directly. Our Directors do not expect such expenses to have a material and adverse impact on our financial results for the year ending December 31, 2014. The underwriting commission (assuming full payment of the discretionary incentive fee) at the mid-point of the Offer Price range stated in this prospectus and assuming the over-allotment option is not exercised is US$13.8 million, and this amount will be entirely deducted from the equity of the Company by offsetting the gross proceeds.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the equity holders of the Company as of June 30, 2014 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as of June 30, 2014 or at any future dates.

	Consolidated net tangible assets of the Group attributable to the equity holders of the Company as of June 30, 2014[1]	Forecast net proceeds from Global Offer Shares[2]	Unaudited pro forma adjusted consolidate net tangible assets[4]	Unaudited pro forma adjusted consolidated net tangible assets per Share[3][4]	Unaudited pro forma adjusted consolidated net tangible assets per Share
	US$ million	US$ million	US$ million	US$	(HK$ equivalent)
Based on an Offering price of HK$11.15 per Share	1,068.7	308.9	1,377.6	1.33	10.31
Based on an Offering price of HK$12.20 per Share	1,068.7	338.6	1,407.3	1.36	10.54

Notes:

(1) Our consolidated net tangible assets as of June 30, 2014 is extracted from the Accountants' Report set out in Appendix I which is equal to the audited consolidated net assets attributable to owners of our Company of US$1,091,348,000 as of June 30, 2014 less intangible assets of US$14,272,000 and deferred tax asset of US$8,391,000 as of the same date.

(2) The forecast net proceeds from the Global Offer are based on an indicative Offer Price of HK$11.15 and HK$12.20 per Share being the low end and high end of the stated Offer Price range, after deduction of the underwriting fees and related expenses payable by our Company and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds are converted into US$ at the rate of HK$7.75=US$1.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after making the adjustment referred to in this section above and on the basis that 1,033,871,656 Shares are in issue immediately following the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

(4) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2014.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS

The following table sets out a breakdown of our planned capital expenditures for the years ending December 31, 2014, 2015 and 2016:

	For the year ending December 31,			Description	Source of Funding
	2014	2015	2016		
	US$'000	US$'000	US$'000		
Capacity Expansion and upgrade	96,293	262,969	24,500	Expenditures for capacity expansion and upgrade	Cash flow generated from our operations and the net proceeds from this Global Offering
Tools	77,143	203,951	24,500		
Facilities	19,150	59,018	—		
Maintenance and Others	42,756	63,000	63,000	Maintenance, IP / license and other expenditures	Cash flow generated from our operations and the net proceeds from this Global Offering
Tools	11,439	38,000	38,000		
Facilities	8,873	13,000	13,000		
Other	22,443	12,000	12,000		
Total	139,049	325,969	87,500		

See the section headed "Business — Our Business Strategies" for a detailed description of our future plans.

USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the Global Offering that we will receive after deduction of underwriting fees and commissions (assuming full payment of the discretionary incentive fee) and estimated expenses payable by us in connection with the Global Offering:

	Assuming the Over-allotment Option is not exercised (in US$)	**Assuming the Over-allotment Option is exercised in full (in US$)**
Assuming an Offer Price of HK$11.68 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	323,880,324	373,511,794
Assuming an Offer Price of HK$12.20 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	338,611,297	390,452,387
Assuming an Offer Price of HK$11.15 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	308,866,062	356,245,419

We intend to use the net proceeds of the Global Offering for the following purposes assuming the Offer Price is fixed at HK$11.68 per Offer Share (being the mid-point of the Offer Price ranged stated in this prospectus) and the Over-allotment Option is not exercised:

(i) approximately 75%, or US$242.9 million, of the net proceeds will be used for the expansion of our manufacturing capacity, specifically in investments in equipment, tools and facilities. For details, see "Business — Manufacturing Facilities and Technologies — Capacity and Utilization — Technology Upgrade and Capacity Expansion Plans".

(ii) approximately 20%, or US$64.8 million, of the net proceeds will be used for research and development, technology and intellectual property investments.

(iii) the remaining amount of approximately 5%, or US$16.2 million, of the net proceeds will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

The following table sets out a breakdown of our use of proceeds and capital expenditure plan for the expansion of our manufacturing capacity, specifically investments in equipment, tools and facilities for 2014, 2015 and 2016:

	For the year ending December 31,				
	2014	**2015**	**2016**	**Description**	**Source of funding**
	US$'000	**US$'000**	**US$'000**		
Equipment and Tools..	30,106	135,875	16,318	Expansion of our manufacturing capacity	Net proceeds of the Global Offering
Facilities....................	12,722	39,297	—	Expansion of our manufacturing capacity	Net proceeds of the Global Offering
Total	42,827	175,172	16,318		

HONG KONG UNDERWRITER

Goldman Sachs (Asia) L.L.C.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriter. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 22,870,000 Hong Kong Offer Shares and the International Offering of initially 205,826,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (on behalf of the Underwriters) and our Company agreeing upon the Offer Price), the Hong Kong Underwriter has agreed to subscribe or procure subscribers for the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriter to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If, at any time after the date of the Hong Kong Underwriting Agreement and prior to 8:00 a.m. on the Listing Date:

(a) there has been a breach of any of the warranties or there has been a breach by our Company of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, result in a misstatement in, or constitute an omission of a material fact from, any of this prospectus, the Application Forms and/or in any announcements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(c) any statement contained in any of this prospectus, the Application Forms, the formal notice and/or in any announcements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue with respect to a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or that any expression of opinion, intention, expectation or forward looking statement contained in any of this prospectus, the Application Forms and/or any announcements, issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair, honest and based on reasonable assumptions, when taken as a whole; or

(d) there shall have occurred any event, act or omission which gives or is likely to give rise to any material liability of our Company pursuant to the indemnities under the Hong Kong Underwriting Agreement; or

(e) there shall have been any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, prospects, shareholders' equity, profits, losses, results of operations, financial or trading position, or performance, of any company within the Group; or

(f) our Company withdraws this prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or

(g) any non-compliance of this prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law, which is material in the context of the Global Offering; or

(h) there is an order or petition for the winding up of any company within the Group with substantive business operations or any composition or arrangement made by any such company within the Group with its creditors or a scheme of arrangement entered into by any such company within the Group or any resolution for the winding up of any such company within the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any such company within the Group or anything analogous thereto occurring in respect of any such company within the Group; or

(i) any action, suit, claim (whether or not any such claim involves or results in any action or proceeding), demand, investigation, judgment, award and proceeding, joint or several, from time to time instituted, made or brought or threatened or otherwise involve (together the "**Actions**") any third party being threatened or instigated against any company within the Group, which is material in the context of the Global Offering; or

(j) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(k) any Authority (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction commencing any Action, or announcing an intention to take any Action, against any Director; or

(l) any prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or

(m) the chairman or chief executive officer of our Company or any Director vacating his office; or

(n) save as disclosed in this prospectus, any contravention by any company within the Group of the Listing Rules or applicable laws, which results or would result in a material adverse effect or is material in the context of the Global Offering; or

(o) our Company is required to produce or issue a supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC in circumstances where the matter to be disclosed is material in the context of the Global Offering; or

(p) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:

(i) any change or development involving a prospective change, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States or a devaluation of the RMB against any foreign currencies) in or affecting Hong Kong, the United States, the United Kingdom, Japan, the PRC, Singapore or the European Union as a whole (each a "**Relevant Jurisdiction**"); or

(ii) any new Law or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or

(iii) any event or series of events, in the nature of force majeure affecting any Relevant Jurisdiction including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, volcanic eruptions, earthquake, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike, lock-out (whether or not covered by insurance), accident or interruption or delay in transportation; or

(iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the NASDAQ Global Market or the London Stock Exchange or any major disruption of any securities or monetary settlement or clearing services in any Relevant Jurisdiction or on commercial banking activities in any Relevant Jurisdiction; or

(v) a change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the Hong Kong dollar, the Euro, the Renminbi, the United States dollar or the British pound sterling against any foreign currencies;

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter):

(A) is or will be, or is likely to result in a material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, results of operations, financial or trading position, or performance of our Company and the other members of our Group, taken as a whole; or

(B) has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares; or

(C) makes it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the International Offering on the terms and in the manner contemplated in the Underwriting Agreements, this prospectus and the Application Forms; or

(D) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof;

then the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) shall be entitled, in its sole and absolute discretion, upon giving notice to our Company on or prior to 8:00 a.m. on the Listing Date, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange Pursuant to the Listing Rules

(A) *Undertakings by Our Company*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our securities first commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

(B) *Undertakings by the Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that except pursuant to any lending of Shares pursuant to the Stock Borrowing Agreement, it will not and will procure that the relevant registered holder(s) will not:

(a) in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be the Controlling Shareholder of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, it will:

(i) when it pledges or charges any Shares or other securities of the Company beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares or other securities of the Company so pledged or charged; and

(ii) when it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Undertakings Pursuant to the Hong Kong Underwriting Agreement and Certain Deeds of Lock-up Undertaking

(A) *Undertakings by Our Company*

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriter that at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the expiry of six months from the Listing Date (the "**First Six-Month Period**"), we will not without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other equity securities of the Company, with a depositary in connection with the issue of depositary receipts; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or

(c) enter into any transactions with the same economic effect as any transaction specified in paragraph (a) or (b) above; or

(d) agree to or publicly announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other equity securities of our Company, or in cash or otherwise (whether or not the issue of the Shares or such other securities will be completed within the aforesaid period), provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option).

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), we enter into any of the transactions specified in paragraph (a), (b) or (c) above or agree to or publicly announce any intention to effect any such transaction, we have undertaken to take all reasonable steps to ensure that such transaction, agreement or, as the case may be, announcement will not create a disorderly or false market in the Shares of our Company.

(B) *Undertakings by the Controlling Shareholders*

Each of the Controlling Shareholders has, pursuant to deeds of lock-up undertaking dated the date of Hong Kong Underwriting Agreement, undertaken to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriter that, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) and unless in compliance with the requirements of the Listing Rules:

(a) it will not, and will procure that none of its subsidiaries or companies controlled by it or any nominee or trustee holding in trust for it will not, at any time during the First Six-Month Period:

(i) sell, offer to sell, contract or agree to sell, lend, grant or sell any option, warrant, contract or right to purchase, purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares);

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares);

(iii) enter into any transactions with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above; or

(iv) agree to or publicly announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or any other equity securities of our Company, or in cash or otherwise, provided that the foregoing restrictions shall not apply to (A) any lending of Shares pursuant to the Stock Borrowing Agreement or (B) any pledge or charge referred to below;

(b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(iii) above or agree to or publicly announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it ceases to be a controlling shareholder of our Company; and

(c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(iii) above or agrees to or publicly announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares of our Company.

Each of the Controlling Shareholders has further undertaken to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriter that it will, at any time within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months after the Listing Date:

(I) upon any pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or other equity securities of our Company beneficially owned by it for a bona fide commercial loan, immediately inform our Company and Sole Global Coordinator in writing of such pledge or charge together with the number of Shares or other equity securities of our Company which are so pledged or charged; and

(II) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other equity securities of our Company will be disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indication.

We have agreed and undertaken to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriter that upon receiving such information in writing from any of the Controlling Shareholders, we will, as soon as possible, notify the Stock Exchange and make a public disclosure in relation to such information in accordance with the Listing Rules.

SAIL, our Controlling Shareholder, has acted as the escrow agent in an escrow arrangement related to the Merger, details of which is disclosed in the sub-section headed "Our History and Development — The Merger and the Restructuring" in this prospectus. As of the Latest Practicable Date, Sino-Alliance International, Ltd., a wholly-owned subsidiary of SAIL, was still holding 3,645 Escrow Shares as the relevant shareholders did not return the relevant signed transfer documents for the release of the relevant Escrow Shares. Such Escrow Shares are not subject to the above undertaking as SAIL is not beneficially interested in such Shares.

(C) *Undertakings by NEC*

NEC has, pursuant to a deed of lock-up undertaking dated the date of Hong Kong Underwriting Agreement, undertaken to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriter that, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) and unless in compliance with the requirements of the Listing Rules:

(a) it will not, and will procure that none of its subsidiaries or companies controlled by it or any nominee or trustee holding in trust for it will not, at any time during the First Six-Month Period:

(i) sell, offer to sell, contract or agree to sell, lend, grant or sell any option, warrant, contract or right to purchase, purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or

(iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above; or

(iv) agree to or publicly announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or any other equity securities of our Company, or in cash or otherwise, provided that the foregoing restrictions shall not apply to any pledge or charge referred to below; and

(b) until the expiry of the First Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(iii) above or agrees to or publicly announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares of our Company.

NEC has further undertaken to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriter that it will, at any time within the First Six-Month Period:

(I) upon any pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or other equity securities of our Company beneficially owned by it for a bona fide commercial loan, immediately inform our Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of Shares or other equity securities of our Company which are so pledged or charged; and

(II) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other equity securities of our Company will be disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indication.

Indemnity

We have agreed to indemnify the Hong Kong Underwriter for certain losses which it may suffer, including losses arising from the performance of its obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriter's Interests in Our Company

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, the Hong Kong Underwriter does not have any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriter and its affiliated companies may hold a certain portion of the Shares as a result of fulfilling its obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriter. Under the International Underwriting Agreement, subject to the conditions set out therein, the International Underwriter would agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Commissions and Expenses

The Underwriters will receive a commission of 3.0% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions. The Sole Global Coordinator may receive an additional incentive fee of 1.0% of the Offer Price of all the Offer Shares.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriter but will instead be paid, at the rate applicable to the International Offering, to the Sole Global Coordinator and the International Underwriter.

The aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately US$20.8 million (assuming an Offer Price of HK$11.68 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), the full payment of the discretionary incentive fee and the Over-allotment Option is not exercised at all), are payable and borne by our Company.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(a) the Hong Kong Public Offering of 22,870,000 Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described in the section headed "— The Hong Kong Public Offering" below; and

(b) the International Offering of an aggregate of 205,826,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States only to QIBs in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act.

Goldman Sachs (Asia) L.L.C. is the Sole Global Coordinator, Sole Bookrunner and Sole Sponsor of the Global Offering.

Goldman Sachs (Asia) L.L.C., BNP Paribas Securities (Asia) Limited and Daiwa Capital Markets Hong Kong Limited are the Joint Lead Managers of the Global Offering.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 22,870,000 new Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.2% of the enlarged share capital of our Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed "— Conditions of the Global Offering" below.

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation) is to be divided into two pools for allocation purposes: Pool A and Pool B, with any odd board lots being allocated to Pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in Pool A and Pool B will be 11,435,000 and 11,435,000, respectively. The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 11,435,000 Hong Kong Offer Shares (being 50% of the 22,870,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 22,870,000 Offer Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 68,608,000 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 91,478,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 114,348,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$12.20 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "— Pricing and Allocation" below, is less than the maximum price of HK$12.20 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

The International Offering will consist of an initial offering of 205,826,000 Offer Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section headed "— Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

We expect to grant to the International Underwriter, exercisable by the Sole Global Coordinator (on behalf of the International Underwriter), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 34,304,000 Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any. The Sole Global Coordinator (for itself and on behalf of the International Underwriter) may also cover any over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements with Hua Hong International or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. The Sole Global Coordinator may also exercise the Over-allotment Option as one of the permitted stabilization actions as described in the section headed "Structure of the Global Offering — Stabilization" in this prospectus. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, we will make an announcement.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. Should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it.

Stabilization action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on Friday, November 7, 2014, being the 30th day after the date of closing of the application lists under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Sole Global Coordinator, its affiliates or any person acting for it may cover such over-allocation by, among other methods, using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 34,304,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, an affiliate of the Stabilizing Manager may choose to borrow up to 34,304,000 Shares from Hua Hong International pursuant to the Stock Borrowing Agreement. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Listing Rule 10.07(3).

PRICING AND ALLOCATION

The International Underwriter will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Thursday, October 9, 2014 and in any event no later than Sunday, October 12, 2014.

The Offer Price will not be more than HK$12.20 per Offer Share and is expected to be not less than HK$11.15 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (**www.huahonggrace.com**) and the website of the Stock Exchange (**www.hkexnews.hk**) notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (on behalf of the Underwriters), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Sole Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of and results of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Tuesday, October 14, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (**www.huahonggrace.com**) and the website of the Stock Exchange (**www.hkexnews.hk**).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

(a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(b) the Offer Price having been duly agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement and the obligations of the International Underwriter under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Sunday, October 12, 2014, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option).

No part of our Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, October 15, 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, October 15, 2014. The Shares will be traded in board lots of 1,000 Shares each.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the HK eIPO White Form Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, October 3 until 12:00 noon on Wednesday, October 8 from:

(i) any of the following offices of the Sole Bookrunner:

Goldman Sachs (Asia) L.L.C.	68/F, Cheung Kong Center 2 Queen's Road Central Central, Hong Kong

(ii) any of the branches of the receiving bank:

Standard Chartered Bank (Hong Kong) Limited

	Branch name	Address
Hong Kong Island ..	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
Kowloon	Kwun Tong Hoi Yuen Road Branch	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong, Kowloon
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Yuen Long Fung Nin Road Branch	Shop B, G/F & 1/F, Man Cheong Building, 239-247 & 247A Castle Peak Road, Yuen Long
	Tseung Kwan O Branch	Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, October 3, 2014 until 12:00 noon on Wednesday, October 8, 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited — Hua Hong Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Friday, October 3, 2014 — 9:00 a.m. to 5:00 p.m.
Saturday, October 4, 2014 — 9:00 a.m. to 1:00 p.m.
Monday, October 6, 2014 — 9:00 a.m. to 5:00 p.m.
Tuesday, October 7, 2014 — 9:00 a.m. to 5:00 p.m.
Wednesday, October 8, 2014 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, October 8, 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, our Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the firstnamed applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the HK eIPO White Form Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH THE HK EIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in "— 2. Who Can Apply" section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the HK eIPO White Form Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the HK eIPO White Form Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, October 3, 2014 until 11:30 a.m. on Wednesday, October 8, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, October 8, 2014 or such later time under the "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under HK eIPO White Form more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the HK eIPO White Form service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System **https://ip.ccass.com** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F., Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;

- confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, our Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or its respective advisors and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, October 3, 2014 — 9:00 a.m. to 8:30 p.m.[(1)]
Saturday, October 4, 2014 — 8:00 a.m. to 1:00 p.m.[(1)]
Monday, October 6, 2014 — 8:00 a.m. to 8:30 p.m.[(1)]
Tuesday, October 7, 2014 — 8:00 a.m. to 8:30 p.m.[(1)]
Wednesday, October 8, 2014 — 8:00 a.m.[(1)] to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, October 3, 2014 until 12:00 noon on Wednesday, October 8, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, October 8, 2014, the last application day or such later time as described in "— Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Share Registrar, the receiving banker, the Sole Global Coordinator, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the HK eIPO White Form Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, October 8, 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure of the Global Offering — Pricing and Allocation".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, October 8, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, October 8, 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, October 14, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at **www.huahonggrace.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.huahonggrace.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Tuesday, October 14, 2014;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a "**search by ID**" function on a 24-hour basis from 8:00 a.m. on Tuesday, October 14, 2014 to 12:00 midnight on Monday, October 20, 2014;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, October 14, 2014 to Friday, October 17, 2014 (excluding Saturday, Sunday and Public Holiday in Hong Kong);
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, October 14, 2014 to Thursday, October 16, 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the HK eIPO White Form Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Global Coordinator, the HK eIPO White Form Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$12.20 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, October 14, 2014.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, October 14, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, October 15, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) **If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, October 14, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, October 14, 2014, by ordinary post and at your own risk.

