Advanced Semiconductor Manufacturing Corporation Limited

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

(Stock Code: 03355)

ANNUAL REPORT 2017

asmc

30th ANNIVERSARY

Contents

Corporate Information

DIRECTORS

Executive Director

Dr. HONG Feng

Non-executive Directors

Mr. ZHU Jian *(Chairman)*
Mr. David Damian FRENCH *(Vice Chairman)*
Mr. XU Ding *(Vice Chairman)*
Mr. KANG Hui
Mr. YUAN Yipei
Mr. LU Ning

Independent Non-executive Directors

Dr. CHEN Enhua
Mr. JIANG Shoulei
Dr. JIANG Qingtang
Mr. PU Hanhu

BOARD COMMITTEES

Audit and Risk Management Committee

Dr. CHEN Enhua *(Chairman)*
Mr. XU Ding
Mr. YUAN Yipei
Mr. JIANG Shoulei
Dr. JIANG Qingtang

Remuneration Committee

Mr. PU Hanhu *(Chairman)*
Mr. KANG Hui
Mr. JIANG Shoulei

Nomination Committee

Mr. ZHU Jian *(Chairman)*
Mr. YUAN Yipei
Dr. CHEN Enhua
Mr. JIANG Shoulei
Mr. PU Hanhu

Strategic Development Committee

Mr. LU Ning *(Chairman)*
Mr. David Damian FRENCH
Mr. XU Ding
Mr. KANG Hui
Dr. JIANG Qingtang

SUPERVISORS

Mr. ZHANG Yan *(Chairman)*
Mr. SUN Biyuan
Mr. DAI Kun
Ms. XU Yan
Mr. ZHOU Chengjie
Mr. QIN Shihui
Mr. MIAO Kang
Ms. WANG Haihong

COMPANY SECRETARY

Mr. XIAO Weiming

AUTHORIZED REPRESENTATIVES

Mr. XIAO Weiming
Mr. KANG Hui

EXTERNAL AUDITOR

Ernst & Young

Corporate Information

INVESTORS AND MEDIA RELATIONS CONSULTANT

Hill+Knowlton Strategies

REGISTERED OFFICE

Registered Office and Principal Place of Business in the PRC

385 Hong Cao Road
Shanghai 200233
PRC

Principal Place of Business in Hong Kong

36/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

SHAREHOLDERS' ENQUIRIES

Contact Information

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Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

SHARE INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

Listing Date

7 April 2006

Stock Code

03355

Number of H-shares Issued

1,131,333,472 H-shares

Year-end Date

31 December

Results Announcements

Interim Results for 2017: published on 9 August 2017
Annual Results for 2017: published on 14 March 2018

Annual General Meeting

1:00 p.m. on Tuesday, 15 May 2018

Chairman's Statement

Mr. ZHU Jian
Chairman

On behalf of the Board of Directors (the "Board") of Advanced Semiconductor Manufacturing Corporation Limited (the "Company"), I am pleased to present the annual report of the Company for the year ended 31 December 2017

In 2017, the upturn in global economy, supported by a rebound in world trade and an improvement in investment conditions, resulted in positive influence in the global semiconductor market. The semiconductor industry registered a significant increase this year, which was mainly driven by a higher-than-expected growth from the Memory market. Furthermore, with further deepening supply–side structural reform, China has been transitioning from a phase of rapid growth in economy to a stage of high-quality development, aiming to developing advanced manufacturing, promoting further integration of the internet, big data, and artificial intelligence for deep integration with the real economy and advancing Chinese industries up to the medium-high end of the global value chain.

2017 was a remarkable year for the Company. During the year under review, under the leadership of the Board, the new management team well executed the Board's well-established business growth strategy to improve its presence in domestic market by promoting and deepening the existing strategic industrial cooperative projects, contributing to its new revenue streams. Furthermore, the Company continued to exercise a major de-bottleneck of its existing production facilities with reasonable investments, particular for its 8-inch wafer products in order to satisfy the increasing demand for 8-inch wafer capacity from domestic and foreign customers. With that, the sales contribution from the China market in 2017 enjoyed more than 50% increase from the last year. Moreover, the Company's various operating and production indicators in 2017 achieved record high or one of the highest levels in its history, enabling the Company to achieve profitable results for the eighth consecutive year.

During the year under review, the Company had many bright spots in its performance. The Company's revenue for the year ended 31 December 2017 was RMB1,013.3 million, up 27.3% from RMB796.1 million for the year ended 31 December 2016. The shipments of 8-inch equivalent wafers were 621,428 units in the year ended 31 December 2017, representing an increase of 35.8% from 457,647 units in the year ended 31 December 2017.

