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ADVANCED SEMICONDUCTOR MANUFACTURING CORPORATION LIMITED

上海先進半導體製造股份有限公司

(A foreign invested joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 03355)

REVISION OF ROYALTY FEES FOR CONTINUING CONNECTED TRANSACTIONS

This announcement is made by the Company pursuant to Rules 14A.35 and 14A.54(2) of the Listing Rules.

Reference is made to the announcement dated 22 July 2014 and the circular dated 11 August 2014 issued by the Company in relation to, among other things, the Non-exempt Continuing Connected Transactions entered into with certain connected persons of the Company, namely NXP B.V. and NXP Semiconductors, in its ordinary and usual course of business.

The Non-exempt Continuing Connected Transactions comprise the Product Sale Transactions and the Technology Transfer Transactions. At the 2014 EGM, the Company obtained the Independent Shareholders' approval for, among other things, (i) its entering into of the NXP Foundry Services Agreement, the NXP Cooperation Agreement, the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement; as well as (ii) the Non-exempt Continuing Connected Transactions and the relevant annual caps contemplated thereunder for each of the three years ending 31 December 2017.

On 15 February 2016, the Company and NXP B.V. have entered into the Technology Transfer Supplemental Agreement to adjust the Technology Transfer Royalty Fee payable by the Company to NXP B.V. under the Technology Transfer and Cooperation Agreement, with effect from 1 January 2016. Pursuant to the Technology Transfer Supplemental Agreement, the Technology Transfer Royalty Fee shall be reduced from 3% to 1%.

In addition, on 15 February 2016, the Company and NXP Semiconductors have entered into the NXP Identification Licensing Supplemental Agreement to adjust the Licensing Royalty Fee payable by the Company to NXP Semiconductors under the NXP Identification Licensing Agreement, with effect from 1 January 2016. Pursuant to the NXP Identification Licensing Supplemental Agreement, the Licensing Royalty Fee shall be reduced from 10% to 1%.

Save as disclosed above, all other terms and conditions of the Technology Transfer and Cooperation Agreement and NXP Identification Licensing Agreement remain unchanged. In addition, the annual caps for the three years ending 31 December 2017 contemplated under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement as set out in the announcement dated 22 July 2014 and the circular dated 11 August 2014 issued by the Company (i.e. RMB15.9 million, RMB 17.5 million, and RMB19.2 million respectively) remain unchanged.

NXP B.V. is a connected person of the Company by virtue of it being a substantial shareholder of the Company. Since NXP Semiconductors is a subsidiary of NXP B.V., it is an associate of NXP B.V. and a connected person of the Company. Therefore, the transactions contemplated under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules, in respect of the annual caps under the Technology Transfer Transactions (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) for the three years ending 31 December 2017 exceed 0.1% but do not exceed 5%, the continuing connected transactions under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) are subject to the reporting, announcement and annual review requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

This announcement is made by the Company pursuant to Rules 14A.35 and 14A.54(2) of the Listing Rules.

Reference is made to the announcement dated 22 July 2014 and the circular dated 11 August 2014 issued by the Company in relation to, among other things, the Non-exempt Continuing Connected Transactions entered into with certain connected persons of the Company, namely NXP B.V. and NXP Semiconductors, in its ordinary and usual course of business.

The Non-exempt Continuing Connected Transactions comprise the Product Sale Transactions and the Technology Transfer Transactions. At the 2014 EGM, the Company obtained the Independent Shareholders' approval for, among other things, (i) its entering into of the NXP Foundry Services Agreement, the NXP Cooperation Agreement, the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement; as well as (ii) the Non-exempt Continuing Connected Transactions and the relevant annual caps contemplated thereunder for each of the three years ending 31 December 2017.