(ii) **If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, October 14, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, October 14, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offering Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offering Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, October 14, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) **If you apply through the HK eIPO White Form service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, October 14, 2014, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, October 14, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) **If you apply via Electronic Application Instructions to HKSCC**

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, October 14, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "— 11. Publication of Results" above on Tuesday, October 14, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, October 14, 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, October 14, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, October 14, 2014.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

3 October 2014

The Board of Directors
Hua Hong Semiconductor Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We set out below our report on the financial information of Hua Hong Semiconductor Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of profit or loss, consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013 and 30 June 2014, and the statements of financial position of the Company as at 31 December 2011, 2012 and 2013 and 30 June 2014, together with the notes thereto (the "Financial Information"), and the consolidated statement of profit or loss, consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months ended 30 June 2013 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the document of the Company dated 3 October 2014 (the "document") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Hong Kong as a company with limited liability on 21 January 2005. Pursuant to the merger (the "Merger") as set out in note 2.1 of Section II below, which was completed on 28 December 2011, the Company became the holding company of the other subsidiaries comprising the Group.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

The Financial Information set out in this report has been prepared from the Group's consolidated financial statements which are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") with no adjustments made thereon.

Directors' responsibility

The directors of the Company (the "Directors") are responsible for the preparation of the consolidated financial statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements, the Financial Information, and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have performed an independent audit on the Financial Information for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA, and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation sent out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, 2012 and 2013 and 30 June 2014, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Consolidated statements of profit or loss

	Notes	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Revenue	6	609,844	571,480	584,719	281,837	324,455
Cost of sales		(459,172)	(453,559)	(459,270)	(215,870)	(231,937)
Gross profit		150,672	117,921	125,449	65,967	92,518
Other income and gains	6	50,998	26,492	30,605	14,026	10,446
Fair value gains on investment property		1,322	944	2,095	1,585	412
Selling and distribution expenses		(10,290)	(8,831)	(8,052)	(3,868)	(3,373)
Administrative expenses		(61,327)	(55,097)	(69,043)	(35,089)	(38,358)
Other expenses		(5,618)	(448)	(199)	(190)	(1,827)
Finance costs	8	(19,168)	(16,928)	(16,479)	(8,159)	(6,539)
Share of profits of an associate		—	3,619	6,437	—	4,503
Profit before tax	7	106,589	67,672	70,813	34,272	57,782
Income tax expense	11	(10,966)	(7,993)	(8,964)	(3,884)	(13,085)
Profit for the year/period		95,623	59,679	61,849	30,388	44,697
Attributable to:						
Owners of the parent	12	83,881	59,679	61,849	30,388	44,697
Non-controlling interests		11,742	—	—	—	—
		95,623	59,679	61,849	30,388	44,697
Earnings per share						
Attributable to ordinary equity holders of the parent	13					
Basic						
- For profit for the year/period		US$0.10	US$0.07	US$0.08	US$0.04	US$0.06
Diluted						
- For profit for the year/period		US$0.10	US$0.07	US$0.08	US$0.04	US$0.06

Consolidated statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Profit for the year/period	95,623	59,679	61,849	30,388	44,697
Other comprehensive income					
Other comprehensive income/(losses) to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	42,139	1,805	30,613	16,894	(9,568)
Other comprehensive income/(losses), net of tax	42,139	1,805	30,613	16,894	(9,568)
Total comprehensive income	137,762	61,484	92,462	47,282	35,129
Attributable to:					
Owners of the parent	125,668	61,484	92,462	47,282	35,129
Non-controlling interests	12,094	—	—	—	—
	137,762	61,484	92,462	47,282	35,129

Consolidated statements of financial position

	Notes	As at 31 December			As at 30 June
		2011	2012	2013	2014
		US$'000	US$'000	US$'000	US$'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	703,178	615,479	579,304	571,964
Investment property	15	181,911	183,301	191,098	189,773
Prepaid land lease payments	16	28,819	24,955	25,004	24,419
Intangible assets	17	47,944	37,641	22,838	14,272
Investment in an associate	19	22,246	36,639	45,115	41,261
Available-for-sale investments	20	55,548	167,051	172,219	229,245
Long term prepayment		2,394	1,256	1,056	5,595
Deferred tax assets	30	15,592	15,218	7,197	8,391
Total non-current assets		1,057,632	1,081,540	1,043,831	1,084,920
CURRENT ASSETS					
Inventories	21	105,670	97,586	99,229	81,353
Trade and notes receivables	22	91,107	105,158	105,525	126,437
Prepayments, deposits and other receivables	23	4,789	7,456	7,193	5,134
Due from related parties	36(d)	47,887	97,377	72,722	55,638
Pledged and time deposits	24	35,339	687	2,072	15,368
Cash and cash equivalents	24	329,738	218,170	317,045	298,136
Total current assets		614,530	526,434	603,786	582,066
CURRENT LIABILITIES					
Trade payables	25	53,674	57,299	60,227	62,287
Other payables, advances from customers and accruals	26	56,549	56,782	65,649	78,546
Interest-bearing bank and other borrowings	27	163,742	99,750	101,513	100,980
Government grants	29	67,443	56,955	63,462	48,567
Due to related parties	36(d)	44,138	34,444	22,009	20,761
Income tax payable		6,918	9,053	10,999	12,718
Total current liabilities		392,464	314,283	323,859	323,859
NET CURRENT ASSETS		222,066	212,151	279,927	258,207

	Notes	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
		US$'000	US$'000	US$'000	US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,279,698	1,293,691	1,323,758	1,343,127
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	27	366,400	317,981	265,012	244,777
Deferred tax liabilities	30	11,025	11,953	2,527	7,002
Total non-current liabilities		377,425	329,934	267,539	251,779
Net assets		902,273	963,757	1,056,219	1,091,348
EQUITY					
Equity attributable to owners of the parent					
Share capital	31	8,052	8,052	8,052	1,229,996
Reserves	33	894,221	955,705	1,048,167	(138,648)
		902,273	963,757	1,056,219	1,091,348
Non-controlling interests		—	—	—	—
Total equity		902,273	963,757	1,056,219	1,091,348

Consolidated statements of changes in equity

	Attributable to owners of the parent										
	Share capital	Share premium	Share option reserve	Merger reserve	Other reserve and contributed surplus	Revaluation surplus#	Accumulated losses	Exchange fluctuation reserve	Total	Non-controlling interest	Total equity
	US$'000 (note 31)	US$'000 (note 33)	US$'000 (note 32)	US$'000 (note 33)	US$'000 (note 33)	US$'000	US$'000 (note 33)	US$'000	US$'000	US$'000	US$'000
At 1 January 2011	5,705	563,291	1,043	1,275,865	46,224	63,822	(1,404,947)	135,051	686,054	49,998	736,052
Profit for the year	—	—	—	—	—	—	83,881	—	83,881	11,742	95,623
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	41,787	41,787	352	42,139
Total comprehensive income for the year	—	—	—	—	—	—	83,881	41,787	125,668	12,094	137,762
The Merger (note 31)	2,917	690,083	—	(693,000)	—	35,435	25,427	1,230	62,092	(62,092)	—
Repurchase of shares	(570)	(31,430)	—	—	—	—	—	—	(32,000)	—	(32,000)
Conversion of convertible bonds into preferred shares of a subsidiary	—	—	—	20,868	(868)	—	—	—	20,000	—	20,000
Exercise of share options of a subsidiary	—	—	(1,043)	41,761	—	—	—	—	40,718	—	40,718
Reversal of other reserves	—	—	—	—	(259)	—	—	—	(259)	—	(259)
At 31 December 2011 and 1 January 2012	8,052	1,221,944*	—*	645,494*	45,097*	99,257*	(1,295,639)*	178,068*	902,273	—	902,273

The revaluation surplus arose from a change in use from an owner-occupied property to an investment property carried at fair value before 1 January 2011.

	Attributable to owners of the parent									
	Share capital	Share premium	Share option reserve	Merger reserve	Other reserve and contributed surplus	Revaluation surplus	Statutory reserve funds	Accumulated losses	Exchange fluctuation reserve	Total equity
	US$'000 (note 31)	US$'000 (note 33)	US$'000 (note 32)	US$'000 (note 33)	US$'000 (note 33)	US$'000	US$'000 (note 33)	US$'000 (note 33)	US$'000	US$'000
At 1 January 2012	8,052	1,221,944	—	645,494	45,097	99,257	—	(1,295,639)	178,068	902,273
Profit for the year	—	—	—	—	—	—	—	59,679	—	59,679
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	1,805	1,805
Total comprehensive income for the year	—	—	—	—	—	—	—	59,679	1,805	61,484
At 31 December 2012 and 1 January 2013	8,052	1,221,944*	—*	645,494*	45,097*	99,257*	—	(1,235,960)*	179,873*	963,757
Profit for the year	—	—	—	—	—	—	—	61,849	—	61,849
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	30,613	30,613
Total comprehensive income for the year	—	—	—	—	—	—	—	61,849	30,613	92,462
Transfer from retained profits generated by a subsidiary	—	—	—	—	—	—	2,416	(2,416)	—	—
At 31 December 2013 and 1 January 2014	8,052	1,221,944*	—*	645,494*	45,097*	99,257*	2,416*	(1,176,527)*	210,486*	1,056,219

	Attributable to owners of the parent									
	Share capital	Share premium	Share option reserve	Merger reserve	Other reserve and contributed surplus	Revaluation surplus	Statutory reserve funds	Accumulated losses	Exchange fluctuation reserve	Total equity
	US$'000 (note 31)	US$'000 (note 33)	US$'000 (note 32)	US$'000 (note 33)	US$'000 (note 33)	US$'000	US$'000 (note 33)	US$'000 (note 33)	US$'000	US$'000
At 1 January 2014	8,052	1,221,944	—	645,494	45,097	99,257	2,416	(1,176,527)	210,486	1,056,219
Profit for the period	—	—	—	—	—	—	—	44,697	—	44,697
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(9,568)	(9,568)
Total comprehensive income for the period	—	—	—	—	—	—	—	44,697	(9,568)	35,129
Transfer to issued capital (note 33(a)(i))	1,221,944	(1,221,944)	—	—	—	—	—	—	—	—
Transfer from retained profits generated by a subsidiary	—	—	—	—	—	—	4,614	(4,614)	—	—
At 30 June 2014	1,229,996	—*	—*	645,494*	45,097*	99,257*	7,030*	(1,136,444)*	200,918*	1,091,348
At 1 January 2013	8,052	1,221,944	—	645,494	45,097	99,257	—	(1,235,960)	179,873	963,757
Profit for the period	—	—	—	—	—	—	—	30,388	—	30,388
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	16,894	16,894
Total comprehensive income for the period	—	—	—	—	—	—	—	30,388	16,894	47,282
At 30 June 2013 (unaudited)	8,052	1,221,944	—	645,494	45,097	99,257	—	(1,205,572)	196,767	1,011,039

* These reserve accounts comprise the consolidated reserves of US$894,221,000, US$955,705,000, US$1,048,167,000, and US$(138,648) as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, in the consolidated statements of financial position.

Consolidated statements of cash flows

	Notes	Year ended 31 December 2011	2012	2013	Six months ended 30 June 2013	2014
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		106,589	67,672	70,813	34,272	57,782
Adjustments for:						
Finance costs	8	19,168	16,928	16,479	8,159	6,539
Share of profits of an associate		—	(3,619)	(6,437)	—	(4,503)
Interest income	6	(4,318)	(4,263)	(8,226)	(3,052)	(2,044)
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	6	(7,240)	(4,145)	(795)	—	(200)
Depreciation	14	132,285	125,320	87,514	52,448	33,528
Changes in fair value of an investment property	15	(1,322)	(944)	(2,095)	(1,585)	(412)
Write-down of inventories to net realisable value		2,532	85	3,362	1,495	1,154
Impairment of trade receivables and other receivables	22	510	6	—	—	—
Impairment of items of property, plant and equipment	14	5,416	—	—	—	—
Amortisation of intangible assets	17	18,996	18,496	18,339	8,736	9,264
Amortisation of prepaid land lease payments	16	917	786	711	361	360
		273,533	216,322	179,665	100,834	101,468

	Notes	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
(Increase)/decrease in inventories		(8,312)	7,999	(5,005)	(729)	16,722
Decrease/(increase) in trade and note receivables		23,891	(14,057)	(367)	(16,546)	(20,912)
Decrease/(increase) in prepayments, deposits and other receivables		6,799	(2,733)	285	(229)	2,053
(Increase)/decrease in amounts due from related parties		(30,302)	(17,671)	18,884	8,242	(7,406)
Decrease/(increase) in pledged and time deposits		4,285	240	(1,385)	109	(3,296)
(Decrease)/increase in trade payables		(13,737)	3,625	2,928	(1,782)	2,060
(Decrease)/increase in other payables, advances from customers and accruals		(5,379)	87	5,296	(10,063)	2,662
(Decrease)/increase in government grants		(8,865)	(10,639)	4,670	5,826	(14,384)
Decrease in amounts due to related parties		(9,534)	(9,694)	(12,435)	(3,031)	(2,962)
Cash generated from operations		232,379	173,479	192,536	82,631	76,005
Income tax paid		—	(4,547)	(8,302)	(8,398)	(8,121)
Net cash flows from operating activities		232,379	168,932	184,234	74,233	67,884
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		4,318	4,263	8,226	3,052	2,044
Dividend received from an associate		—	—	—	—	8,163
Purchases of items of property, plant and equipment		(89,190)	(51,358)	(32,201)	(5,113)	(28,855)

	Notes	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Purchases of items of intangible assets		(5,712)	(8,088)	(2,615)	(1,670)	(867)
Proceeds from disposal of items of property, plant and equipment and prepaid land lease payments		43,272	16,631	44	—	29
Acquisition of an associate		(28,939)	(13,824)	—	—	—
Advances of loans to an associate		—	(31,819)	(24,500)	(24,069)	—
Recovery of loans from an associate		—	—	31,504	—	24,490
Purchases of available-for-sale investments		—	(111,231)	—	—	(57,145)
Receipt of government grants		13,040	11,454	2,788	712	3,080
(Increase)/decrease in pledged and time deposits		(34,412)	34,412	—	—	(10,000)
Net cash flows used in investing activities		(97,623)	(149,560)	(16,754)	(27,088)	(59,061)
CASH FLOWS FROM FINANCING ACTIVITIES						
Interest paid		(18,523)	(17,165)	(16,479)	(8,159)	(6,539)
Cash received from exercise of share options		40,718	—	—	—	—
New bank loans		5,030	51,032	45,038	44,744	—
Repayment of bank loans		(100,611)	(95,511)	(100,618)	(19,255)	(19,592)
Redemption of convertible bonds		—	(69,000)	—	—	—
Acquisition of non-controlling interests		(32,000)	—	—	—	—
Capital element of finance lease rental payments		(1,344)	—	—	—	—

	Notes	Year ended 31 December 2011	2012	2013	Six months ended 30 June 2013	2014
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Net cash flows (used in)/ generated from financing activities		(106,730)	(130,644)	(72,059)	17,330	(26,131)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		28,026	(111,272)	95,421	64,475	(17,308)
Cash and cash equivalents at beginning of year/period		309,851	329,738	218,170	218,170	317,045
Effect of foreign exchange rate changes, net		(8,139)	(296)	3,454	2,633	(1,601)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	24	329,738	218,170	317,045	285,278	298,136
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	24	151,291	115,887	185,831	105,153	153,992
Non-pledged time deposits with original maturity of less than three months when acquired		178,447	102,283	131,214	180,125	144,144
Cash and cash equivalents as stated in the statement of financial position	24	329,738	218,170	317,045	285,278	298,136
Cash and cash equivalents as stated in the statement of cash flows		329,738	218,170	317,045	285,278	298,136

Statement of financial position

	Notes	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
		US$'000	US$'000	US$'000	US$'000
NON-CURRENT ASSETS					
Investment in subsidiaries	18	1,229,996	1,229,996	1,229,996	1,229,996
Total non-current assets		1,229,996	1,229,996	1,229,996	1,229,996
CURRENT ASSETS					
Prepayments, deposits and other receivables	23	—	—	972	6,295
Due from a subsidiary	36(d)	1,035	1,036	998	998
Cash and cash equivalents	24	1,904	352	6,989	11,770
Total non-current assets		2,939	1,388	8,959	19,063
CURRENT LIABILITIES					
Other payables, advances from customers and accruals		—	—	37	1,649
Interest-bearing bank and other borrowings	28	68,260	—	—	—
Due to subsidiaries	36(d)	4,281	71,729	79,291	88,723
Total current liabilities		72,541	71,729	79,328	90,372
NET CURRENT LIABILITIES		69,602	70,341	70,369	71,309
TOTAL ASSETS LESS CURRENT LIABILITIES		1,160,394	1,159,655	1,159,627	1,158,687
Net assets		1,160,394	1,159,655	1,159,627	1,158,687
EQUITY					
Share capital	31	8,052	8,052	8,052	1,229,996
Reserves	33	1,152,342	1,151,603	1,151,575	(71,309)
Total equity		1,160,394	1,159,655	1,159,627	1,158,687

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Hua Hong Semiconductor Limited (the "Company") is a limited liability company incorporated in Hong Kong on 21 January 2005. The registered office of the Company is located at suite 3701-3710, 37/F., Jardine House, 1 Connaught Place, Central, Hong Kong.

The principal activity of the Company is investment holding. During the Relevant Periods, the Company's subsidiaries were principally engaged in the manufacture and trading of semiconductor products.

The parent and the ultimate parent of the Company are Shanghai Alliance Investment Ltd. ("SAIL") and INESA Holding Group ("INESA"), which are state-owned companies established in the People's Republic of China ("PRC"), supervised by the Stated-owned Assets Supervision and Administration Commission ("SASAC").

The Company and its subsidiaries now comprising the Group underwent the following steps of reorganisation:

The Company was incorporated with total authorised share capital of US$15,000,000, comprising 1,500,000,000 ordinary shares at US$0.01 each. Upon the establishment of the Company, a share of US$0.01 was issued to Harefield Limited, which subsequently transferred the share to Hua Hong International, Inc., a former shareholder of Shanghai Hua Hong NEC Electronics Co., Ltd. ("HHNEC"). On 1 June 2005, 570,499,999 shares were issued by the Company at par to all the four shareholders of HHNEC according to their shareholding percentage at HHNEC, namely Shanghai Hua Hong International, Inc. (61.42%), NEC Corporation (17.36%), Newport Fab LLC (10%) and Hylintek Limited (11.22%). At the same time, the board of HHNEC approved the transfer of the equity interests in HHNEC from each of its shareholders to the Company ("the Reorganization").

On 28 December 2011, additional shares of 291,725,656 were issued by the Company at par to all the shareholders of Grace Semiconductor Manufacturing Corporation ("Grace Cayman") in exchange for the 100% interest in Grace Cayman. At the same time, all ordinary shares and preferred shares of Grace Cayman were cancelled. The authorized share capital of Grace Cayman was then revised to US$50,000 divided into 50,000 ordinary shares of US$1.00 par value per share. On 28 December 2011, 1 fully paid ordinary share was issued at a price of US$1 to Hua Hong Semiconductor Limited ("the Merger"). Upon completion of the Merger, the Company became the holding company of Grace Cayman.

The statutory financial statements of the Company for the year ended 31 December 2011, 2012 and 2013 prepared in accordance with HKFRSs were audited by us.