The Company's gross profit amounted to RMB157.6 million for the year ended 31 December 2017, up 43.8% from RMB109.6 million for the year ended 31 December 2016. Its gross margin for the year ended 31 December 2017 was 15.6% compared to 13.8% for the year ended 31 December 2016. In 2017, the Company's net profit attributable to ordinary equity holders amounted to RMB57.0 million, representing an increase of 75.9% from RMB 32.4 million for the previous year. Basic earnings per share were RMB3.71 cents for the year ended 31 December 2017 compared to RMB2.11 cents for the year ended 31 December 2016.

In addition, in response to pressure from cost increase, the Company actively improved internal operating efficiency and productivities while consistently exercising a stringent control of operating expenses, production costs and its entire inventory level, which further helped generate sound cash inflow from its operating activities. As a result, the Company continuously maintained its healthy financial position with cash and cash equivalents of RMB568.8 million as at 31 December 2017, up 11.7% from RMB509.4 million as at 31 December 2016.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

In 2017, there were several positive changes in the Company's Shareholder structure. Pudong Science and Technology Investment (Cayman) Co., Ltd., Sino Xin Yuan Limited and Huada Semiconductor Co., Ltd. have become new substantial Shareholders of the Company. The Company believes that such change will further vitalize a more dynamic enterprise from strategic level, and should be beneficial to improving long-term value for its Shareholders.

The year 2018 marked the Company's 30th anniversary. As part of a great milestone in the history of the Company, the Company was awarded "China Golden Hong Kong Securities Awards" as "the Best Investor Relations Management Listed Company" for the second consecutive year. The Company will continue to actively communicate with financial professionals both at home and abroad and further improve its well-established public image in the capital market.

Chairman's Statement

Looking ahead to 2018, as a welcome sign of a healthier economy, global economic growth is expected to remain steady. Spurred by the predicted global economic growth, the semiconductor market is likely to return to moderate growth in 2018. Nevertheless, the Company's operational environment remains vulnerable to risks in global economic condition changes and cyclical and seasonal nature of semiconductor market. Therefore, the Company will remain a cautious approach on the outlook of its business operation and financial performance. The Company will continue to capitalize the opportunities driven by Chinese government's encouragement to develop and support the semiconductor industry in China, actively building up its specialty processes technology platforms with self-owned intellectual property by establishing strategic cooperative alliance with new IC producers in the semiconductor supply chain. In addition, the Company will continue to further streamline its operation, optimize internal resources allocation and enhance cost-effective business management for a sustained and sound business growth and development with a focus on maximizing Shareholder value.

In closing, on behalf of the Board, I would like to extend my heart-felt thanks to all of our shareholders, the members of the Board, management team and staff of all levels, as well as our customers and business partners for your continued trust, care and support to the Company.

ZHU Jian
Chairman

14 March 2018

Management Discussion and Analysis

Dr. HONG Feng
Executive Director & Chief Executive Officer

The global semiconductor market enjoyed a favourable growth in 2017, which is by far the largest growth year since 2010 primarily boosted by large growth from the memory market followed by the sensors market. In the improved market environment plus the ongoing support of the orders from its major customers located at home and abroad throughout the whole year, the Company successfully achieved a sound business operation and healthy financial performance in 2017 with its sales of RMB1,013.3 million and net profit of RMB57.0 million thanks to well execution of its major business strategic initiatives, eventually enabling the Company to achieve profitable results for the eighth consecutive year.

During the Reporting Period, the Company continuously benefited from business growth strategies involving promoting and deepening the existing strategic industrial cooperative projects continuously and effectively. As a result, the revenue contribution from China amounted to RMB435.9 million in 2017, up 51.6% on a yearly basis. The 6-inch wafer line recorded its highest yearly capacity utilization rate in 2017 and its yearly sales hit the highest level since 2009. The 8-inch wafer line achieved the record high of both sales and utilization rate in 2017. Furthermore, the Company continued to exercise a major de-bottlenecking its existing production facilities with the reasonable investment, particular for its 8-inch wafer line in order to seek its capacity release to satisfy the increasing demand for 8-inch wafer capacity from its major customers located at home and abroad. The implementation of those business strategic initiatives not only benefited the Company's business performance in 2017, but also should help enhance its overall competitiveness and consolidate its leading position in analog IC specialty process and designated markets.