REVISION OF THE TECHNOLOGY TRANSFER ROYALTY FEE AND THE LICENSING ROYALTY FEE

Technology Transfer and Cooperation Agreement

Under the original Technology Transfer and Cooperation Agreement, particulars of the agreement are set out below:-

Parties:	The Company (as the buyer) NXP B.V. (as the supplier)
Date:	Dated 12 January 2005 and effective on 2 March 2004
Know-how supplied:	NXP B.V. agreed to (i) transfer to the Company the relevant knowledge and experience relating to foundry manufacturing service; (ii) grant to the Company a license to manufacture at its production facility in the PRC and sell the Licensed Products; (iii) provide the Company with technical assistance for the manufacture, testing and assembly of the Licensed Products; and (iv) provide technical training to the Company's engineers.
Technology Transfer Royalty Fee:	The Company agreed to pay NXP B.V. a consideration equivalent to 3% of the net selling price of each product the Company sells to both NXP Group and to customers other than NXP Group who use NXP B.V. processes. The consideration paid by the Company represents the market price that the Company would offer for similar products or rights.
Payment terms:	The Company shall pay the royalty fee on a half-yearly basis within 30 days of 30 June and 31 December of each year during the term of the agreement. Payments made pursuant to the agreement shall be in US dollars.
Term:	The current term of the agreement is for a period of 10 years from 2 March 2014 to 1 March 2024, and thereafter will be automatically renewed for a further period of 10 years from 2 March 2024 to 1 March 2034 (conditional upon the Independent Shareholders' approval).

On 15 February 2016, the Company and NXP B.V. have entered into the Technology Transfer Supplemental Agreement to adjust the aforesaid Technology Transfer Royalty Fee payable by the Company to NXP B.V under the Technology Transfer and Cooperation Agreement, with effect from 1 January 2016. Pursuant to the Technology Transfer Supplemental Agreement, the Technology Transfer Royalty Fee shall be reduced from 3% to 1%.

Save as disclosed above, all other terms and conditions of the Technology Transfer and Cooperation Agreement remain unchanged.

NXP Identification Licensing Agreement

Under the original NXP Identification Licensing Agreement, particulars of the agreement are set out below:-

Parties:	The Company (as the buyer) NXP Semiconductors (as the supplier)
Date:	Dated 29 May 2002 and effective on 1 January 2002
Know-how supplied:	NXP Semiconductors granted the Company a non-exclusive and non-transferable license over certain intellectual property rights relating to non-volatile memory and the EEPROM process technology (including design rules, parametric information, drawings, specifications, recipes, procedures and other technical information) for use in manufacturing the Identification Products.
Licensing Royalty Fee:	The Company agreed to pay a fee of 10% of the net selling price of each product the Company produces by using the technology under the agreement and sells to the Company's customers including NXP Group. The consideration paid by the Company represents the market price that the Company would offer for similar products or rights.
Payment terms:	The Company shall pay the royalty fee on a half-yearly basis within 30 days of 30 June and 31 December of each year during the term of the agreement. Payments made pursuant to the agreement shall be in US dollars.
Term:	3 years (from 1 January 2015 to 31 December 2017)

On 15 February 2016, the Company and NXP Semiconductors have entered into the NXP Identification Licensing Supplemental Agreement to adjust the aforesaid Licensing Royalty Fee payable by the Company to NXP Semiconductors under the NXP Identification Licensing Agreement, with effect from 1 January 2016. Pursuant to the NXP Identification Licensing Supplemental Agreement, the Licensing Royalty Fee shall be reduced from 10% to 1%.

Save as disclosed above, all other terms and conditions of the NXP Identification Licensing Agreement remain unchanged.

The adjustments to the Technology Transfer Royalty Fee pursuant to the Technology Transfer Supplemental Agreement and to the Licensing Royalty Fee pursuant to the NXP Identification Licensing Supplemental Agreement were determined based on arm's length negotiations between NXP B.V. and NXP Semiconductors and the Company primarily with reference to the following factors:-

- (a) the decrease in third party royalty fee reference data relating to licensing transactions the subject matter of which are broadly similar to the transactions contemplated under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement; and
- (b) to ensure the pricing basis of the Technology Transfer Transactions are on market terms which are no less favourable than those offered for Independent Third Parties.

Annual Caps

The annual caps for the three years ending 31 December 2017 contemplated under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement as set out in the announcement dated 22 July

2014 and the circular dated 11 August 2014 issued by the Company (i.e. RMB15.9 million, RMB 17.5 million, and RMB19.2 million respectively) remain unchanged.

REASONS FOR THE TRANSACTION

The Board considers that future sales of the Identification Products including identification cards to the Company's customers including NXP Group by using non-volatile memory and the EEPROM process technology transferred and licensed by NXP Semiconductors form an important part of the Company's strategy. Therefore, it is necessary for the Company to continue with the Technology Transfer Transactions.