As at the date of this report, the Company had direct or indirect interests in its subsidiaries and an associate, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Place and date of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
		(in thousand)			
Subsidiaries					
Grace Semiconductor Manufacturing Corporation ("Grace Cayman") (1)	Cayman Islands/ 5 October 1999	US$0.001	100%	—	Investment holding
Shanghai Hua Hong NEC Electronics Co., Ltd. ("HHNEC") (2)	PRC/ 17 July 1997	US$862,080	100%	—	Manufacture and sale of semiconductor products
Shanghai Grace Semiconductor Manufacturing Corporation ("Grace Shanghai") (3)	PRC/ 20 December 2000	US$900,000	100%	—	Manufacture and sale of semiconductor products
Shanghai Huahong Grace Semiconductor Manufacturing Corporation ("HHGrace") (4)	PRC/ 24 January 2013	RMB5,865,538	100%		Manufacture and sale of semiconductor products
Shanghai Huajie IC Technology Service Co., Ltd. ("Shanghai Huajie") (5)....................................	PRC/ 8 April 2002	RMB41,385	100%		Manufacture and sale of semiconductor products
Global Synergy Technology Limited ("GST") (6)	Hong Kong SAR/ 12 November 2003	HK$10	100%		Trading
HHGrace Semiconductor USA, Inc. (1)	America/ 20 October 2005	—	100%		Sales office
HHGrace Semiconductor Japan Co., Ltd. (1)	Japan/ 2 May 2006	JPY10,000	100%		Sales office
Grace Semiconductor Germany GmbH (1)*	Germany/ 21 February 2008	EUR25		100%	Sales office
Associate					
Shanghai Huahong Technology Development Co., Ltd. ("Huahong Technology Development") (7)	PRC/ 10 May 2010	RMB548,000		50%	Technology development and investment

* The entity was liquidated in 2012.

(1) No audited financial statements have been prepared for this entity during the Relevant Periods, as the entity was not subject to any statutory audit requirement under the relevant rules and regulations in its jurisdiction of incorporation.

(2) The statutory financial statements for the year ended 31 December 2011 and 2012 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by PricewaterhouseCoopers and Ernst & Young Hua Ming, respectively. No audited financial statements for the year ended 31 December 2013 have been prepared for this entity, as this entity was in the process of deregistration in 2013 and hence not subject to statutory audit requirement in 2013.

(3) The statutory financial statements for the year ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Ernst & Young Hua Ming. No audited financial statements for the year ended 31 December 2013 have been prepared for this entity, as this entity was in the process of deregistration in 2013 and hence not subject to statutory audit requirement in 2013.

(4) This entity was established in 2013. The audited financial statements for the year ended 31 December 2013 prepared in accordance with PRC GAAP were audited by Ernst & Young Hua Ming.

(5) The statutory financial statements for the year ended 31 December 2011 prepared in accordance with PRC GAAP were audited by PricewaterhouseCoopers. The audited financial statements for the year ended 31 December 2012 and 2013 prepared in accordance with PRC GAAP were audited by Ernst & Young Hua Ming.

(6) The statutory financial statements for the year ended 31 December 2011, 2012 and 2013 prepared in accordance with HKFRSs were audited by Bernard NG, Certified Public Accountant in Hong Kong.

(7) The statutory financial statements for the year ended 31 December 2011, 2012 and 2013 prepared in accordance with PRC GAAP were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, a certified public accounting firm registered in the PRC.

2.1 BASIS OF PRESENTATION

Pursuant to the Merger as explained in the paragraph headed "The Merger and the Restructuring" in the section headed "History and Development" to the document, the Company became the holding company of the companies now comprising the Group on 28 December 2011. Before and after the Merger, the companies now comprising the Group were under common control of SASAC (the "Ultimate Controlling Party"). Accordingly, for the purpose of this report, the Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Merger had been completed at the beginning of the Relevant Periods, in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013 and 30 June 2014 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Ultimate Controlling Party's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Merger.

Equity interests in subsidiaries and/or businesses held by parties other than the Ultimate Controlling Party, and changes therein, prior to the Merger are presented as non-controlling interests in equity in applying the principles of merger accounting.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs, which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial information has been prepared under the historical cost convention, except for investment property and derivative financial instruments which have been measured at fair value. The Financial Information is presented in United States dollars ("US$") and all values are rounded to the nearest thousands, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Except for the accounting of the Merger as disclosed in note 2.1 above, the results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions, between members of the Group are eliminated in full on consolidation.

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

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

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS

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

HKFRS 9	*Financial Instruments*[4]
HKFRS 14	*Regulatory Deferral Accounts*[2]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[1]
HKFRS 15	*Revenue from Contracts with Customers*[3]
HKFRS 11 Amendments	Amendments to HKFRS 11 *Joint Arrangements — Accounting for Acquisitions of Interests in Joint Operations*[2]
HKAS 16 and HKAS 38 Amendments	*Clarification of Acceptable Methods of Depreciation and Amortisation and amendments to HKAS 16 and HKAS 38*[2]
HKAS 16 and HKAS 41 Amendments	Amendments to *HKAS 16 Property, Plant and Equipment and HKAS 41 Agriculture — Bearer Plant*[2]
HKAS 27 (2011) Amendments	Amendments to HKAS 27 (2011) *Separate Financial Statements — Equity method to account for investments in subsidiaries, joint ventures and associate in the separate financial statements*[2]
Annual Improvements 2010-2012 Cycle[1]	
Annual Improvements 2011-2013 Cycle[1]	

1 Effective for annual periods beginning on or after 1 July 2014

2 Effective for annual periods beginning on or after 1 January 2016

3 Effective for annual periods beginning on or after 1 January 2017

4 Effective for annual periods beginning on or after 1 January 2018

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's results of operations and financial position.

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Investments in associates

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Fair value measurement

The Group measures its investment property and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment property), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	25 years
Plant and machinery	5-10 years
Office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognised in the statement of profit or loss in the year the assets is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment property

Investment property is interest in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment property are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment property to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Process technology license and software

Process technology license and software are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investment and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

- *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in other expenses for loans and receivables.

- *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant of that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

- ***Assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

- ***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, interest-bearing bank and other borrowings and amounts due to related parties.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

- *Loans and borrowings*

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

- *Convertible bonds*

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price, less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provisions is recognised when a present obligation (legal or constructive) has arisen as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Income tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Grants related to income are deducted in reporting the related expense. If there was no specific expense to compensate, the grants are presented as part of profit or loss under other income.

Grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the related assets.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the service has been rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Retirement benefits

Pursuant to the relevant regulations of the PRC Government, the companies comprising the Group operating in Mainland China ("PRC Group companies") have participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the PRC Group companies are required to contribute a certain percentage of the salaries of their employees to the Scheme to fund their retirement benefits. The only obligation of the Group with respect to the Scheme is to pay the ongoing contribution under the Scheme. Contributions under the Scheme are charged to the statement of profit and loss in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in US dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on the items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the US dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into US dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into US dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into US dollars at the weighted average exchange rates for the year.

4.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

(a) ***Impairment of non-financial assets***

In determining if an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing:

(1) whether an event has occurred that may affect asset value or such an event affecting the asset value has not been in existence;

(2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continuing use of the asset or derecognition; and

(3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

(b) ***Operating lease commitments — Group as lessor***

The Group has entered into commercial leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(c) ***Classification between investment property and owner-occupied properties***

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) ***Impairment of non-financial assets (other than goodwill)***

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) ***Deferred tax assets***

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(c) ***Estimation of fair value of investment property***

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of the investment property as at 31 December 2011, 2012 and 2013 and 30 June 2014 was US$181,911,000, US$183,301,000, US$191,098,000 and US$189,773,000, respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

5. OPERATING SEGMENT INFORMATION

The Group's turnover during the relevant period was mainly derived from the sale of semiconductor products. The products of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

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

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

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
China (including Hong Kong)	295,381	277,157	291,414	137,668	176,986
United States of America	218,747	178,576	146,458	77,205	66,412
Asia (excluding China and Japan)	46,657	62,028	51,500	29,288	32,471
Japan	39,239	32,305	53,154	22,223	20,020
Europe	9,820	21,414	42,193	15,453	28,566
	609,844	571,480	584,719	281,837	324,455

Information about a major customer

For the year ended 31 December 2011, revenue of approximately US$72,383,000 derived from sales to a single customer accounted for more than 10% of the Group's total revenue.

For the year ended 31 December 2012, revenue of approximately US$59,264,000 derived from sales to a single customer accounted for more than 10% of the Group's total revenue.

No revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer for the year ended 31 December 2013, the six months ended 30 June 2013 and 2014.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year.

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

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Revenue					
Sale of goods	609,844	571,480	584,719	281,837	324,455
Other income					
Rental income	11,482	11,930	12,952	6,373	6,595
Interest income	4,318	4,263	8,226	3,052	2,044
Government subsidies	7,907	1,178	550	61	—
Sale of scrap materials	1,027	1,399	808	81	145
Rendering of service	—	686	1,487	656	830
Others	989	1,320	536	420	632
	25,723	20,776	24,559	10,643	10,246
Gains					
Gains on disposal of items of property, plant and equipment and prepaid land lease payments	7,240	4,145	795	—	200
Exchange gain	18,035	1,571	5,251	3,383	—
	25,275	5,716	6,046	3,383	200
	50,998	26,492	30,605	14,026	10,446

7. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December 2011	2012	2013	Six months ended 30 June 2013	2014
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Cost of inventories sold		482,326	473,874	469,930	221,266	240,196
Less: Government grants released	29	(23,154)	(20,315)	(10,660)	(5,396)	(8,259)
		459,172	453,559	459,270	215,870	231,937
Depreciation	14	132,285	125,320	87,514	52,448	33,528
Amortisation of prepaid land lease payments	16	917	786	711	361	360
Amortisation of intangible assets	17	18,996	18,496	18,339	8,736	9,264
Research and development costs		30,849	30,159	30,259	14,603	17,668
Less: Government grants released	29	(22,936)	(20,374)	(4,566)	(2,401)	(3,846)
		7,913	9,785	25,693	12,202	13,822
Operating lease expenses		4,494	2,822	2,025	1,158	1,653
Auditors' remuneration		255	199	339	170	261
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):						
Salaries and other staff costs		87,701	92,846	98,480	43,849	57,682
Retirement benefits defined contribution fund		9,668	10,565	10,506	5,608	7,632
		97,369	103,411	108,986	49,457	65,314
Rental income on investment property, net		(11,482)	(11,930)	(12,952)	(6,373)	(6,595)
Government subsidies		(7,907)	(1,178)	(550)	(61)	—
Foreign exchange differences, net		(18,035)	(1,571)	(5,251)	(3,383)	1,735
Impairment of trade receivables and other receivables		510	6	—	—	—
Write-down of inventories to net realisable value		2,532	85	3,362	1,495	1,154
Changes in fair value of an investment property		(1,322)	(944)	(2,095)	(1,585)	(412)

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Interest on bank loans and other borrowings	18,523	17,905	16,479	8,159	6,539
Interest on finance leases	1,344	—	—	—	—
Total interest expense on financial liabilities not at fair value through profit or loss	19,867	17,905	16,479	8,159	6,539
Less: interest capitalized	(699)	(977)	—	—	—
	19,168	16,928	16,479	8,159	6,539

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	—	130	163	86	77
Performance related bonus	—	111	97	—	—
Pension scheme contributions	—	5	6	3	3
	—	246	266	89	80

(a) **Independent non-executive Directors**

There were no independent non-executive Directors during the Relevant Periods.

(b) **Executive Directors, non-executive Directors and the chief executive**

The Directors during the year ended 31 December 2011 were:

Mr. Wenbiao Fu (Chairman)
Mr. Xiaochun Gu
Mr. Morita Takayuki
Mr. Zhi Li
Mr. Ellwanger Russell
(resigned on 8 July 2011)
Mr. Guiwu Zhao
Mr. Ming Zhao
Mr. Honghua Zhou

None of the Directors received emoluments during the year ended 31 December 2011.

The Directors during the year ended 31 December 2012 were:

Mr. Wenbiao Fu (Chairman)
Mr. Xiaochun Gu
Mr. Morita Takayuki
Mr. Zhi Li
Mr. Feili Chen
(appointed on 6 February 2012)
Mr. Jianbo Chen
(appointed on 6 February 2012)
Mr. Yujun Chen
(appointed on 6 February 2012)
Mr. Ganesh Moorthy
(appointed on 6 February 2012)
Mr. Shimamoto Naoki
(appointed on 6 February 2012)
Mr. Yu Wang
(appointed on 6 February 2012)
Mr. Guiwu Zhao
Mr. Ming Zhao
Mr. Honghua Zhou
Mr. Wen-Young Wong
(appointed on 6 February 2012)
Mr. Ding Xu
(appointed on 6 February 2012)
Mr. Jun Ye
(appointed on 6 February 2012)
Mr. Xiaoming Ying
(appointed on 6 February 2012)
Mr. Xiang Xiang
(appointed on 6 February 2012)
Mr. Shichang Zou
(appointed on 6 February 2012)

Mr. Yu Wang received US$130,000 of salaries, allowances and benefits in kind, US$111,000 of performance related bonuses, and US$5,000 of pension scheme contributions in the year ended 31 December 2012. None of the other Directors received emoluments during the year ended 31 December 2012.

The Directors during the year ended 31 December 2013 were:

Mr. Wenbiao Fu (Chairman)
Mr. Feili Chen
Mr. Jianbo Chen
Mr. Yujun Chen
Mr. Ganesh Moorthy
Mr. Xiaochun Gu
(resigned from 24 January 2014)
Mr. Zhi Li
(resigned from 12 March 2013)
Mr. Morita Takayuki
Mr. Shimamoto Naoki
(resigned from 28 May 2013)
Mr. Yu Wang
Mr. Yi Qin
(appointed on 12 March 2013)
Mr. Yamaguchi Tatsuya
(appointed on 29 May 2013)
Mr. Wen-Young Wong
Mr. Xiang Xiang
Mr. Ding Xu
Mr. Jun Ye
Mr. Xiaoming Ying
Mr. Guiwu Zhao
Mr. Ming Zhao
Mr. Honghua Zhou
Mr. Shichang Zou

Mr. Yu Wang received US$163,000 of salaries, allowances and benefits in kind, US$97,000 of performance related bonuses, and US$6,000 of pension scheme contributions in the year ended 31 December 2013. None of the other Directors received emoluments during the year ended 31 December 2013.

The Directors during the six months ended 30 June 2013 were:

Mr. Wenbiao Fu (Chairman)
Mr. Feili Chen
Mr. Jianbo Chen
Mr. Yujun Chen
Mr. Ganesh Moorthy
Mr. Xiaochun Gu
(resigned from 24 January 2014)
Mr. Zhi Li
(resigned from 12 March 2013)
Mr. Morita Takayuki
Mr. Shimamoto Naoki
(resigned from 28 May 2013)
Mr. Yu Wang
Mr. Yi Qin
(appointed on 12 March 2013)
Mr. Yamaguchi Tatsuya
(appointed on 29 May 2013)
Mr. Wen-Young Wong
Mr. Xiang Xiang
Mr. Ding Xu
Mr. Jun Ye
Mr. Xiaoming Ying
Mr. Guiwu Zhao
Mr. Ming Zhao
Mr. Honghua Zhou
Mr. Shichang Zou

Mr. Yu Wang received US$86,000 of salaries, allowances and benefits in kind, and US$3,000 of pension scheme contributions during the six months ended 30 June 2013. None of the other Directors received emoluments during the six months ended 30 June 2013.

The Directors during the six months ended 30 June 2014 were:

Mr. Wenbiao Fu (Chairman)
Mr. Feili Chen
Mr. Jianbo Chen
Mr. Yujun Chen
Mr. Ganesh Moorthy
Mr. Xiaochun Gu
(resigned from 24 January 2014)
Mr. Morita Takayuki
Mr. Yu Wang
Mr. Yi Qin
Mr. Yamaguchi Tatsuya
Ms. Ping Cao
(appointed on 24 January 2014)
Mr. Yuchan Ma
(appointed on 12 May 2014)
Mr. Wen-Young Wong
Mr. Xiang Xiang
Mr. Ding Xu
Mr. Jun Ye
Mr. Xiaoming Ying
Mr. Guiwu Zhao
Mr. Ming Zhao
Mr. Honghua Zhou
(resigned from 12 May 2014)
Mr. Shichang Zou

Mr. Yu Wang received US$77,000 of salaries, allowances and benefits in kind, and US$3,000 of pension scheme contributions during the six months ended 30 June 2014. None of the other Directors received emoluments during the six months ended 30 June 2014.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the Relevant Periods.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the three years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014 included nil, one, one, one and nil Director, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year/period of the remaining 5, 4, 4, 4 and 5 highest paid employees who are not directors of the Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Salaries, allowances and benefits in kind	932	863	893	450	643
Performance related bonus	76	60	36	—	5
Compensation for loss of office	—	—	—	—	131
Pension scheme contributions	15	12	15	7	11
	1,023	935	944	457	790

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
Nil to HK$1,000,000	—	—	—	2	—
HK$1,000,001 to HK$1,500,000	2	1	1	2	4
HK$1,500,001 to HK$2,000,000	2	1	1	—	1
HK$2,000,001 to HK$2,500,000	1	2	2	—	—
	5	4	4	4	5

11. INCOME TAX

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits were subject to profits tax at the rate of 16.5% during the Relevant Periods. No provision for Hong Kong profits tax has been provided as the Company and a subsidiary incorporated in Hong Kong had no assessable income during the Relevant Periods.

The Company's subsidiary incorporated in the Cayman Islands is not subject to corporate income tax ("CIT") as it does not have a place of business (other than a registered office) or carry on any business in the Cayman Islands.

All of the Group's subsidiaries registered in the PRC and only having operations in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25%.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, two of the Group's subsidiaries, HHNEC and Grace Shanghai, are qualified as a "High and New Technology Enterprise" and thus were entitled to the preferential tax rate of 15% during the Relevant Periods.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, HHGrace, is qualified as an enterprise manufacturing integrated circuits with a process technology node of less than 0.25um and thus was entitled to the preferential tax rate of 15% from 2013 onwards during the Relevant Periods.

The Company's subsidiary incorporated and operating in the United States is subject to a federal corporation income tax rate of 25%, 25%, 34% and 34% in the Relevant Periods, respectively as well as state tax at 8.84% during the Relevant Periods.

The Company's subsidiary incorporated and operating in Japan is subject to a corporation tax rate of 30%, 30% 25.5% and 25.5% during the Relevant Periods, respectively.

The Company's subsidiary incorporated and operating in Germany is subject to a corporation tax rate of 25% (in 2011 and 2012).

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

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Current income tax - PRC	5,047	6,682	10,226	3,369	9,831
Current income tax - elsewhere	9	—	22	7	8
Deferred tax (note 30)	5,910	1,311	(1,284)	508	3,246
	10,966	7,993	8,964	3,884	13,085

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Profit before tax	106,589	67,672	70,813	34,272	57,782
Tax at the statutory tax rate	26,647	16,918	17,703	8,568	14,444
Lower tax rates for specific provinces or enacted by local authority	(9,211)	(5,416)	(6,077)	(2,739)	(5,709)
Adjustments in respect of current tax of previous period	—	41	(179)	(179)	(50)
Profits attributable to an associate	—	(543)	(966)	—	(675)
Income not subject to tax	(277)	(9)	—	—	—
Expenses not deductible for tax	417	483	596	338	256
Tax losses/gain utilized from previous periods	(7,461)	(4,223)	(3,352)	(1,705)	15
Tax losses not recognised	—	—	5	5	131
Temporary differences not recognised	3,703	185	(517)	(404)	223
Adjustments in respect of deferred tax of previous years	(2,207)	748	(223)	—	—
Additional deduction of research and development costs	(645)	(191)	(200)	—	—
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	—	—	2,174	—	4,450
Tax charge at the Group's effective rate	10,966	7,993	8,964	3,884	13,085

The share of tax attributable to an associate amounting to nil, US$1,247,000 US$2,166,000, nil and US$624,000 for the year ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, respectively, is included in "Share of profits of an associate" in the consolidated statement of profit or loss.

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014 includes a profit of US$1,675,000, a loss of US$739,000, a loss of US$28,000, a loss of US$31,000 (unaudited) and a loss of US$940,000, respectively, which has been dealt with in the financial statements of the Company (note 33(b)).

13. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the year/period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 833,701,000, 805,176,000, 805,176,000, 805,176,000 and 805,176,000 in issue during the year ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2013 and 2014, respectively.

The calculation of the diluted earnings per share amounts is based on the profit for the year/period attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year/period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Earnings					
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	83,881	59,679	61,849	30,388	44,697
Interest on convertible bonds	—	1,794	—	—	—
	83,881	61,473	61,849	30,388	44,697

	Number of shares				
	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	'000	'000	'000	'000	'000
Shares					
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings per share calculation	833,701	805,176	805,176	805,176	805,176
Effect of dilution — weighted average number of ordinary shares:					
Convertible bonds	386	34,858	—	—	—
	834,087	840,034	805,176	805,176	805,176

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 31 December 2010 and at 1 January 2011:						
Cost	275,830	3,223,572	25,335	2,985	111,834	3,639,556
Accumulated depreciation and impairment	(94,820)	(2,759,121)	(20,321)	(2,081)	(9,461)	(2,885,804)
Net carrying amount	181,010	464,451	5,014	904	102,373	753,752
At 1 January 2011, net of accumulated depreciation and impairment	181,010	464,451	5,014	904	102,373	753,752
Additions	—	—	1,362	54	70,555	71,971
Disposals	—	—	(72)	(57)	(20,986)	(21,115)
Transfers	119	50,291	200	230	(50,840)	—
Impairment provision	—	—	—	—	(5,416)	(5,416)
Depreciation provided during the year	(9,086)	(120,826)	(2,031)	(342)	—	(132,285)
Exchange realignment	9,016	21,920	235	43	5,057	36,271
At 31 December 2011, net of accumulated depreciation and impairment	181,059	415,836	4,708	832	100,743	703,178
At 31 December 2011						
Cost	290,037	3,439,754	27,876	2,728	116,243	3,876,638
Accumulated depreciation and impairment	(108,978)	(3,023,918)	(23,168)	(1,896)	(15,500)	(3,173,460)
Net carrying amount	181,059	415,836	4,708	832	100,743	703,178

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 31 December 2011 and at 1 January 2012:						
Cost	290,037	3,439,754	27,876	2,728	116,243	3,876,638
Accumulated depreciation and impairment	(108,978)	(3,023,918)	(23,168)	(1,896)	(15,500)	(3,173,460)
Net carrying amount	181,059	415,836	4,708	832	100,743	703,178
At 1 January 2012, net of accumulated depreciation and impairment	181,059	415,836	4,708	832	100,743	703,178
Additions	—	—	—	—	42,165	42,165
Disposals	(8)	(233)	(74)	(2)	(5,837)	(6,154)
Transfers	123	36,674	1,329	468	(38,594)	—
Depreciation provided during the year	(11,077)	(112,382)	(1,561)	(300)	—	(125,320)
Exchange realignment	430	926	8	2	244	1,610
At 31 December 2012, net of accumulated depreciation and impairment	170,527	340,821	4,410	1,000	98,721	615,479
At 31 December 2012						
Cost	290,864	3,483,070	28,841	3,193	114,258	3,920,226
Accumulated depreciation and impairment	(120,337)	(3,142,249)	(24,431)	(2,193)	(15,537)	(3,304,747)
Net carrying amount	170,527	340,821	4,410	1,000	98,721	615,479

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 31 December 2012 and at 1 January 2013:						
Cost	290,864	3,483,070	28,841	3,193	114,258	3,920,226
Accumulated depreciation and impairment	(120,337)	(3,142,249)	(24,431)	(2,193)	(15,537)	(3,304,747)
Net carrying amount	170,527	340,821	4,410	1,000	98,721	615,479
At 1 January 2013, net of accumulated depreciation and impairment	170,527	340,821	4,410	1,000	98,721	615,479
Additions	—	433	13	—	32,739	33,185
Disposals	—	(32)	(12)	—	—	(44)
Transfers	25,428	34,880	775	—	(61,083)	—
Depreciation provided during the year	(11,937)	(73,880)	(1,406)	(291)	—	(87,514)
Exchange realignment	5,484	9,947	124	28	2,615	18,198
At 31 December 2013, net of accumulated depreciation and impairment	189,502	312,169	3,904	737	72,992	579,304
At 31 December 2013						
Cost	325,683	3,625,942	30,508	3,291	89,010	4,074,434
Accumulated depreciation and impairment	(136,181)	(3,313,773)	(26,604)	(2,554)	(16,018)	(3,495,130)
Net carrying amount	189,502	312,169	3,904	737	72,992	579,304

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 31 December 2013 and at 1 January 2014:							
Cost	325,683	3,625,942	30,508	3,291	—	89,010	4,074,434
Accumulated depreciation and impairment	(136,181)	(3,313,773)	(26,604)	(2,554)	—	(16,018)	(3,495,130)
Net carrying amount	189,502	312,169	3,904	737	—	72,992	579,304
At 1 January 2014, net of accumulated depreciation and impairment	189,502	312,169	3,904	737	—	72,992	579,304
Additions	—	—	7	—	—	31,464	31,471
Disposals	—	(6)	(23)	—	—	—	(29)
Transfers	1,494	27,667	1,350	—	2,284	(32,795)	—
Depreciation provided during the period	(6,112)	(26,425)	(646)	(117)	(228)	—	(33,528)
Exchange realignment	(1,701)	(2,842)	(38)	(7)	(9)	(657)	(5,254)
At 30 June 2014, net of accumulated depreciation and impairment	183,183	310,563	4,554	613	2,047	71,004	571,964
At 30 June 2014							
Cost	324,211	3,620,438	31,104	3,262	2,274	86,876	4,068,165
Accumulated depreciation and impairment	(141,028)	(3,309,875)	(26,550)	(2,649)	(227)	(15,872)	(3,496,201)
Net carrying amount	183,183	310,563	4,554	613	2,047	71,004	571,964

As at 31 December 2011, 2012 and 2013 and 30 June 2014, certain of the Group's property, plant and equipment with a net carrying value of US$368,724,000, US$384,567,000, US$456,687,000 and US$448,469,000, respectively, were pledged to banks to secure the Group's banking facilities (note 27).

15. INVESTMENT PROPERTY

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Carrying amount at beginning of year/period	171,782	181,911	183,301	191,098
Net gains from a fair value adjustment	1,322	944	2,095	412
Exchange realignment	8,807	446	5,702	(1,737)
Carrying amount at end of year/period	181,911	183,301	191,098	189,773

The Group's investment property is situated in Shanghai, the PRC and is held under a medium term lease. The Directors have determined that the investment property is industrial property, based on the nature, characteristics and risks of the property.

The Group's investment property was revalued on 31 December 2011 and 2012 based on valuations performed by Shanghai Orient Real Estate Appraisal Co., Ltd., an independent firm of professional valuers, on an open market value, based on both capitalization of net income derived from the existing tenancies with allowance for the reversionary income potential of the properties, and by making reference to comparable market transactions.

The Group's investment property was revalued on 31 December 2013 and 30 June 2014 based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professional valuers, on an open market value, based on both capitalization of income derived from the existing tenancies with allowance for the reversionary income potential of the properties, and by making reference to comparable market transactions.

Each year, the Group's property manager and the chief financial officer decide to appoint which external valuer will be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results annually when the valuation is performed for annual financial reporting.

The investment property is leased to a related party under an operating lease (note 36(b)).

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Group's investment property was pledged to banks to secure the Group's banking facilities (note 27).

Fair value hierarchy

The recurring fair value measurement for the Group's investment property, which is an industrial property, is made using significant unobservable inputs (Level 3) during the Relevant Periods. During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment property:

Industrial property	Valuation techniques	Significant unobservable inputs	Range (weighted average)
As at 31 December 2011	Discounted cash flow method	Estimated rental value (per sq.m. and per month)	US$14
		Rent growth (p.a.)	3.0%
		Long term vacancy rate	5.0%
		Discount rate	6.0%
	Market comparison method	Estimated value (per sq.m.)	US$1,839
As at 31 December 2012	Discounted cash flow method	Estimated rental value (per sq.m. and per month)	US$14
		Rent growth (p.a.)	3.5%
		Long term vacancy rate	5.0%
		Discount rate	6.0%
	Market comparison method	Estimated value (per sq.m.)	US$1,978
As at 31 December 2013	Term and Reversion method	Estimated rental value (per sq.m. and per month)	US$12
		Term yield	7.0%
		Reversionary	7.5%
		Long term vacancy rate	5.0%
As at 30 June 2014	Term and Reversion method	Estimated rental value (per sq.m. and per month)	US$11
		Term yield	7.0%
		Reversionary	7.5%
		Long term vacancy rate	5.0%

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behavior that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Under the Term and Reversion method, fair value is measured by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalized into the value at appropriate rates.

The term value was estimated based on the existing rents, tenancy periods as stated in the lease agreements and the yield during the term periods (tenancy periods). The reversionary value was estimated based on the market rents, market yield and the reversionary periods.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment property. A significant increase/(decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment property. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

16. PREPAID LAND LEASE PAYMENTS

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Carrying amount at beginning of year/period	36,524	29,585	25,655	25,726
Disposals	(7,670)	(3,210)	—	—
Amortisation for the year/period	(917)	(786)	(711)	(360)
Exchange realignment	1,648	66	782	(231)
Carrying amount at end of year/period	29,585	25,655	25,726	25,135
Current portion included in prepayments, deposits and other receivables	(766)	(700)	(722)	(716)
Non-current portion	28,819	24,955	25,004	24,419

The parcels of leasehold land are held under long term leases and are situated in Mainland China.

Certain of the Group's prepaid land lease payments with a carrying value of US$26,307,000, US$25,655,000, US$25,726,000 and US$25,135,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, were pledged to banks to secure the Group's banking facilities (note 27).

17. INTANGIBLE ASSETS

	Process technology license	Computer software	Total
	US$'000	US$'000	US$'000
31 December 2011			
At 31 December 2010 and at 1 January 2011:			
Cost	261,475	82,123	343,598
Accumulated amortisation and impairment	(227,767)	(57,255)	(285,022)
Net carrying amount	33,708	24,868	58,576
At 1 January 2011, net of accumulated amortisation and impairment	33,708	24,868	58,576
Addition	—	5,712	5,712
Amortisation provided during the year	(10,962)	(8,034)	(18,996)
Exchange realignment	1,441	1,211	2,652
At 31 December 2011, net of accumulated amortisation and impairment	24,187	23,757	47,944
At 31 December 2011:			
Cost	274,828	92,174	367,002
Accumulated amortisation and impairment	(250,641)	(68,417)	(319,058)
Net carrying amount	24,187	23,757	47,944
31 December 2012			
At 1 January 2012, net of accumulated amortization and impairment	24,187	23,757	47,944
Addition	—	8,088	8,088
Amortisation provided during the year	(10,514)	(7,982)	(18,496)
Exchange realignment	48	57	105
At 31 December 2012, net of accumulated amortisation and impairment	13,721	23,920	37,641

	Process technology license	Computer software	Total
	US$'000	US$'000	US$'000
At 31 December 2012:			
Cost	275,503	100,497	376,000
Accumulated amortisation and impairment	(261,782)	(76,577)	(338,359)
Net carrying amount	13,721	23,920	37,641
31 December 2013			
At 1 January 2013, net of accumulated amortization and impairment	13,721	23,920	37,641
Addition	—	2,615	2,615
Amortisation provided during the year	(11,281)	(7,058)	(18,339)
Exchange realignment	250	671	921
At 31 December 2013, net of accumulated amortisation and impairment	2,690	20,148	22,838
At 31 December 2013:			
Cost	284,025	106,261	390,286
Accumulated amortisation and impairment	(281,335)	(86,113)	(367,448)
Net carrying amount	2,690	20,148	22,838
30 June 2014			
At 1 January 2014, net of accumulated amortization and impairment	2,690	20,148	22,838
Addition	—	867	867
Amortisation provided during the period	(2,677)	(6,587)	(9,264)
Exchange realignment	(13)	(156)	(169)
At 30 June 2014, net of accumulated amortisation and impairment	—	14,272	14,272
At 30 June 2014:			
Cost	281,444	106,060	387,504
Accumulated amortisation and impairment	(281,444)	(91,788)	(373,232)
Net carrying amount	—	14,272	14,272

Certain of the Group's intangible assets with a carrying value of US$14,651,000, US$16,001,000, US$11,383,000 and US$11,550,000 at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, were pledged to banks to secure the Group's banking facilities (note 27).

18. INVESTMENTS IN SUBSIDIARIES

COMPANY

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Unlisted equity investments, at cost	1,229,996	1,229,996	1,229,996	1,229,996
Less: Impairment of investment	—	—	—	—
	1,229,996	1,229,996	1,229,996	1,229,996

19. INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Share of net assets	22,246	36,639	45,115	38,616

Particulars of the associate are as follows:

Name	Paid-in capital RMB'000	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Huahong Technology Development	548,000	PRC	50%	Technology development and investment

The financial statements of this associate for the Relevant Periods were not audited by Ernst & Young or another member firm of the Ernst & Young global network. Further details are included in note 1.

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

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

The following table illustrates the summarised financial information of the Group's associate:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Current assets	23,529	166,950	240,273	204,227
Non-current assets	24,690	11	14	28,969
Current liabilities	(3,727)	(93,683)	(87,751)	(68,460)
Non-current liabilities	—	—	(62,306)	(82,214)
Net assets	44,492	73,278	90,230	82,522
Net assets, excluding goodwill	44,492	73,278	90,230	82,522
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's interest in the associate	50%	50%	50%	50%
Group's share of net assets of the associate, excluding goodwill	22,246	36,639	45,115	41,261
Carrying amount of the investment	22,246	36,639	45,115	41,261
Revenue	8	18,556	34,755	10,185
(Loss)/profit for the year/period	(5)	7,238	12,873	3,691
Other comprehensive income	—	—	—	
Total comprehensive (loss)/income	(5)	7,238	12,873	3,691
Dividend received	—	—	—	(8,163)

20. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Unlisted equity investments, at cost	55,548	167,051	172,219	229,245

The unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

21. INVENTORIES

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Raw materials	47,485	39,508	39,283	40,983
Work in progress	48,677	34,745	43,276	31,178
Finished goods	19,995	27,211	23,910	17,516
	116,157	101,464	106,469	89,677
Less: Provision for inventories	(10,487)	(3,878)	(7,240)	(8,324)
	105,670	97,586	99,229	81,353

22. TRADE AND NOTES RECEIVABLES

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Trade receivables	62,923	90,950	88,778	93,561
Notes receivable	29,988	16,022	18,612	34,725
	92,911	106,972	107,390	128,286
Impairment of trade receivables	(1,804)	(1,814)	(1,865)	(1,849)
	91,107	105,158	105,525	126,437

The Group's trading terms with its customers are mainly on credit and the credit period is generally 30 to 45 days, extending up to 60 days for major customers. There is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of provisions, is as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Within 90 days	55,080	76,145	79,768	87,091
Over 90 days and within 180 days	5,830	12,194	6,686	3,986
Over 180 days and within 1 year	209	797	459	635
	61,119	89,136	86,913	91,712

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
At 1 January	1,239	1,804	1,814	1,865
Impairment losses recognized (note 7)	510	6	—	—
Amount written off as uncollectible	(5)	—	—	—
Exchange realignment	60	4	51	(16)
	1,804	1,814	1,865	1,849

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of US$1,804,000, US$1,814,000, US$1,865,000, US$1,849,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, with a carrying amount before provision of US$1,804,000, US$1,814,000, US$1,865,000 and US$1,849,000, respectively.

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Neither past due nor impaired	53,007	60,817	67,516	69,548
Less than 1 month past due	4,472	18,803	12,324	18,377
1-3 months past due	2,681	7,042	5,497	3,034
4-6 months past due	908	1,940	1,331	724
7-12 months past due	51	534	245	29
	61,119	89,136	86,913	91,712

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

GROUP

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Other receivables	1,312	2,339	2,284	2,475
Prepayments	2,711	4,417	4,187	1,943
Current portion of prepaid land lease payments (note 16)	766	700	722	716
	4,789	7,456	7,193	5,134

COMPANY

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Other receivables	—	—	972	6,295

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS

GROUP

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Cash and bank balances	151,291	115,887	185,831	153,992
Time deposits	213,786	102,970	133,286	159,512
	365,077	218,857	319,117	313,504
Less: Pledged and time deposits:				
Pledged deposits for letters of credit	(927)	(687)	(2,072)	(5,368)
Pledged deposits for a long term bank loan	(34,412)	—	—	—
Time deposits with original maturity of more than three months	—	—	—	(10,000)
	(35,339)	(687)	(2,072)	(15,368)
Cash and cash equivalents	329,738	218,170	317,045	298,136

COMPANY

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Cash and bank balances	1,904	352	6,989	11,770

At the end of each of the Relevant Periods, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to US$264,010,000, US$180,761,000, US$262,024,000, US$213,420,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

Pledged deposits with a carrying value of US$927,000, US$687,000, US$2,072,000 and US$5,368,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, were pledged to secure the issuance of letters of credit.

Pledged deposits with a carrying value of US$34,412,000 as at 31 December 2011 were pledged to secure a bank loan granted to the Group.

Time deposits with original maturity of more than three months with a carrying value of US$10,000,000 as at 30 June 2014 will mature within six months.

25. TRADE PAYABLES

An aged analysis of the trade payables of the Group as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Within 30 days	30,646	33,470	34,388	43,254
Between 31 and 90 days	14,596	16,881	17,274	12,389
Between 91 and 180 days	3,198	2,728	2,428	2,459
Between 181 and within 365 days	985	1,237	1,719	1,068
Over 1 year and within 2 years	4,249	2,983	4,418	3,117
	53,674	57,299	60,227	62,287

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

26. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Other payables	31,255	27,099	39,906	49,206
Advances from customers	12,365	12,724	11,741	13,713
Payroll and bonus payables	12,337	16,148	13,409	15,121
Accruals	592	811	593	506
	56,549	56,782	65,649	78,546

The above balances are unsecured, non-interest-bearing and repayable on demand.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2011		
	Effective interest rate (%)	Maturity	US$'000
Current			
Current portion of long term bank loans - secured	1.7-6.6	2012	95,482
Convertible bonds (note 28)	2.5-2.9	2012	68,260
			163,742
Non-current			
Secured bank loans	1.7-6.6	2013-2018	366,400
			530,142

	As at 31 December 2012		
	Effective interest rate (%)	Maturity	US$'000
Current			
Current portion of long term bank loans - secured	2.1-7.1	2013	99,750
Non-current			
Secured bank loans	2.1-7.1	2014-2018	317,981
			417,731

	As at 31 December 2013		
	Effective interest rate (%)	Maturity	US$'000
Current			
Current portion of long term bank loans - secured	2.0-7.1	2014	101,513
Non-current			
Secured bank loans	2.0-7.1	2015-2018	265,012
			366,525

	As at 30 June 2014		
	Effective interest rate (%)	Maturity	US$'000
Current			
Current portion of long term bank loans - secured	2.0-6.6	2014-2015	100,980
Non-current			
Secured bank loans	2.0-6.6	2015-2018	244,777
			345,757

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Analysed into:				
Bank loans repayable:				
Within one year	95,482	99,750	101,513	100,980
In the second year	61,521	74,478	81,831	61,973
In the third to fifth years, inclusive	184,563	184,701	183,181	182,804
Beyond five years	120,316	58,802	—	—
	461,882	417,731	366,525	345,757
Other borrowings repayable:				
Within one year or on demand	68,260	—	—	—
	530,142	417,731	366,525	345,757

Included in secured bank loans at the end of each of the Relevant Periods were long term loans due within one year of US$23,532,000, US$39,255,000, US$58,764,000 and US$58,230,000, respectively, and long term loans of US$96,490,000, US$108,566,000 US$80,602,000, and US$60,367,000, respectively, which were denominated in RMB. All other loans were denominated in US$.