In addition, the Company has continuously and actively considered different means to control and minimise its production costs, so as to maintain or enhance its competitiveness. Taking into account the necessity for the Company to continue with the Technology Transfer Transactions as explained above and due to the long-term and constructive relationship between the Company and the NXP Group, the Directors (including the independent non-executive Directors) consider it beneficial to the Company to enter into the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement, and to continue to conduct the Technology Transfer Transactions under the new Technology Transfer and Cooperation Agreement and the new NXP Identification Licensing Agreement.

The Company will continue to monitor the amount of transactions under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) on a regular basis in relation to the relevant annual caps applicable to the Technology Transfer Transactions. The Company will also continue to monitor and review the Technology Transfer Royalty Fee and Licensing Royalty Fee on a regular basis in accordance with the internal control procedures over the pricing basis of the Technology Transfer Transactions as set out in the circular dated 11 August 2014 issued by the Company to ensure the Technology Transfer Transactions (as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

NXP B.V. is a connected person of the Company by virtue of it being a substantial shareholder of the Company. Since NXP Semiconductors is a subsidiary of NXP B.V., it is an associate of NXP B.V. and a connected person of the Company. Therefore, the transactions contemplated under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules, in respect of the annual caps under the Technology Transfer Transactions (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) for the three years ending 31 December 2017 exceed 0.1% but do not exceed 5%, the continuing connected transactions under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) are subject to the reporting, announcement and annual review requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) considered the transactions contemplated under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) are in the ordinary and usual course of business of the Company and on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. David Damian FRENCH and Mr. Steven Daryl FREZON have interests in the Technology Transfer Transactions (and as supplemented by the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement) by virtue of their holding senior management posts in the NXP Group. Therefore, they have abstained from voting on the relevant board resolutions concerning the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement.

Delay in disclosure and remedial actions

Due to an inadvertent oversight by the Company, the Directors did not discover the adjustment in the Technology Transfer Royalty Fee and the Licensing Royalty Fee pursuant to the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement should be subject to the reporting and announcement requirements under the Listing Rules until reviewing documents during the preliminary preparation work for the Company's annual report for the year ended 31 December 2016. As soon as the Board realised such inadvertent oversight, the Company immediately took steps to comply with the relevant requirements under the Listing Rules.

The Board considers the impact of such delay in disclosure is limited as the adjustment in the Technology Transfer Royalty Fee and the Licensing Royalty Fee pursuant to the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement are not expected to significantly change the Company's business operations and is beneficial to the Company and Shareholders as a whole due to the reduced royalty payments the Company has to make.

Notwithstanding the foregoing, to prevent the occurrence of similar inadvertent omission in the future, the Company has adopted and will adopt (as the case may be) the following measures:-

- (a) immediately becoming aware of the oversight in respect of the disclosure of the adjustment in the Technology Transfer Royalty Fee and the Licensing Royalty Fee pursuant to the Technology Transfer Supplemental Agreement and the NXP Identification Licensing Supplemental Agreement, an internal control review has been conducted and no material defects of the internal control mechanism has been revealed;
- (b) the Company has mandated all of its departments that handle connected transactions of the Company to conduct monthly meetings to monitor all business activities of connected transactions regularly to ensure all Listing Rules requirements have been complied with in relation to such transactions;
- (c) the Company will provide a more detailed guideline relating to its internal existing procedures relating to dealing with connected transactions or related party transactions and notifiable transactions under the Listing Rules to the sale staff, purchase staff, legal staff and finance staff members of the Company, in order to strengthen and reinforce their existing knowledge relating to notifiable and connected transactions and their ability to identify potential issues at any early stage; and
- (d) the Company is going to provide relevant training to the management staff members of the Company to reinforce their understanding of and importance of compliance with the Listing Rules.

INFORMATION ABOUT THE PARTIES

The Company's primary activities are the manufacture and sale of 5-inch, 6-inch and 8-inch semiconductor wafers. NXP B.V. and NXP Semiconductors are members of NXP Group. NXP Group provides high performance mixed signal and standard product solutions that leverage its leading RF, Analog, Power Management, Interface, Security and Digital Processing expertise. Its innovations are used in a wide range of automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing applications.

DEFINITIONS

“associates”	has the meaning ascribed to it under the Listing Rules.
“Board”	the board of directors of the Company.
“Company”	Advanced Semiconductor Manufacturing Corporation Limited, a foreign invested joint stock company incorporated in the PRC with limited liability, the H-shares of which are listed on The Stock Exchange of Hong Kong Limited.
“connected persons”	has the meaning ascribed to it under the Listing Rules.
“Directors”	the directors of the Company.