The carrying amount of the current portion of interest-bearing bank and other borrowings of the Group approximates to their fair value due to their short term maturity.

The fair value of the non-current portion of interest-bearing bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2011, 2012 and 2013 and 30 June 2014 was assessed to be insignificant. Management has assessed that the fair value of the non-current interest-bearing bank and other borrowings of the Group approximates to their fair value due to its floating interest rate.

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Group's bank loans were secured by the pledges of the Group's assets with carrying values as follows:

		As at 31 December			As at 30 June
	Notes	2011	2012	2013	2014
		US$'000	US$'000	US$'000	US$'000
Property, plant and equipment	14	368,724	384,567	456,687	448,469
Investment property......................	15	181,911	183,301	191,098	189,773
Prepaid land lease payments.........	16	26,307	25,655	25,726	25,135
Intangible assets	17	14,651	16,001	11,383	11,550
		591,593	609,524	684,894	674,927

In addition to the assets pledged above, the Group's secured bank loans at 31 December 2011 and 2012 were secured by Grace Shanghai's present and future assets and rights, including real estate, machinery and equipment, rights on certain technology license agreements, rights on certain equipment supply agreements, rights on certain contract manufacturing agreements, rights on certain raw materials supply agreements and certain beneficial interests on insurance contracts. The Group's secured bank loans as at 31 December 2013 and 30 June 2014 were secured by the Company's 36.23% of equity interest in its subsidiary, HHGrace.

28. CONVERTIBLE BONDS

On 17 February 2009, Grace Cayman, a wholly-owned subsidiary of the Company, issued convertible bonds of US$89,000,000 with an annual interest rate of Libor plus 1.8% to Sino-Alliance International Ltd. ("SAIL International"). The bonds are convertible at the option of the bondholders into preferred shares at any time on and after the issue date up to the close of business on 27 September 2012. The conversion price is a fixed amount of US$0.09 subject to adjustment as defined in the agreement. Any bonds not converted will be redeemed after 27 September 2012. The fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption ("Original Terms of CB").

In October 2011, there were US$20,000,000 convertible bonds converted to 200,000,000 preferred shares of Grace Cayman at a price of US$0.10 per share.

In completion of and to facilitate the Merger (note 31(ii)), on 28 December 2011, the remaining outstanding US$69,000,000 convertible bonds were cancelled by Grace Cayman against the bondholders. The Original Terms of CB were terminated accordingly.

On 28 December 2011, the Company issued convertible bonds of US$69,000,000 to SAIL International with the amended terms and conditions ("Amended CB Terms"). The bonds are with an annual interest rate of Libor plus 1.8% and convertible at the option of the bondholders into 46,949,066 ordinary shares of the Company at any time on and after the issue date up to the close of business on 27 September 2012. Any bonds not converted will be redeemed after 27 September 2012. The fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption.

In September 2012, the convertible bonds of US$69,000,000 were redeemed by cash.

29. GOVERNMENT GRANTS

		As at 31 December			As at 30 June
	Note	2011	2012	2013	2014
		US$'000	US$'000	US$'000	US$'000
At beginning of year/period		72,816	67,443	56,955	63,462
Received during the year/period		69,356	48,412	28,851	801
Paid to subcontractors during the year/period		(19,091)	(6,908)	(6,167)	—
Released to offset with cost of sales	7	(23,154)	(20,315)	(10,660)	(8,259)
Released to offset with research and development costs	7	(22,936)	(20,374)	(4,566)	(3,846)
Offset with long term assets		(13,040)	(11,454)	(2,788)	(3,080)
Exchange realignment		3,492	151	1,837	(511)
		67,443	56,955	63,462	48,567

The Group received government funding for several government-sponsored projects focusing on the development of advanced technologies and improvement on manufacturing processes. In projects that the Group acted as the leading contractor, the grants received from government authorities to be paid to the subcontractors are recorded as government grants in the statement of financial position upon receipt and payment to the subcontractors is deducted from the balance of government grants, which do not impact the statement of profit or loss of the Group.

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the years are as follows:

Deferred tax liabilities:

	Depreciation	Fair value gains on investment property	Interest capitalisation	Withholding tax	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2011	8,991	—	282	—	9,273
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	1,426	—	(199)	—	1,227
Exchange realignment	495	—	30	—	525
Gross deferred tax liabilities at 31 December 2011 and 1 January 2012	10,912	—	113	—	11,025
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	1,013	—	(113)	—	900
Exchange realignment	28	—	—	—	28
Gross deferred tax liabilities at 31 December 2012 and 1 January 2013	11,953	—	—	—	11,953
Deferred tax (credited)/charged to the statement of profit or loss during the year (note 11)	(12,135)	314	—	2,174	(9,647)
Exchange realignment	182	5	—	34	221
Gross deferred tax liabilities at 31 December 2013 and 1 January 2014	—	319	—	2,208	2,527
Deferred tax charged to the statement of profit or loss during the period (note 11)	—	62	—	4,450	4,512
Exchange realignment	—	(3)	—	(34)	(37)
Gross deferred tax liabilities at 30 June 2014	—	378	—	6,624	7,002

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. For the Group, the applicable rate is 10%.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax assets:

	Depreciation	Write-down of inventories and trade receivable	Accruals	Tax losses	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2011	12,253	—	—	7,150	19,403
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	861	1,275	366	(7,185)	(4,683)
Exchange realignment	648	33	9	182	872
Gross deferred tax assets at 31 December 2011 and 1 January 2012	13,762	1,308	375	147	15,592
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	565	(940)	7	(43)	(411)
Exchange realignment	34	2	1	—	37
Gross deferred tax assets at 31 December 2012 and 1 January 2013	14,361	370	383	104	15,218
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 11)	(14,579)	975	5,279	(38)	(8,363)
Exchange realignment	218	27	95	2	342
Gross deferred tax assets at 31 December 2013 and 1 January 2014	—	1,372	5,757	68	7,197
Deferred tax credited/(charged) to the statement of profit or loss during the period (note 11)	—	173	1,108	(15)	1,266
Exchange realignment	—	(14)	(57)	(1)	(72)
Gross deferred tax assets at 30 June 2014	—	1,531	6,808	52	8,391

The Group has tax losses arising in Mainland China of approximately US$588,000, US$416,000, US$272,000 and US$208,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, that will expire in six months for offsetting against future taxable profits.

Deferred tax assets have not been recognized in respect of the following items:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Unused tax losses	186,256	158,103	5	136
Temporary differences	466,315	467,282	455,102	447,536
	652,571	625,385	455,107	447,672

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The temporary differences are available indefinitely for offsetting against future taxable profits of the companies. Deferred tax assets have not been recognised in respect of the temporary differences as it is not considered probable that taxable profits will be available against which the above items can be utilised.

31. SHARE CAPITAL

	Number of shares			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	'000	'000	'000	'000
Authorised: (note (v))				
Ordinary shares of US$0.01 each (note (vi))	1,500,000	1,500,000	1,500,000	—
Issued and fully paid ordinary shares:				
At beginning of the year/period (note (i))	570,500	805,176	805,176	805,176
Issued during the year/period (note (ii))	291,726	—	—	—
Repurchased during the year/period (note (iii))	(57,050)	—	—	—
At end of the year/period	805,176	805,176	805,176	805,176

	Amount			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Authorised: (note (v))				
Ordinary shares of US$0.01 each (note (vi))	15,000	15,000	15,000	—
Issued and fully paid ordinary shares:				
At beginning of the year/period (note (i))	5,705	8,052	8,052	8,052
Issued during the year/period (note (ii))	2,917	—	—	—
Repurchased during the year/period (note (iii))	(570)	—	—	—
Transfer from share premium (note (iv))	—	—	—	1,221,944
At end of the year/period	8,052	8,052	8,052	1,229,996

(i) The Company was incorporated with total authorised share capital of US$15,000,000, comprising 1,500,000,000 ordinary shares at US$0.01 each. Upon the establishment of the Company, a share of US$0.01 was issued to Harefield Limited, which subsequently transferred the share to Hua Hong International, Inc. as part of the Reorganisation. On 1 June 2005, as described in note 1, additional shares of 570,499,999 were issued by the Company at par to the shareholders of HHNEC in exchange for the 100% interest in HHNEC.

Upon completion of the Reorganisation, the Company has 570,500,000 issued and fully paid ordinary shares.

(ii) On 28 December 2011, an additional 291,725,656 shares were issued by the Company at par to all the shareholders of Grace Semiconductor Manufacturing Corporation ("Grace Cayman") in exchange for 100% interest in Grace Cayman. At the same time, all ordinary shares and preferred shares of Grace Cayman were cancelled. On 28 December 2011, 1 fully paid ordinary share was issued at a price of US$1 to Hua Hong Semiconductor Limited. Upon completion of the Merger, the Company became the holding company of Grace Cayman.

(iii) On 2 July 2011, the Company repurchased 57,050,000 ordinary shares from Newport Fab LLC at a consideration of US$32,000,000.

(iv) In accordance with the transitional provisions set out in Section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap 622) on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.

(v) Under the Hong Kong Companies Ordinance (Cap 622), which commenced operation on 3 March 2014, the concept of authorized share capital no longer exists.

(vi) In accordance with Section 135 of the Hong Kong Companies Ordinance (Cap 622), the Company's shares no longer have a par or nominal value with effective from 3 March 2014. There's no impact in the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

32. SHARE OPTION SCHEME

(1) Technical Stock Plan

Pursuant to the Employee Technical Stock Plan (the "Technical Stock Plan"), which became effective on 21 November 2003, a committee appointed by the board of directors of Grace Cayman (the "Committee") is entitled at any time within a period of ten years from 21 November 2003 to make an offer of options to any Participant. The Participant who is granted these options is entitled to request the transfer of the relevant number of the technical shares from the transferring ordinary shareholders free of charge upon exercise of the options in accordance with the Technical Stock Plan. The transferring shareholders shall be the holders of ordinary shares of Grace Cayman which Grace Cayman will procure the transfer of the relevant number of the ordinary shares of Grace Cayman to the relevant Participant upon exercise of the options under the Technical Stock Plan. The technical shares shall be up to 25,000,000 ordinary shares of Grace Cayman held by the transferring ordinary shareholders.

The Participant's rights to exercise the options under the Technical Stock Plan over a six-year period are divided into two portions, of which the first 50% is vested on the third anniversary of service with the relevant member of the Group and the remaining 50% is vested on the sixth anniversary of service with the relevant member of the Group. No such options have been granted to any participant by the Committee.

(2) Executive share-based payment arrangement

In 2007, Grace Cayman signed a Stock Option Agreement (the "Agreement") with an executive (the "Executive") to grant certain stock options with a scheduled term of 10 years from the date of employment, i.e., 15 September 2007.

The Executive was granted the options to purchase up to 77,114,218 shares of Grace Cayman's common stock (the first group options), which shall be adjusted on the closure of the next round of funding targeted to approximately US$300 million (the "Closure Date"). The strike price of the options is set at the lower of (i) the subscription price per share following the next round of funding at the Closure Date; or (ii) US$0.3413 per share. After the closing of the first US$190 million funding by an investor, the first group options is exercisable in accordance with the following vesting schedule:

- 33% on the first anniversary of service with Grace Cayman;
- 33% on the second anniversary of service with Grace Cayman; and

- 34% on the third anniversary of service with Grace Cayman.

Upon the Closure Date, the Executive shall receive the second group of options in such amount as is necessary to ensure that the cumulative amount of the Executive's vested and unvested options represents 5% of the total outstanding shares on a fully diluted basis of Grace Cayman as at the Closure date. The second group of options is exercisable in accordance with the following vesting schedule:

- 33% on the first anniversary of the Closure Date;
- 33% on the second anniversary of the Closure Date; and
- 34% on the third anniversary of the Closure Date.

The Executive shall be granted additional options to purchase common stock representing from 0% to 2.667% of the total outstanding shares of Grace Cayman on a fully diluted basis as at the Closure Date. The strike price is US$0.03413 per share. These additional options are exercisable in three groups from 31 March 2008 over a period of three years provided that certain earning targets specified in the Agreement are fulfilled.

On 15 September 2010, the Executive resigned from Grace Cayman. Accordingly, the unvested second group of options were forfeited.

On 29 September 2011, the Executive signed an Option Transfer Agreement with a shareholder of Grace Cayman ("the Shareholder") to transfer his vested share options, which were granted to purchase up to 178,316,648 ordinary shares of Grace Cayman at a strike price of US$0.09 per share and 29,401,190 ordinary shares of Grace Cayman at a strike price of US$0.3413 per share.

On 25 October 2011, the Shareholder exercised all the above share options to subscribe for ordinary shares of Grace Cayman.

33. RESERVES

(a) **Group**

i. ***Share premium***

Pursuant to the Reorganisation set out in note 31(i), the net assets of HHNEC acquired through the Reorganisation were approximately US$568,996,000. Total par value of shares of the Company issued in exchange for the net assets of HHNEC was US$5,705,000. The excess of US$563,291,000 has been recorded as reserve of the Company as of 1 January 2011.

Pursuant to the Merger set out in note 31(ii), the net assets of Grace Cayman acquired through the Merger were approximately US$693,000,000. Total par value of shares of the Company issued in exchange for the net assets of Grace Cayman was approximately US$2,917,000. The excess of US$690,083,000 has been recorded as reserve of the Company in 2011.

As discussed in note 31(iii), the Company repurchased 57,050,000 ordinary shares from Newport Fab LLC for a consideration of US$32,000,000. The excess of the nominal value of the shares repurchased of approximately US$31,430,000 has been debited to the reserve of the Company.

As discussed in note 31(iv), pursuant to the transitional provisions for the abolition of the nominal value of share capital included in the new Hong Kong Companies Ordinance which became effective on 3 March 2014, the balances of the share premium account as at 3 March 2014 have been transferred to share capital.

ii. ***Merger reserve***

Merger reserve represents the differences between the paid-up capital of the subsidiaries acquired in the Reorganisation and the Merger (notes 31(i) and (ii)) over the amount of shares issued in exchange.

The balance as at 1 January 2011 is comprised of a merger reserve of US$325,084,000, which represents the difference between the share capital of HHNEC acquired pursuant to the Reorganization set out in note 31(i) and the amount of shares issued by the Company in exchange, and the share premium of Grace Cayman amounted to US$950,781,000 as at 1 January 2010.

The addition of US$60,718,000 for the year ended 31 December 2011 represented the share premium of US$40,718,000 arising from the issuance of new shares by Grace Cayman without nominal value and conversion of bonds of US$20,000,000 into preferred shares.

Pursuant to the Merger set out in note 31(ii), the net assets of Grace Cayman acquired through the Merger, amounting to approximately US$693,000,000, were regarded as a deemed distribution to the shareholders, and debited in the merger reserve account.

iii. ***Other reserve and contributed surplus***

Other reserve and contributed surplus mainly included equity component of convertible bonds of US$5,016,000, the deemed interest of an interest-free short-term loan from a shareholder of US$1,912,000 and an undertaking of liability of US$39,296,000 by an investor.

iv. ***Accumulated losses***

According to the relevant PRC laws and regulations for wholly-foreign-owned enterprises, which are applicable to the Company's subsidiaries in the PRC, profits of PRC subsidiaries, as determined in accordance with the applicable accounting rules and regulations in the PRC, are available for distribution in the form of cash dividends to the Company after PRC subsidiaries have (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made appropriations to the statutory reserve funds. The Company's subsidiaries in the PRC are required to appropriate not less than 10% of its profit after taxation to the statutory reserve funds until the reserve balance reaches 50% of its registered capital.

(b) **Company**

	Share premium	Other reserve	Accumulated losses	Total
	US$'000 (note (a))	US$'000	US$'000	US$'000
At 1 January 2011	563,291	—	(3,017)	560,274
Profit for the year	—	—	1,675	1,675
Issue of shares	690,083	—	—	690,083
Convertible bonds transferred from Grace Cayman	—	(68,260)	—	(68,260)
Repurchase during the year	(31,430)	—	—	(31,430)
As at 31 December 2011 and 1 January 2012	1,221,944	(68,260)	(1,342)	1,152,342
Loss for the year	—	—	(739)	(739)
As at 31 December 2012 and 1 January 2013	1,221,944	(68,260)	(2,081)	1,151,603
Loss for the year	—	—	(28)	(28)
As at 31 December 2013 and 1 January 2014	1,221,944	(68,260)	(2,109)	1,151,575
Transfer to share capital	(1,221,944)	—	—	(1,221,944)
Loss for the period	—	—	(940)	(940)
As at 30 June 2014	—	(68,260)	(3,049)	(71,309)
As at 31 December 2012 and 1 January 2013	1,221,944	(68,260)	(2,081)	1,151,603
Loss for the period	—	—	(31)	(31)
As at 30 June 2013 (unaudited)	1,221,944	(68,260)	(2,112)	1,151,572

34. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

The Group leases its investment property (note 15) to Shanghai Huali Microelectronics Co., Ltd. ("Shanghai Huali"), under an operating lease arrangement, with a lease term of 20 years. The terms of the lease generally also require the tenant to provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Within one year	12,383	12,413	12,797	12,681
In the second to fifth years, inclusive	49,532	49,653	51,189	50,724
More than five years	163,043	151,029	142,904	135,265
	224,958	213,095	206,890	198,670

The Group was advanced the future rentals from Shanghai Huali of US$39,476,000, US$27,738,000, US$16,094,000 and US$9,649,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

(b) **As lessee**

The Group leases certain of its office and dormitory properties under operating lease arrangements, negotiated for terms of one to twenty years with an option for renewal after the end of lease terms, at which time all terms will be renegotiated.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Within one year	397	1,004	350	1,189
In the second to fifth years, inclusive	86	106	—	6,563
More than five years	—	—	—	24,611
	483	1,110	350	32,363

The Group advanced the future rentals to Huahong Real Estate of US$4,102,000 as at 30 June 2014.

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the end of the reporting period:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Contracted, but not provided for:				
Property, plant and equipment	5,842	3,473	16,405	31,142
Equity investment	166,642	55,684	57,406	—

36. RELATED PARTY TRANSACTIONS AND BALANCES

(a) **Name and relationship**

Name of related party	Relationship with the Group
Huahong Group and its subsidiaries	
- Shanghai Huahong (Group) Co., Ltd. ("Huahong Group")	the holding company of Hua Hong International
- Shanghai Hua Hong International Inc. ("Hua Hong International")	Shareholder of the Company
- Shanghai Huahong Zealcore Electronics Co., Ltd. ("Huahong Zealcore")	Subsidiary of Huahong Group
- Shanghai Hongri International Electronics Co., Ltd. ("Hongri")	Subsidiary of Huahong Group
- Shanghai Integrated Circuit Research and Development Center ("ICRD")	Subsidiary of Huahong Group
- Shanghai Hua Hong Jitong Smart System Co., Ltd. ("Jitong")	Subsidiary of Huahong Group
Shanghai Belling and its subsidiaries	
- Shanghai Belling Co., Ltd. ("Shanghai Belling")	the holding company of Hylintek
- Hylintek Limited ("Hylintek")	Shareholder of the Company
NEC Corporation ("NEC")	Shareholder of the Company
- NEC Management Partner, Ltd.* ("NEC Management")	Subsidiary of NEC

Name of related party	Relationship with the Group
SAIL and its subsidiaries	
- Shanghai Alliance Investment Ltd. ("SAIL")	the ultimate parent of the Company
- Sino-Alliance International Ltd. ("SAIL International")	Subsidiary of SAIL
- Shanghai Huali Microelectronics Co., Ltd. ("Shanghai Huali")	Subsidiary of SAIL
- Shanghai EverDisplay Optronics Co., Ltd. ("EDO")	Subsidiary of SAIL
- QST Corporation ("QST")	Subsidiary of SAIL
INESA and its subsidiaries	
- INESA Holding Group ("INESA")	the ultimate parent of the Company
- Shanghai INESA Intelligent Electronics Co., Ltd. ("Shanghai INESA")	Subsidiary of INESA
- Shanghai Nanyang Software System Integration Co., Ltd. ("Nanyang Software")	Subsidiary of INESA
- Shanghai Nanyang Wanbang Information Technology Service Co., Ltd. ("Wanbang IT")	Subsidiary of INESA
Shanghai Huahong Technology Development Co., Ltd. ("Huahong Technology Development")	Associate of the Group
Huahong Real Estate Co., Ltd. ("Huahong Real Estate")	Subsidiary of Huahong Technology Development
Shanghai Huajin Property Management Co., Ltd. ("Huajin")	Subsidiary of Huahong Technology Development
CEC and its subsidiaries	
- China Electronics Corporation ("CEC")	Shareholder of Huahong Group
- CEC Huada Electronic Design Co., Ltd. ("Huada")	Subsidiary of CEC
- China Huada Integrated Circuit Design (Group) Co., Ltd. ("Huada IC")	Subsidiary of CEC
- Shanghai Huahong Integrated Circuit Co., Ltd. ("Shanghai Huahong IC")	Subsidiary of CEC
- Beijing Huahong IC Design Co., Ltd. ("Beijing Huahong IC")	Subsidiary of CEC

* *NEC Management is previously known as NEC Purchasing Service, Ltd.*

(b) **Related party transactions**

In addition to the transactions and balances disclosed elsewhere in this report, the Group had the following material transactions with related parties during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Sales of goods to related parties (note (1))					
Huada	58,625	59,264	41,718	19,781	25,609
Shanghai Huahong IC	21,327	14,851	8,679	5,319	6,648
Shanghai Belling	8,434	6,216	5,704	1,561	2,241
Hongri	2,418	322	810	401	486
Huahong Zealcore#	2,150	4,111	6,917	2,603	6,272
ICRD	205	442	1,254	12	2,627
Huada IC	45	—	—	—	—
Beijing Huahong IC	—	—	—	—	650
QST#	—	—	—	—	168
Shanghai Huali	—	—	—	—	1
Purchases of goods from related parties (note (2))					
Hylintek	3,990	2,577	2,563	1,179	1,773
Hongri	2,197	1,442	1,652	954	1,446
Huahong Zealcore#	741	743	559	274	174
Jitong	3	—	—	—	8
NEC Management#	—	—	475	—	380
ICRD	—	—	156	—	146
Service fee income from related parties (note (3))					
EDO	—	686	1,487	656	—
QST#	—	23	—	—	830
Shanghai Huali	33	1,041	133	131	—
Service fee charged by related parties (note (5))					
Shanghai INESA#	7,413	9	9	7	7
Shanghai Huali	100	228	—	—	—
Nanyang Software#	18	11	11	11	21
Huahong Real Estate	—	—	2,260	—	—
Wanbang IT#	—	—	55	—	32
Huajin#	—	—	—	—	102

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Rental income from a related party (note (3))					
Shanghai Huali#	11,482	11,930	12,952	6,373	6,595
Rental expense charged by a related party (note (5))					
Hua Hong Real Estate#	—	—	—	—	1,041
Expense paid on behalf of a related party (note (4))					
Shanghai Huali	10,040	15,147	19,105	8,754	11,752
Sale of construction in progress and prepaid land lease payments (note (1))					
Huahong Real Estate	34,161	19,763	—	—	—
Huahong Technology Development	16,067	—	—	—	—
Entrusted loans					
Huahong Technology Development - principal	—	31,819	24,500	24,069	—
Huahong Technology Development - interest	—	223	2,965	1,428	323

Note (1): The sales of goods and construction in progress and prepaid land lease payments to the related parties were made according to the prices and terms agreed between the related parties.

Note (2): The purchases of goods from the related parties were made according to the prices and terms offered by the related parties.

Note (3): The rental income and service fee income from related parties were received according to the prices and terms agreed between the related parties.

Note (4): Expense paid on behalf of a related party is interest-free and repayable on demand.

Note (5): The rental expense and service fee charged by related parties were paid according to the prices and terms agreed between the related parties. The rental expense charged by a related party also included utility fees.

The related party transactions in respect of items denoted with "#" above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) **Other related party transaction**

Prior to the Merger in 2011, HHNEC and Huahong Group entered into a cash pooling arrangement. Under such arrangement, HHNEC and Huahong Group entered into RMB900,000,000 loans with each other. According to PRC Contract Law, the agreement and the mutual understanding of both parties, the receivables and payables resulting from loans under such cash pooling arrangement can be set off. The net balance at each of the years ended 31 December 2011, 2012 and 2013 was zero. On 9 June 2014, HHNEC and Huahong Group settled the receivables and payables on a net basis and terminated such loans.

(d) **Non-cash related party transaction**

In 2014, HHGrace invested RMB10.5 million in QST in the form of intellectual property transfer in accordance with the binding term sheet signed by HHGrace on August 18, 2012. On 18 May 2014, QST and HHGrace signed an agreement regarding certain products and services provided by HHGrace to QST for the period from 1 January 2013 to 31 March 2017, including wafer products and masking, technology development and maintenance services, in exchange for the aforesaid intellectual property.

(e) **Outstanding balances with related parties**

GROUP

	As at 31 December			As at 30 June
	2011	**2012**	**2013**	**2014**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Amounts due from related parties				
Huahong Technology Development	—	32,459	24,643	—
Huada	26,603	48,193	30,068	32,787
Shanghai Huahong IC	16,901	9,884	4,671	6,972
Shanghai Huali	2,291	3,692	4,152	4,998
Huahong Zealcore	830	1,706	2,500	5,276
Shanghai Belling	664	792	1,056	1,268
Hongri	543	601	127	141
ICRD	55	50	329	—
Huahong Real Estate	—	—	5,176	4,097
QST	—	—	—	99
	47,887	97,377	72,722	55,638

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Amounts due to related parties				
Shanghai Huali	42,405	32,070	20,541	15,536
SAIL International	975	975	975	975
Hylintek	183	410	1	932
Hongri	109	202	252	691
EDO	—	733	—	—
NEC	—	54	—	—
Huahong Technology Development	189	—	—	—
Huahong Zealcore	143	—	181	477
NEC management	131	—	3	167
Jitong	3	—	—	8
Huahong Real Estate	—	—	49	—
Shanghai Belling	—	—	7	—
QST	—	—	—	989
ICRD	—	—	—	839
Beijing Huahong IC	—	—	—	62
Huajin	—	—	—	85
	44,138	34,444	22,009	20,761

COMPANY

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Amounts due from related parties				
HHNEC	1,035	1,036	—	—
HHGrace	—	—	998	998
	1,035	1,036	998	998
Amounts due to subsidiaries				
HHNEC	4,281	2,729	—	—
Grace Cayman	—	69,000	69,000	69,000
HHGrace	—	—	10,291	18,869
GST	—	—	—	854
	4,281	71,729	79,291	88,723

Balances with the related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

(f) **Compensation of key management personnel of the Group**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Short term employee benefits...	1,610	1,785	1,956	830	1,108
Pension scheme contributions..	24	27	33	15	20
Total compensation paid to key management personnel.........	1,634	1,812	1,989	845	1,128

Further details of Directors' and the chief executive's emoluments are included in note 9 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

GROUP

Financial assets — loans and receivables

	As at December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Trade and notes receivables	91,107	105,158	105,525	126,437
Financial assets included in prepayments, deposits and other receivables (note 23)	1,312	2,339	2,284	2,475
Due from related parties	47,887	97,377	72,722	55,638
Pledged and time deposits..................	35,339	687	2,072	15,368
Cash and cash equivalents	329,738	218,170	317,045	298,136
	505,383	423,731	499,648	498,054

Financial assets — available-for-sale financial assets

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Available-for-sale investments	55,548	167,051	172,219	229,245

Financial liabilities — at amortised cost

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Trade payables	53,674	57,299	60,227	62,287
Financial liabilities included in other payables, advances from customers and accruals (note 26)	44,184	44,058	53,908	64,833
Interest-bearing bank and other borrowings	530,142	417,731	366,525	345,757
Due to related parties	44,138	34,444	22,009	20,761
	672,138	553,532	502,669	493,638

COMPANY

Financial assets — loans and receivables

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Other receivables	—	—	972	6,295
Due from related parties	1,035	1,036	998	998
Cash and cash equivalents	1,904	352	6,989	11,770
	2,939	1,388	8,959	19,063

Financial liabilities — at amortised cost

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Other payables, advances from customers and accruals	—	—	37	1,649
Convertible bonds	68,260	—	—	—
Due to subsidiaries	4,281	71,729	79,291	88,723
	72,541	71,729	79,328	90,372

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged and time deposits, trade and notes receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables, advances from customers and accruals, amount due from/to related parties, the current portion of interest-bearing bank and other borrowings and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of the non-current portion of interest-bearing bank and other borrowings of the Group approximates to their fair value due to the floating interest rate of this instrument.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of Directors annually for annual financial reporting.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, convertible bonds, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest risk, foreign currency risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in interest rate	Increase/ (decrease) in profit before tax
	%	US$'000
Year ended 31 December 2011		
Increase	+1	(178)
Decrease	-1	178
Year ended 31 December 2012		
Increase	+1	(162)
Decrease	-1	162
Year ended 31 December 2013		
Increase	+1	(165)
Decrease	-1	165
Six months ended 30 June 2014		
Increase	+1	(64)
Decrease	-1	64

Foreign currency risk

The Group has transactional currency exposure. These exposures arise from sales or purchases by its significant subsidiary operating in the PRC in US$ other than the subsidiary's functional currency which is RMB. During the Relevant Periods, approximately 60%, 60%, 55% and 52%, respectively, of the Group's sales are denominated in currencies other than the functional currency of the subsidiary making the sale, whilst 62%, 64%, 65% and 65%, respectively, of costs of sales are denominated in the subsidiary's functional currency.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax
	%	US$'000
Year ended 31 December 2011		
If US$ weakens against RMB	+5	7,067
If US$ strengthens against RMB	-5	(7,067)
Year ended 31 December 2012		
If US$ weakens against RMB	+5	9,571
If US$ strengthens against RMB	-5	(9,571)
Year ended 31 December 2013		
If US$ weakens against RMB	+5	5,735
If US$ strengthens against RMB	-5	(5,735)
Six months ended 30 June 2014		
If US$ weakens against RMB	+5	4,973
If US$ strengthens against RMB	-5	(4,973)

Credit risk

The Group trades only with recognised and creditworthy third parties and related parties. It is the Group's 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 the Group's exposure to bad debts is not significant.

All the Group's cash and cash equivalents are held in major financial institutions located in Mainland China and Hong Kong, which do not have a recent history of default.

The carrying amounts of cash and cash equivalents, trade receivables and financial assets included in prepayments, deposits and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

Liquidity risk

The Group's policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The maturity profile of the Group's financial liabilities as at the end of the each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

GROUP

31 December 2011

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Interest-bearing bank and other borrowings	—	13,205	140,735	282,494	127,232	563,666
Trade payables	8,432	45,242	—	—	—	53,674
Other payables and accruals	44,184	—	—	—	—	44,184
Due to related parties	44,138	—	—	—	—	44,138
	96,754	58,447	140,735	282,494	127,232	705,662

31 December 2012

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Interest-bearing bank and other borrowings	—	3,838	110,124	286,392	60,020	460,374
Trade payables	6,948	50,351	—	—	—	57,299
Other payables and accruals	44,058	—	—	—	—	44,058
Due to related parties	34,444	—	—	—	—	34,444
	85,450	54,189	110,124	286,392	60,020	596,175

31 December 2013

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Interest-bearing bank and other borrowings	—	3,303	110,262	282,668	—	396,233
Trade payables	8,565	51,662	—	—	—	60,227
Other payables and accruals	53,908	—	—	—	—	53,908
Due to related parties	22,009	—	—	—	—	22,009
	84,482	54,965	110,262	282,668	—	532,377

30 June 2014

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Interest-bearing bank and other borrowings	—	3,009	107,792	258,135	—	368,936
Trade payables	12,712	49,575	—	—	—	62,287
Other payables and accruals	64,833	—	—	—	—	64,833
Due to related parties	20,761	—	—	—	—	20,761
	98,306	52,584	107,792	258,135	—	516,817

COMPANY

31 December 2011

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Convertible bonds	—	—	68,260	—	—	68,260
Due to subsidiaries	4,281	—	—	—	—	4,281
	4,281	—	68,260	—	—	72,541

31 December 2012

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Due to subsidiaries	71,729	—	—	—	—	71,729

31 December 2013

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Other payables, advances from customers and accruals	37	—	—	—	—	37
Due to subsidiaries	79,291	—	—	—	—	79,291
	79,328	—	—	—	—	79,328

30 June 2014

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Other payables, advances from customers and accruals	1,649	—	—	—	—	1,649
Due to subsidiaries	88,723	—	—	—	—	88,723
	90,372	—	—	—	—	90,372

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity attributable to owners of the parent plus net debt. The Group includes, within net debt, trade payables, other payables and accruals, interest-bearing bank and other borrowings, and due to related parties, less cash and cash equivalents. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	US$'000	US$'000	US$'000	US$'000
Trade payables	53,674	57,299	60,227	62,287
Other payables and accruals	44,184	44,058	53,908	64,833
Interest-bearing bank and other borrowings	530,142	417,731	366,525	345,757
Due to related parties	44,138	34,444	22,009	20,761
Less: Cash and cash equivalents	(329,738)	(218,170)	(317,045)	(298,136)
Net debt	342,400	335,362	185,624	195,502
Equity attributable to owners of the parent	902,273	963,757	1,056,219	1,091,348
Capital and net debt	1,244,673	1,299,119	1,241,843	1,286,850
Gearing ratio	27.51%	25.81%	14.95%	15.19%

40. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or the Group after 30 June 2014.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 30 June 2014.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following information does not form part of the Accountants' Report prepared by Ernst & Young, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2014 and based on our audited consolidated net tangible assets as of June 30, 2014, as shown in the Accountants' Report, the text of which is set out in Appendix I and is adjusted as detailed below:

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purpose only and, because of its nature, it may not give a true and fair picture of the financial position of the Group after the completion of the Global Offering or at any future dates.

	Consolidated net tangible assets of the Group attributable to the equity holders of the Company as of June 30, 2014(1)	Forecast net proceeds from Global Offer Shares(2)	Unaudited pro forma adjusted consolidate net tangible assets(4)	Unaudited pro forma adjusted consolidated net tangible assets per Share(3)(4)	Unaudited pro forma adjusted consolidated net tangible assets per Share
	US$ million	US$ million	US$ million	US$	(HK$ equivalent)
Based on an Offering price of HK$11.15 per Share	1,068.7	308.9	1,377.6	1.33	10.31
Based on an Offering price of HK$12.20 per Share	1,068.7	338.6	1,407.3	1.36	10.54

Notes:

(1) Our consolidated net tangible assets as of June 30, 2014 is extracted from the Accountants' Report set out in Appendix I which is equal to the audited consolidated net assets attributable to owners of our Company of US$1,091,348,000 as of June 30, 2014 less intangible assets of US$14,272,000 and deferred tax asset of US$8,391,000 as of the same date.

(2) The forecast net proceeds from the Global Offer are based on an indicative Offer Price of HK$11.15 and HK$12.20 per Share being the low end and high end of the stated Offer Price range, after deduction of the underwriting fees and related expenses payable by our Company and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds are converted into US$ at the rate of HK$7.75=US$1.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after making the adjustment referred to in this section above and on the basis that 1,033,871,656 Shares are in issue immediately following the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

(4) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2014.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

3 October 2014

To the Directors
Hua Hong Semiconductor Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hua Hong Semiconductor Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at June 30, 2014, and related notes as set out on pages 1 to 2 of Appendix II of the Prospectus issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in note 1 to 4 of Appendix II (A).

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at June 30, 2014 as if the transaction had taken place at June 30, 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended June 30, 2014, on which an accountants' report has been published in Appendix I to this prospectus.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules) and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

ERNST & YOUNG
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 August 2014 of the property held for investment by the Group.

JLL
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

3 October 2014

The Board of Directors
Hua Hong Semiconductor Limited
Suites 3701-10, 37/F
Jardine House
1 Connaught Place
Central
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property held for investment by Hua Hong Semiconductor Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 August 2014 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the property interest by income approach by taking into account the net rental income of the property derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

We have been shown copies of Real Estate Title Certificate relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC Legal Advisor — King & Wood Mallesons, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in March 2014 and September 2014 by Ms. Winnie Xu and Ms. Evelyn Xu. Ms. Winnie Xu is a China Public Valuer and has 3 years' experience in the valuation of properties in the PRC and Evelyn Xu is a probationer of the RICS.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 20 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property interest held for investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2014 *RMB*
Portions of 11 buildings No. 818 Guo Shou Jing Road Zhangjiang Hi-Tech Park Pudong New Area District Shanghai The PRC	The property comprises portions of 9 buildings completed in September 2003 and portions of 2 buildings completed in May 2013. The property has a total gross floor area of approximately 94,864.43 sq.m. The buildings mainly include an office building, 5 industrial buildings, 2 warehouses and 3 ancillary buildings. The land use rights of the property were granted for a term expiring on 8 March 2051 for industrial use.	The property is currently leased to a connected party for industrial, office, storage and ancillary uses.	1,168,450,000 100% interest attributable to the Group: RMB1,168,450,000

Notes:

1. The property is located at the southern side of Guo Shou Jing Road in Zhangjiang Hi-Tech Park, Pudong New Area District and near to Metro Line No. 2, Jinke Road Station. The site of the property is in irregular shape and World-class Software Industry Innovation Park is in the neighbourhood.
2. Pursuant to a Real Estate Title Certificate — Hu Fang Di Pu Zi (2005) Di No. 091059 dated 4 January 2005, issued by the Shanghai Housing and Land Resources Administration Bureau, 12 buildings with a total gross floor area of approximately 192,922.79 sq.m. (including portions of 9 buildings of the subject property) are owned by Shanghai Grace Semiconductor Manufacturing Corporation ("Grace Shanghai"), a wholly-owned subsidiary of the Company. The land use rights of a parcel of land with a site area of approximately 240,888 sq.m. have been granted to Grace Shanghai for a term of 50 years commencing from 9 March 2001 and expiring on 8 March 2051 for industrial use.
3. Pursuant to a Construction Work Planning Permit — Hu Pu Gui Jian Zhang (2011) No. FA31011520119407, issued by Shanghai Pudong New Area District Planning and Land Authority in favour of Grace Shanghai, the construction works of 2 warehouses with a total planned gross floor area of approximately 4,536.13 sq.m. have been approved.
4. Pursuant to a Construction Work Commencement Permit - No. 11ZJPD0059D01310115201107191601, issued by Pudong New Area District of Shanghai Construction and Transportation Committee in favour of Grace Shanghai, the commencement of the construction works of 2 warehouses with a total planned gross floor area of approximately 4,536.13 sq.m. have been approved.
5. Pursuant to a Construction Completion and Acceptance of the Registration Certificate — No. 2013PD0190, issued by Pudong New Area District of Shanghai Construction and Transportation Committee in favour of Grace Shanghai, the completion of the construction works of 2 warehouses have been approved.