“EEPROM”	means Electrically Erasable Programmable Read-Only Memory.
“2014 EGM”	the extraordinary general meeting of the Company held on 20 September 2014 whereby the Company obtained the Independent Shareholders’ approval for, among other things, (i) its entering into of the NXP Foundry Services Agreement, the NXP Cooperation Agreement, the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement; as well as (ii) the Non-exempt Continuing Connected Transactions and the relevant annual caps contemplated thereunder for each of the three years ending 31 December 2017.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC.
“Identification Products”	products manufactured using the non-volatile memory process technology, including identification cards.
“Independent Shareholders”	Shareholders other than NXP B.V. and its associates.
“Independent Third Parties”	third parties which are independent of the Company and the connected persons of the Company.
“Licensed Products”	in respect of (i) wafers, integrated circuits and other products manufactured by the Company for sale to NXP Group, produced under the NXP Foundry Services Agreement and which comply with stated specifications; and (ii) wafers, integrated circuits and other products manufactured by the Company for sale to the Company’s other customers, the products manufactured using certain relevant technology, information and know-how furnished to the Company by NXP Group.
“Licensing Royalty Fee”	the royalty fee payable by the Company to NXP Semiconductor under the NXP Identification Licensing Agreement.
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
“Non-exempt Continuing Connected Transactions”	the Product Sale Transactions and the Technology Transfer Transactions.
“NXP Cooperation Agreement”	the agreement dated 29 May 2002 entered into between the Company and the predecessor of NXP Semiconductors, formerly named as Philips Cooperation Agreement.
“NXP Foundry Services Agreement”	the agreement dated 1 January 2002 entered into between the Company and the predecessor of NXP Semiconductors, formerly named as Philips Foundry Services Agreement.
“NXP Group”	NXP B.V. and all its subsidiaries and associates in accordance with the definitions of the Listing Rules.
“NXP Identification Licensing Agreement”	the agreement dated 29 May 2002 entered into between the Company and Koninklijke Philips Electronics N.V. (whose rights and obligations under the agreement were later assigned to NXP Semiconductors), formerly named as Philips Identification Licensing Agreement.
“NXP Identification Licensing Supplemental Agreement”	the supplementary agreement to the NXP Identification Licensing Agreement dated 15 February 2016 entered into between the Company and NXP Semiconductors.

“NXP Semiconductors”	NXP Semiconductors Netherlands B.V., a member of NXP Group.
“PRC”	The People’s Republic of China.
“Product Sale Transactions”	the transactions contemplated under the NXP Foundry Services Agreement and the NXP Cooperation Agreement.
“RMB”	Renminbi, the lawful currency of the PRC (except Hong Kong, the Macau Special Administrative Region and Taiwan).
“Share(s)”	ordinary share(s) of RMB one yuan each in the share capital of the Company, including both the H-Shares and the non-H-Shares.
“Shareholder(s)”	holder(s) of the Shares in the registers of members of the Company as from time to time.
“subsidiary”	has the meaning ascribed to it under the Listing Rules.
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules.
“Technology Transfer and Cooperation Agreement”	the technology transfer and cooperation agreement dated 12 January 2005 entered into between the Company and the predecessor of NXP B.V.
“Technology Transfer Supplemental Agreement”	the third amendment to the Technology Transfer and Cooperation Agreement dated 15 February 2016 entered into between the Company and NXP B.V.
“Technology Transfer Royalty Fee”	the royalty fee payable by the Company to NXP B.V. under the Technology Transfer and Cooperation Agreement.
“Technology Transfer Transactions”	the transactions contemplated under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement.
“US dollars”	United States dollars, the lawful currency of the United States of America.

By order of the Board
Advanced Semiconductor Manufacturing Corporation Limited
ZHU Jian
Chairman

Shanghai, the PRC, 9 December 2016

As at the date of this announcement, the non-executive directors of the Company are Zhu Jian, David Damian French, Shen Qing, Steven Daryl Frezon, Kang Hui and Lu Ning; and the independent non-executive directors of the Company are Jesse Bright Riggs Parker Jr., Chen Enhua, Jiang Qingtang and Pu Hanhu.