6. Pursuant to a Tenancy Agreement dated 25 February 2010, entered into between Shanghai Huali Microelectronics Co., Ltd. (上海華力微電子有限公司, a connected party of the Company, the "Lessee") and Grace Shanghai, portions of 9 buildings with a total gross floor area of approximately 91,512.11 sq.m. were leased to the Lessee for a term of 20 years commencing from 1 March 2010 and expiring on 28 February 2030. The annual rent of the first five years is RMB75,501,616.52. From the sixth year onwards, the annual rent is calculated on the basis of the previous year and the calculation formula is as follows:

   Rent of new year lease = Last year the rent × (100% + Last year inflation factor (CPI) +1%)

7. Pursuant to 2 Supplemental Agreements dated 10 June 2011 and 25 July 2014, entered into between the Lessee and Grace Shanghai and between the Lessee and Shanghai Huahong Grace Semiconductor Manufacturing Corporation ("**HHGrace**") respectively, 2 warehouses (including the subject portions of 2 warehouses) were leased to the Lessee for a term of 20 years commencing from 1 July 2014 at a monthly rent of RMB115,128.93, exclusive of water and electricity charges. Grace Shanghai and HHGrace are wholly-owned subsidiaries of the Company. As advised by the Group, the gross floor area of the subject portions of 2 warehouses is approximately 3,352.32 sq.m. and the actual monthly rent is RMB85,290.72. The remaining portion of approximately 1,183.81 sq.m. is occupied by the Group for storage use and this portion is not included in the scope of our valuation.

8. In the valuation of this property, we have attributed no commercial value to portions of 2 warehouses which have not obtained Real Estate Title Certificate in respect of the building. However, for reference purpose, we are of the opinion that the capital value of these buildings as at the valuation date would be RMB13,041,000 assuming all relevant title certificates have been obtained and the units could be freely transferred.

9. In the course of valuation, reference has been made to rental evidence / asking rent of similar properties in the locality which are in the region of RMB2.0 to RMB2.5 per sq.m./per day for composite use and RMB0.76 to RMB1.0 per sq.m./per day for storage use. The assumed market yield is 7.5% which is in line with the market yield of this property sector in the region of 7.0% to 8.0%.

10. Pursuant to 2 Certificates of Registration of Real Estate of Shanghai Municipality — Pu 201014012989 and Pu 201014012990 dated 18 March 2010, a parcel of land with a site area of approximately 240,888 sq.m. and 12 buildings with a total gross floor area of approximately 192,922.79 sq.m. (including portions of 9 buildings of the subject property) were subject to mortgages in favour of Shanghai Pudong Development Bank Shanghai branch, Industrial and Commercial Bank of China Co., Ltd. Shanghai branch, China Construction Bank Co., Ltd. Shanghai branch, Bank of Communications Co., Ltd. Shanghai branch, China Merchants Bank Co., Ltd. Shanghai branch, Bank of Shanghai Co., Ltd. Shanghai branch and Industrial Bank Co., Ltd. Shanghai branch as security for bank loans with amounts of USD335,160,000 and RMB747,000,000 with the expiry date on 20 November 2018.

11. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Advisor, which contains, *inter alia*, the following:

    a. Grace Shanghai has legally obtained the land use rights and building ownership rights of the property;

    b. For 2 warehouses mentioned in note 8, it is no material legal impediment for the Group in obtaining the relevant title certificates;

    c. Portions of the property were mortgaged;

    d. Within the mortgage period, Grace Shanghai is entitled to transfer, lease, re-mortgage or otherwise dispose of the property upon the consent from the mortgagee; and

    e. The Tenancy Agreement has not been registered in the local authority and it will not have material adverse impact on the proposed listing of the Company.

This Appendix contains a summary of the Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, a copy of the Articles of Association is available for inspection.

The Articles of Association were adopted on September 20, 2014. The following is a summary of certain provisions of the Articles of Association. The powers conferred or permitted by the Articles of Association are subject to the provisions of the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, other ordinances, subsidiary legislation and the Listing Rules.

CHANGES IN CAPITAL

The Company may exercise any powers conferred or permitted by the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or any other ordinance from time to time to purchase or otherwise acquire its own shares (including any redeemable shares), or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares in the Company and should the Company purchase or otherwise acquire its own shares, neither the Company nor the Directors shall be required to select the shares to be purchased or otherwise acquired rateably or in any other particular manner as between the holders of shares of the same class or as between them and the holders of shares of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that[1], (i) purchases not made through the market or by tender shall be limited to a maximum price; and (ii) if purchases are by the tender, tenders shall be available to all shareholders alike[2] and provided further that any such purchase or other acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange, the SFC or the relevant regulator or authorities from time to time in force.

The Company may from time to time by ordinary resolution alter its share capital in any one or more of the ways set out in section 170 of the Companies Ordinance, including but not limited to:

(a) increasing its share capital by allotting and issuing new shares in accordance with the Companies Ordinance;

(b) increasing its share capital without allotting and issuing new shares, if the funds or other assets for the increase are provided by the members of the Company;

(c) capitalizing its profits, with or without allotting and issuing new shares;

1 Art 52

2 Art 8

(d) allotting and issuing bonus shares with or without increasing its share capital;

(e) converting all or any of its share into a larger or smaller number of existing shares;

(f) dividing its shares into several classes and attaching thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;

(g) cancelling shares:

(i) that, at the date of the passing of the resolution for cancellation, have not been taken or agreed to be taken by any person; or

(ii) that have been forfeited; or

(h) making provision for the issue and allotment of shares which do not carry any voting rights.[3]

Subject to the provisions of the Companies Ordinance and these Articles, the shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons and on such terms as the Directors think fit.[4]

The Company may by special resolution reduce its share capital in any manner and with, and subject to, and incident authorized, and consent required by law.[5]

VARIATION OF RIGHTS

Subject to the provisions of the Companies Ordinance, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, either while the Company is a going concern or during or in contemplation of a winding-up, either with the consent in writing of the holders of three-quarters of the total voting rights of holders of shares in that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class, but not otherwise. To every such separate meeting the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum at such meeting (other than an adjourned meeting) shall be no less than two persons together holding or representing by proxy one-third in the total voting rights of the issued shares of the class in question and at any adjourned meeting two persons holding shares of that class or by proxy (whatever the number of shares held by them), and that any holder of shares of the class present in person or by proxy may demand a poll.[6]

[3] Art 47
[4] Art 9
[5] Art 51
[6] Art 14

TRANSFERS OF SHARES

The instrument of transfer of any share shall be in writing and in any usual form or in any other form which the Directors approve and shall be executed by or on behalf of the transferor and by or on behalf of the transferee. If the transferor or transferee is a recognized clearing house or its nominee, the instrument of transfer shall be executed by hand or by machine imprinted signature or by such other manner of execution as the Directors may approve from time to time. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register in respect thereof.[7]

The Directors may, in their absolute discretion, refuse to register the transfer of a share which is not fully paid. They may also refuse to register a transfer of a share unless the instrument of transfer:

(a) is lodged, duly stamped, at the Company's registered office or at such other place as the Directors may appoint and is accompanied by the certificate for the share to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and a fee as permitted under the rules prescribed by the Stock Exchange;

(b) is in respect of only one class of share;

(c) is in favor of not more than four transferees;

(d) the shares concerned are free of any lien in favor of the Company; and

(e) such other conditions as the Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied.

If the Directors refuse to register a transfer of a share, they shall within two months after the date on which the transfer was lodged with the Company send to the transferee notice of the refusal in accordance with the Companies Ordinance.[9]

No transfer may be made to an infant or to a person of unsound mind or under other legal disability.[10]

[7] Art 36
[9] Art 38
[10] Art 42

GENERAL MEETINGS

The Company shall, in respect of each financial year of the Company, hold a general meeting as its annual general meeting in accordance with the requirements of the Companies Ordinance in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it. All general meetings other than annual general meetings shall be called extraordinary general meetings.[11]

The Directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or in default, may be convened by such requisitionists, as provided by the Companies Ordinance.

NOTICE OF GENERAL MEETINGS

Subject to the provisions of the Companies Ordinance, an annual general meeting shall be called by notice in writing of at least twenty-one clear days (or such longer period as may be required by the Listing Rules), and an extraordinary general meeting shall be called by notice in writing of at least fourteen clear days (or such longer period as may be required by the Listing Rules), shall be given in the manner mentioned in these Articles to all members, to the Directors and to the auditors. The notice shall specify the place, the day and the time of meeting (and if the meeting is to be held in 2 or more places, the principal place of the meeting and the other place or places of the meeting) and, in the case of special business the general nature of such business, and in the case of an annual general meeting shall specify the meeting as such. If a resolution (whether or not a special resolution) is intended to be moved at the meeting, the notice must include notice of the resolution, and include or be accompanied by a statement containing any information or explanation that is reasonably necessary to indicate the purpose of the resolution. Notice of a general meeting shall be given to such persons as are, under these Articles, entitled to receive such notices from the Company. For notice of a general meeting, there shall appear on every such notice with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of the Company.

Subject to the provisions of the Companies Ordinance, a meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in this Article, be deemed to have been duly called if it so agreed: (a) in the case of an annual general meeting, by all the members entitled to attend and vote thereat; and (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent of the total voting rights at the meeting of all the members.[12]

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[11] Art 53

[12] Art 56

The accidental omission to give notice of a meeting or a resolution intended to be moved at a general meeting to, or the non-receipt of notice of a meeting or a resolution intended to be moved at a general meeting by, any person entitled to receive notice shall not invalidate any resolution(s) passed or the proceedings at that meeting. In cases where instruments of proxy are sent out with notices, the accidental omission to send such instrument of proxy to, or the non-receipt of such instrument of proxy by, any person entitled to receive notice shall not invalidate any resolutions passed the proceedings at that meeting.[13]

VOTING AT GENERAL MEETINGS

Subject to any rights or restrictions attached to any shares, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorized representative at any general meeting shall have one vote only, and on a poll every member shall have one vote for every fully paid-up share of which he is the holder.[14]

On a poll votes may be given either personally or by proxy or (in the case of a corporate member) by a duly authorized representative.[15]

A member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses the same way.[16]

If a recognised clearing house (or its nominee) is a member of the Company, it (or, as the case may be, its nominee) may authorize such person or persons as it thinks fit to act as its proxy or proxies or its representative or representatives at any meeting of the Company or at any meeting of any class of member of the Company provided that, if more than one person is so authorized, the instrument of proxy or authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person so authorized under the provisions of this Article shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise as if such person were an individual member of the Company, and where a show of hands is allowed, each such person shall be entitled to a separate vote.[17]

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.[18]

[13] Art 57
[14] Art 72
[15] Art 78
[16] Art 78
[17] Art 87
[18] Art 71

QUALIFICATIONS OF DIRECTORS

A Director shall not require a share qualification.[19]

BORROWING POWERS

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fit and, in particular by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.[20]

DIRECTORS' APPOINTMENT, REMOVAL AND RETIREMENT

At each annual general meeting, one-third of the Directors (including the managing director(s)) or, if their number is not three or a multiple of three, the number which is nearest to and is at least one-third, shall retire from office by rotation. A retiring Director shall be eligible for re-election. The Directors to retire by rotation shall be those who have been longest in office since their last appointment or reappointment, but as between persons who became or were last reappointed Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.[21] There are no provisions relating to retirement of Directors upon reaching any age limit.

The Company may by ordinary resolution appoint a person who is willing to act to be a Director, either to fill a vacancy or as an additional Director, and may also determine the rotation in which any additional Directors are to retire.[22] The Directors may appoint a person who is willing to act to be a Director, either to fill a vacancy or as an additional Director, provided that the appointment does not cause the number of Directors to exceed any number fixed as the maximum number of Directors. A Director so appointed shall retire at the next following annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at the meeting.[23]

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[19] Art 89
[20] Art 101
[21] Art 107, 108
[22] Art 111
[23] Art 112

DIRECTORS' REMUNERATION AND EXPENSES[24]

The Directors are entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Directors may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees.

The Directors may also be entitled to all reasonable travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Directors or of committees of the Directors or general meetings or separate meetings of the holders of any class of shares or otherwise in connection with the discharge of their duties as Directors.

The Directors, or a committee of the Directors, may reward special remuneration (by way of bonus, commission, participation in profits or otherwise as the Directors, or a committee of the Directors, may determine) to any Director who performs services which the Directors consider go beyond the ordinary duties of a Director. In particular, the Directors, or a committee of the Directors may fix the remuneration, which may be by way of salary, bonus, commission, participation in profits or otherwise and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances of a managing director, joint managing director, deputy managing director or other executive director or a Director appointed to any other office in the management of the Company. Such remuneration shall be in addition to his remuneration as a Director.

DIRECTORS' INTERESTS

No Director or intended Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such transaction, arrangement or contract, or any transaction, arrangement or contract entered into by or on behalf of the Company in which any Director (including his connected entities) is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such transaction, arrangement or contract by reason of such Director holding that office or of the fiduciary relation thereby established, provided that such Director shall disclose the nature and extent of his (including his connected entities) interest in any transaction, arrangement or contract in which he is interested as required by and subject to the provisions of the Companies Ordinance.[25]

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[24] Art 91

[25] Art 119

A Director and his alternate shall not vote (nor shall be counted in the quorum) at a meeting of the Directors on any resolution approving any transaction, contract or arrangement or concerning a matter in which he or any of his associate or any of his connected entity has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, the Company), unless his interest arises only because the case falls within one or more of the following sub-paragraphs:

(i) the resolution relates to the giving to him or his associate or any of his connected entity of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him or any of them at the request of or for the benefit of, the Company or any of its subsidiaries;

(ii) the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of the Company or any of its subsidiaries for which the Director or his associate or any of his connected entity has/have himself/themselves assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;

(iii) his interest arises by virtue of his or his associate or any of his connected entity being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares in or debentures or other securities of or by the Company or any other corporation which the Company may promote or be interested in subscription, purchase or exchange;

(iv) the resolution relates to an arrangement for the benefit of the employees of the Company or any of its subsidiaries, including but without being limited to the adoption, modification or operation of any pension fund, or retirement, death or disability benefit scheme, which relates to both Directors, his associates, connected entities and employees of the Company or any of its subsidiaries and does not accord to any Director or his associate or his connected entity as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates;

(v) any transaction, contract or arrangement in which the Director or his associate or his connected entity is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities of the Company;

(vi) the resolution relates to an arrangement concerning the adoption, modification or operation of any employee's share scheme, share incentive scheme or share option scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his associate or any of his connected entity may benefit.[26]

[26] Art 120

A Director may hold any other office or place of profit under the Company (other than the office of auditor) and he or any firm which he is a member may act in a professional capacity for the Company (other than as auditor) in conjunction with his office of Director for such period and upon such terms (as to remuneration or otherwise), as the Directors may determine. A Director may continue to be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested as a shareholder or otherwise, and subject to the Companies Ordinance, no such director shall be accountable to the Company for any remuneration or other benefit received by him as a director or officer of, or from his interest in, such other company. The Directors may exercise the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favor of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) and any Director may vote in favor of the exercise of such voting rights in the manner aforesaid notwithstanding that he may be, or is about to be appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.[27]

DIVIDENDS

The Company may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by the Directors. No dividend shall be payable except out of the profits or other distributable reserves of the Company available for distribution.[28]

Except as otherwise provided by these Articles or the rights attached to shares or the terms of issue thereof, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. If any share is issued on terms that it ranks for dividend as from a particular date, it shall rank for dividend accordingly. In any other case (and except as aforesaid), dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purpose of this Article, an amount paid up on a share in advance of a call shall be treated, in relation to any dividend declared after the payment but before the call, as not paid up on the share.[29]

[27] Art 118(c)
[28] Art 141
[29] Art 144

The Company may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise in relation to the shares of the Company.[30]

Whenever the Directors or the Company have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted shall be of the same class or classes as the class or classes already held by the members entitled thereto, provided that these members will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit.[31]

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared, the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of the Company or any other corporation to which the Company is entitled, or in any one or more of such ways, with or without offering any rights to members to elect to receive such dividend in cash, and where any difficulty arises in regard to the distribution the Directors may settle the same as they think expedient, and in particular may issue fractional certificates, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may determine that fractional entitlements shall be aggregated and sold and the benefit shall accrue to the Company rather than to the members concerned, and may vest any such specific assets in trustees as may seem expedient to the Directors and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend and such appointment shall be effective.[32]

Any dividend unclaimed for one year after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. Any dividend which has remained unclaimed for six years after having become payable shall, if the Directors so resolve, be forfeited and cease to remain owing by the Company.[33]

[30] Art 145

[31] Art 150

[32] Art 146

[33] Art 149

INDEMNITY

Subject to the provisions of the Companies Ordinance, but without prejudice to any indemnity to which a Director may otherwise be entitled every Director, former Director, responsible person, officer or auditor of the Company shall be indemnified out of the assets of the Company against any liability, loss or expenditure incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director, former Director, responsible person, officer or auditor of the Company.[34]

Subject to the provisions of the Companies Ordinance, the Directors may exercise all the powers of the Company to purchase and maintain insurance, at the expense of the Company, for the benefit of a person who is a Director, alternate Director, manager, secretary and responsible person of the Company or of an associated company of the Company and the auditors for the purpose of indemnifying such persons and keeping them indemnified against liability for negligence, default, breach of duty or breach of trust (except for fraud) or other liability which may lawfully be insured against by the Company or associated company (as the case may be) and any liability which may be incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or an associated company (as the case may be).[35]

[34] Art 176(a)
[35] Art 177

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in Hong Kong under the Companies Ordinance as a company limited by shares on January 21, 2005. Our Company's registered office is at Suites 3701-10, 37/F, Jardine House, 1 Connaught Place Central, Hong Kong.

A summary of certain relevant provisions of the Articles of our Company are set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

As at the date of incorporation of our Company, its authorized share capital was US$15,000,000 divided into 1,500,000,000 shares of US$0.01 each. Following the coming into effect of the new Companies Ordinance (Cap. 622) on March 3, 2014, the nominal value of the shares of the Company was abolished pursuant to section 135 of the Companies Ordinance. The following sets out the changes in the share capital of our Company since the date of its incorporation:

Upon establishment of the Company, one Share of US$0.01 was issued to Harefield Limited, which was transferred to Hua Hong International subsequently.

On June 1, 2005, 570,499,999 Shares were issued at the then par value of US$0.01 in the proportion of 350,401,099 Shares, 99,038,800 Shares, 57,050,000 Shares, and 64,010,100 Shares to Hua Hong International, NEC, Newport Fab LLC and Hylintek Limited, respectively. Immediately following this issuance of Shares, the number of issued Shares of the Company increased to 570,500,000.

In August 2011, the capital of the Company was reduced by US$32 million by way of repurchase of Shares held by Newport Fab LLC. Immediately following the repurchase of Shares, the number of issued Shares of the Company was 513,450,000.

Pursuant to the Merger on December 28, 2011, 291,725,656 Shares were further issued (including 11,010,635 Shares which were held in escrow by SAIL and later released on September 30, 2012[(1)]) at the then par value of US$0.01 to the then shareholders of Grace Cayman. Immediately following this further issuance of Shares, the number of issued Shares of the Company increased to 805,175,656.

Please see section headed "Our History and Development — The Merger and the Restructuring" for details of our Merger and Restructuring.

(1) As at the Latest Practicable Date, Sino-Alliance International, Ltd. was still holding 3,645 Escrow Shares as the relevant shareholders did not return the relevant signed transfer documents for the release of the Escrow Shares.

Immediately following the completion of the Global Offering (the conditions of which are set out in the paragraph headed "Structure of the Global Offering — Conditions of the Global Offering"), but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, the share capital of our Company will be comprised of 1,033,871,656 Shares. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Resolutions of our Shareholders passed on September 20, 2014" in this Appendix, our Directors do not have any present intention to issue any other Shares of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no other alteration in the share capital of our Company since its incorporation.

3. **Changes in share capital of our subsidiaries**

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

(1) ***HHGrace***

HHGrace was established on January 24, 2013 as a wholly-owned subsidiary of our Company and a WFOE in the PRC. As of the Latest Practicable Date, the registered share capital of HHGrace was RMB5.87 billion.

(2) ***Global Synergy Technology Limited***

Pursuant to a certificate of registration dated December 18, 2013, Grace Cayman transferred all its equity interest in Global Synergy Technology Limited to our Company and it had become a wholly-owned subsidiary of our Company. As at the Latest Practicable Date, the authorized share capital of Global Synergy Technology Limited was HKD10,000 divided into 10,000 shares of nominal value of HKD1.00 each.

(3) ***HHGrace USA***

On December 20 , 2013, Grace Cayman transferred all its equity interest in HHGrace USA to our Company. As at the Latest Practicable Date, the authorized share capital of HHGrace USA was 10,000 shares of common stock with no par value.

(4) ***HHGrace Japan***

On December 10, 2013, Grace Cayman transferred all its equity interest in HHGrace Japan to our Company and it had become a wholly-owned subsidiary of our Company. As at the Latest Practicable Date, the authorized share capital of HHGrace Japan was JPY10,000,000, divided into 200 shares.

(5) ***Grace Shanghai***

Pursuant to the Restructuring, upon completion of the transfer of the assets and liabilities of Grace Shanghai to HHGrace, we intend to dissolve and deregister Grace Shanghai.

(6) ***HHNEC***

Pursuant to the Restructuring, upon completion of the transfer of the assets and liabilities of HHNEC to HHGrace, we intend to dissolve and deregister HHNEC.

(7) ***Grace Semiconductor Germany GmbH***

On December 11, 2012, Grace Semiconductor Germany GmbH was liquidated.

Save as disclosed above, there has been no other alteration in the share capital or registered capital of the subsidiaries of our Company within the two years preceding the date of this prospectus.

4. **Resolutions of our Shareholders passed on September 20, 2014**

Pursuant to the resolutions of all our Shareholders passed at the extraordinary general meeting of our Company on September 20, 2014:

(a) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering and the Over-allotment Option) as mentioned in this prospectus; (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (on behalf of the Underwriters)) and (iii) the Underwriting Agreements not being terminated in accordance with their terms or otherwise, in each case, at or before 8:00 a.m. on the Listing Date (or such other date and time as may be agreed between the Sole Global Coordinator and our Company in writing): the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;

(b) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to or in consequence of any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or any option scheme(s) or similar arrangement for the time being adopted for the grant or issue to Directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, a total number of Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Global Offering but before any exercise of the Over-allotment Option;

(c) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares not exceeding 10% of the total number of Shares in issue immediately following completion of the Global Offering but before the exercise of the Over-allotment Option;

(d) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (b) above by the addition to the total number of Shares in issue of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the total number of Shares in issue of our Company repurchased by our Company pursuant to paragraph (c) above, provided that such extended number of Shares shall not exceed 10% of the total number of Shares in issue immediately following the Global Offering but before the exercise of the Over-allotment Option was approved; and

(e) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering and the Over-allotment Option) as mentioned in the prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise, the Articles of Association be adopted in substitution for and to the exclusion of the memorandum of association and articles of association of our Company previously adopted by our Company on January 16, 2005 with effect from the date on which the Shares are listed on the Stock Exchange.

Each of the general mandates referred to in paragraphs (b), (c) and (d) above will remain in effect until whichever is the earliest of:

(1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our shareholders in a general meeting, either unconditionally or subject to conditions;

(2) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. **Repurchase of our Shares**

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(1) ***Provisions of the Listing Rules***

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, and the most important restrictions are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders at a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the resolutions passed on September 20, 2014 by all of our Shareholders, a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase such number of Shares (Shares which may be listed on the Stock Exchange) not exceeding 10% of the total number of Shares in issue or to be issued immediately following the completion of the Global Offering, details of which have been described above in the paragraph headed "Resolutions of our Shareholders passed on September 20, 2014".

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the laws of Hong Kong. We are not permitted to repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully paid up.

(2) ***Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(3) ***Funding of repurchases***

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of Hong Kong.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as it would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(4) ***General***

None of our Directors, to the best of their knowledge having made all reasonable enquiries, nor any of their associates (as defined in the Listing Rules) currently holds any shares in the Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

(a) the transfer of construction in progress agreement dated November 13, 2012 between HHNEC and Huahong Real Estate in respect of the transfer of construction in progress from HHNEC to Huahong Real Estate at the Huahong Innovation Park (Phase III) at a consideration of RMB124,374,952.70;

(b) the Deed of Indemnity;

(c) the Deed of Right of First Refusal;

(d) the Deed of Non-competition;

(e) a cornerstone investment agreement dated September 27, 2014, entered into between Tongfang Guoxin Electronics Co. Ltd., our Company and the Sole Global Coordinator pursuant to which Tongfang Guoxin Electronics Co. Ltd. agreed to subscribe for our Shares in the amount of US$15 million;

(f) a cornerstone investment agreement dated September 29, 2014, entered into between Cypress Semiconductor Technology Ltd., our Company and the Sole Global Coordinator pursuant to which Cypress Semiconductor Technology Ltd. agreed to subscribe for our Shares in the amount of US$10 million; and

(g) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

Trademarks

As at the Latest Practicable Date, we have the following registered trademark in the PRC:

	Trademark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
(1)		Shanghai Huajie	PRC	9 (electrical tube; chip (germanium film); monocrystalline silicon; quartz crystal; polysilicon; printed circuits; IC; IC block; transistor (electrical); semiconductor devices)	5927652	December 13, 2019

As at the Latest Practicable Date, applications have been made for the registration of the following trademarks:

	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
(2)	NORD-Flash	HHGrace	PRC	9 (recorded computer program (program); computer software (recorded); semi-conductor devices; electronic chips; integrated circuit; integrated circuit chips; disk drive for computer; semi-conductor; DNA chips; chips (Integrated circuit));	14241227	March 25, 2014
(3)	华虹宏力	The Company	Hong Kong	9 (scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signaling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus),	303013532	May 29, 2014
				40 (treatment of materials),	303013604	

	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
				42 (scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software)	303013596	
(4)		The Company	Hong Kong	9 (computer programmes, recorded; computer software, recorded; semi-conductor memory devices; integrated circuits; wafers for integrated circuits; disk drives for computers; semi-conductors; DNA chips; Chips; integrated circuits), 40 (custom assembling of materials for others; metal plating; abrasion; material treatment information; blacksmithing; coppersmithing; millworking; burnishing by abrasion; metal casting; metal treating), and 42 (packaging design services; industrial design; styling, industrial design; technical project studies; material testing; physics research; research and development of new products for others; updating of computer software; computer systems analysis; monitoring of computer systems by remote access).	303085894	July 31, 2014

	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
(5)	HHGrace	The Company	Hong Kong	9 (computer programmes, recorded; computer software, recorded; semi-conductor memory devices; integrated circuits; wafers for integrated circuits; disk drives for computers; semi-conductors; DNA chips; Chips; integrated circuits), 40 (custom assembling of materials for others; metal plating; abrasion; material treatment information; blacksmithing; coppersmithing; millworking; burnishing by abrasion; metal casting; metal treating), and 42 (packaging design services; industrial design; styling, industrial design; technical project studies; material testing; physics research; research and development of new products for others; updating of computer software; computer systems analysis; monitoring of computer systems by remote access).	303085911	July 31, 2014

	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
(6)	華虹宏力	The Company	Hong Kong	9 (computer programmes, recorded; computer software, recorded; semi-conductor memory devices; integrated circuits; wafers for integrated circuits; disk drives for computers; semi-conductors; DNA chips; chips; integrated circuits), 40 (custom assembling of materials for others; metal plating; abrasion; material treatment information; blacksmithing; coppersmithing; millworking; burnishing by abrasion; metal casting; metal treating), and 42 (packaging design services; industrial design; styling, industrial design; technical project studies; material testing; physics research; research and development of new products for others; updating of computer software; computer systems analysis; monitoring of computer systems by remote access).	303085920	July 31, 2014

As at the Latest Practicable Date, we have registered the following domain names:

Domain Name	Registered Owner	Expiry Date
gracesemi.com	HHGrace	September 7, 2017
hhgrace.com	HHGrace	October 12, 2016
hhnec.com	HHGrace	March 7, 2017
huajie-tech.com	Shanghai Huajie	July 26, 2018
huahonggrace.com	HHGrace	June 4, 2019

Patents

As at the Latest Practicable Date, we were the registered owner of the following patents which, in the opinion of our Directors, are material to our business:

Patents	Type	Patent number	Place of registration	Expiration date
Memory array	Utility	US8,693,243	U.S.	May 6, 2032
Word-line voltage regulating circuit and single power supply memory	Utility	US8,659,971	U.S.	September 11, 2032
Flash memory and method for forming the same	Utility	US8,546,217	U.S.	August 27, 2032
Superjunction LDMOS and manufacturing method of the same	Utility	US8,698,237	U.S.	September 27, 2032
Sense amplifier used in electrically erasable programmable read-only memory and the implementing method thereof	Utility	US8169834B2	U.S.	July 13, 2030
Self-calibration method of a reading circuit of a non-volatile memory	Utility	US8184490B2	U.S.	September 6, 2030
Novel manufacturing approach for collector and a buried layer of bipolar transistor	Utility	US8222114B2	U.S.	December 27, 2030

Patents	Type	Patent number	Place of registration	Expiration date
Stacked inductor	Utility	US8289118B2	U.S.	December 7, 2030
Silicon-germanium heterojunction bipolar transistor	Utility	US8378457B2	U.S.	September 20, 2031
Parasitic vertical PNP bipolar transistor in BiCMOS process	Utility	US8421185B2	U.S.	April 17, 2031
Method of manufacturing superjunction structure	Utility	US8440529B2	U.S.	January 11, 2032
Parasitic pin device in a BiCMOS process and manufacturing method of the same	Utility	US8476728B2	U.S.	August 24, 2031
PN-junction varactor in a BiCMOS process and manufacturing method of the same	Utility	US8502349B2	U.S.	January 24, 2032
Superjunction device and method for manufacturing the same	Utility	US8653586B2	U.S.	September 4, 2032
Ultra-high voltage silicon-germanium HBT device and manufacturing method of the same	Utility	US8759880B2	U.S.	June 5, 2033

As at the Latest Practicable Date, we have applied for the registration of the following patents, which, in the opinion of our Directors, are material to our business:

Patents	Type	Place of application	Application number	Application date
CMOS image sensor and method for forming the same	Utility	U.S.	13/917,156	June 13, 2013
Memory array device and method for reducing read current of the same	Utility	U.S.	13/963,361	August 9, 2013
Oscillator and self-calibration method thereof	Utility	U.S.	14/032,925	September 20, 2013

Patents	Type	Place of application	Application number	Application date
Row decoding circuit and memory	Utility	U.S.	14/041,887	September 30, 2013
Interconnect structure and forming method thereof	Utility	U.S.	14/108,860	December 17, 2013
Silicon-on-insulator radio frequency device and silicon-on-insulator substrate	Utility	U.S.	14/134,432	December 19, 2013
Method for forming radio frequency device	Utility	U.S.	14/156,865	January 16, 2014
SOI RF device and method for forming the same	Utility	U.S.	14/160,075	January 21, 2014
LDMOS device with step-like drift region and fabrication method thereof	Utility	U.S.	13/947,604	July 22, 2013
LDMOS device with step-like drift region and fabrication method thereof	Utility	U.S.	13/970,050	August 19, 2013
Super-junction device and method of forming the same	Utility	U.S.	14/019,159	September 5, 2013
Method of forming patterned film on a bottom and a top-surface of a deep trench	Utility	U.S.	14/082,758	November 18, 2013
RF LDMOS device and method of forming the same	Utility	U.S.	14/147,484	January 3, 2014

C. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors' service contracts

Each of our Executive Directors and Non-Executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our Independent Non-Executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the hearing date of the Listing and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

None of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

2. Directors' remuneration during the Track Record Period

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, no remuneration paid and benefits in kind were paid or granted to our Directors by us and our subsidiaries in their capacity as Directors. Our senior management received remuneration in the form of salaries, housing and other allowance and benefits in kind and discretionary bonuses.

Save as disclosed in this prospectus, emoluments paid by any member of our Group to our Directors in respect of the three years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 is nil, US$246,000, US$266,000 and US$80,000, respectively.

For additional information on Directors' remuneration during the Track Record Period and the compensation paid to the highest paid individuals, please refer to Notes 9 and 10 of the Accountants' Report set out in Appendix I to this prospectus.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, Directors (excluding discretionary bonus) for the year ended December 31, 2014 will be approximately RMB2.1 million.

D. DISCLOSURE OF INTERESTS

1. Disclosure of Interests

(a) *Interests and short positions of our Directors in our share capital and our associated corporations following completion of the Global Offering*

Immediately following completion of the Global Offering and without taking into account the exercise of the Over-allotment Option, none of our Directors nor the chief executive will have any interests or short positions in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Global Offering and without taking into account the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in our Shares or underlying Shares which are required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Interests and short positions in our shares and underlying shares:

Name	Capacity	Nature of interest	Number of Shares held as at the date of this prospectus	Approximate percentage of shareholding as at the date of this prospectus
Hua Hong International[1]	Legal and Beneficial owner	Long position	350,401,100	43.52%
Huahong Group[1]	Interest in a controlled corporation	Long Position	350,401,100	43.52%
CEC[1]	Interest in a controlled corporation	Long position	350,401,100	43.52%
SAIL[2]	Interest in a controlled corporation	Long position	558,757,039	69.40%[3]
Sino-Alliance International, Ltd.[2]	Legal and Beneficial owner	Long position	173,436,585	21.55%
NEC	Legal and Beneficial owner	Long position	99,038,800	12.30%
Hylintek Limited	Legal and Beneficial owner	Long position	64,010,100	7.95%
Shanghai Belling Co., Ltd.	Interest in a controlled corporation	Long position	64,010,100	7.95%

Note:

(1) As at the Latest Practicable Date, Hua Hong International is a wholly-owned subsidiary of Huahong Group. As at the Latest Practicable Date, Huahong Group is 47.08% owned by CEC and 47.08% owned by SAIL. Therefore CEC and SAIL are deemed to be interested in all the Shares in which Huahong Group is interested in by virtue of Part XV of the SFO.

(2) As at the Latest Practicable Date, SAIL holds interests in the Company through four wholly-owned subsidiaries. SAIL is deemed to be interested in such Shares by virtue of Part XV of the SFO, which equals an aggregate shareholding of 25.88%. In additional to the 173,436,585 Shares owned by it, as at the Latest Practicable Date Sino-Alliance International, Ltd., a wholly-owned subsidiary of SAIL, was holding 3,645 shares in escrow pursuant to an escrow arrangement related to the Merger.

(3) As at the Latest Practicable Date, as a result of its deemed interest mentioned in notes (1) and (2) above, SAIL is deemed interested in 43.52% and 25.88% of the Company's Shares.

2. **Disclaimers**

Save as disclosed in this prospectus:

(a) our Directors are not aware of any person (not being our Director or our chief executive) who will, immediately after completion of the Global Offering (without taking into account the Over-allotment Option), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the total value of any class of share capital carrying rights to vote in all circumstances at our general meetings;

(b) none of the Directors or chief executive has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;

(c) none of the Directors nor any of the parties listed in the section headed "Other Information - Consents of experts" of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

(d) none of the Directors nor any of the parties listed in the section headed "Other Information - Consents of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed "Other Information — Consents of experts" of this Appendix:

    (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries;

    (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;

(f) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

E. OTHER INFORMATION

1. Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after February 11, 2006.

2. Stamp Duty

Dealings in the Shares will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

3. Dividends

No tax is imposed in Hong Kong in respect of dividends the Company pays to the Shareholders. Dividends paid to the Shareholders are free of withholding taxes in Hong Kong.

4. Capital gains and profits tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax.

5. Tax and other indemnities

Our Controlling Shareholders have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (b) of the subsection headed "B. Further Information About Our Business — 1. Summary of material contracts" in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional.

6. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

7. **Preliminary Expenses**

Our estimated preliminary expenses incurred are approximately HK$50,750 and have been paid by us.

8. **Sponsor**

The Sole Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable such Shares to be admitted into CCASS. We have entered into an engagement agreement with the Sole Sponsor, pursuant to which we agreed to pay US$500,000 to the Sole Sponsor to act as the sponsor to our Company in the Global Offering.

9. **No Material Adverse Change**

Our Directors confirm that, save as disclosed in this prospectus, there has been no material adverse change in their financial or trading position or prospects since June 30, 2014 (being the date to which our latest audited consolidated financial statements were made up).

10. **Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. **Miscellaneous**

(1) Save as disclosed in this prospectus:

(a) within the two years immediately preceding the date of this prospectus, no share or loan capital of any member of our Group has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of any member of our Group is under option or is agreed conditionally or unconditionally to be put under option;

(c) our Group has not issued or agreed to issue any founder shares, management shares or deferred shares;

(d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

(e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

(g) we have no outstanding convertible debt securities.

(2) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the twelve months immediately preceding the date of this prospectus.

12. **Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Goldman Sachs (Asia) L.L.C.	a licensed corporation to conduct type 1(dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent professional property valuer
IBS	Independent industry consultant
King & Wood Mallesons	PRC legal counsel to our Company

13. **Consents of experts**

Each of Goldman Sachs (Asia) L.L.C., Ernst & Young, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, IBS, and King & Wood Mallesons has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

14. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

15. Promoter

Our Company has no promoter for the purposes of the Listing Rules.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "Appendix V — Statutory and General Information — E. Other Information — Consents of experts" in this prospectus; and

(c) copies of the material contracts referred to in the paragraph headed "Appendix V — Statutory and General Information — B. Further Information about our business — Summary of material contracts" in this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Herbert Smith Freehills at 23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(a) our Articles of Association;

(b) the Accountants' Report prepared by Ernst & Young, the text of which are set out in Appendix I to this prospectus;

(c) the letter received from Ernst & Young on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(d) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the texts of which are set out in Appendix III to this prospectus;

(e) the material contracts referred to in the paragraph headed "Appendix V — Statutory and General Information — B. Further Information about our Business — Summary of the material contracts" in this prospectus;

(f) the service contracts with Directors, referred to in the paragraph headed "Appendix V — Statutory and General Information — C. Further Information about the Directors — Directors' service contracts" in this prospectus;

(g) the written consents referred to in the paragraph headed "Appendix V — Statutory and General Information — E. Other Information — Consents of experts" in this prospectus; and

(h) the legal opinions dated this prospectus date prepared by King & Wood Mallesons, our legal advisor as to the PRC law, in respect of certain aspects of our Group and our property interests.

華虹半導體有限公司
Hua Hong Semiconductor Limited