Management Discussion and Analysis

COMPARISON BETWEEN 12 MONTHS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2017

Sales

Sales increased by 27.3% from RMB796.1 million in 2016 to RMB1,013.3 million in 2017, which also hit a record high of utilization rate of 95% in 2017. As such, the Company's throughput of 8-inch equivalent wafers increased by 36.4% from 459,139 units for the year ended 31 December 2016 to 626,294 units for the year ended 31 December 2017, while the Company's shipment of 8-inch equivalent wafers increased by 35.8% from 457,647 units for the year ended 31 December 2016 to 621,428 units for the year ended 31 December 2017.

Cost of sales and gross profit

The Company's cost of sales was RMB855.7 million in 2017, up 24.6% from RMB686.5 million in 2016. Gross profit was RMB157.6 million in 2017, an increase of 43.8% from RMB109.6 million in 2016. Its gross margin was 15.6% in 2017, compared to 13.8% in 2016, which was mainly attributable to higher utilization rate and more favourable product mix, partially offset by the increase in manufacturing costs (i.e. labour, raw materials and spare parts).

Other income and gains

Other income and gains were RMB19.1 million in 2017 compared to RMB30.4 million in 2016. The Company's other income and gains in 2017 primarily comprised interest income, government grants, sale of scrap materials, technology service income and others. The Company's other income and gains in 2016 primarily comprised interest income, government grants, net foreign exchange gain, sale of scrap materials, technology service income, gain on disposal of property, plant and equipment and others.

Selling and distribution costs

Selling and distribution costs remained almost flat at RMB7.7 million in 2017 compared to 2016.

General and administrative expenses

General and administrative expenses amounted to RMB74.4 million in 2017, up 17.7% from RMB63.2 million in 2016, which were mainly due to the increase in payroll related costs.

Research and development costs

Research and development costs were RMB27.1 million in 2017, down 26.2% from RMB36.7 million in 2016, which were primarily due to the increase in the sales of engineering wafer lots which resulted in higher absorption of its related research and development costs.

Other expenses

Other expenses were RMB14.1 million in 2017, compared to no other expenses recorded in 2016. Other expenses in 2017 were primarily due to net foreign exchange losses.

Finance costs

No finance costs were recorded in 2017, compared to finance costs of RMB14,000 in 2016.

Net income

As a result of the factors above, the Company recorded net income of RMB57.0 million for the year ended 31 December 2017 compared to net income of RMB32.4 million for the year ended 31 December 2016.

Liquidity and capital resources

The Company's cash and cash equivalents were RMB568.8 million as at 31 December 2017, compared to RMB509.4 million as at 31 December 2016. The Company's net cash inflow from operating activities showed an increase of 293.6% from RMB43.5 million for the year ended 31 December 2016 to RMB171.2 million for the year ended 31 December 2017.

The Company's net cash outflow from investing activities was RMB81.5 million as at 31 December 2017 for purchase of items of property, plant and equipment, and construction in progress and intangible assets and the decrease in time deposits, compared to net cash outflow of RMB124.8 million from investing activities as at 31 December 2016. Total capital expenditures amounted to RMB88.7 million for the year ended 31 December 2017, compared to RMB98.9 million for the year ended 31 December 2016. The capital expenditures incurred in 2017 were mostly spent in de-bottlenecking the production capacity associated with the 8-inch wafer line.

Net cash outflow of RMB11.3 million from financing activities were recorded as at 31 December 2017 compared to net cash inflow of RMB11.3 million from financing activities as at 31 December 2016.

No short-term interest-bearing borrowings were recorded as at 31 December 2017 compared to interest-bearing bank borrowings of RMB11.3 million as at 31 December 2016.

As at 31 December 2017, the Company's current ratio was 3.52 when compared to 3.73 as at 31 December 2016. The Company's debt to equity ratio as at 31 December 2017 was 25.7%, compared to 22.8% as at 31 December 2016. (Debt to equity ratio is calculated as the sum of total current liabilities and non-current liabilities divided by total shareholders' equity).

Employees

As at 31 December 2017, the Company had 1,372 employees (2016: 1,254 employees). The remuneration and employment benefits were provided for and paid in accordance with the PRC law and regulations.

RMB fluctuation risks

RMB is the Company's functional and reporting currency. A large amount of the Company's revenue and expenditures are now denominated in foreign currency. In the event that the Company's RMB revenue is not sufficient to meet its RMB expenditure, the Company will be required to meet the difference by conversion of its foreign currencies deposit into RMB, which might result in exchange loss, ultimately leading to a negative impact on its cash flow.

Capital commitments

As at 31 December 2017, the Company had capital commitments for property, plant and equipment amounting to RMB175.7 million (2016: RMB77.1 million), of which RMB75.0 million (2016: RMB15.4 million) was contracted but not provided for, while the remaining balance of RMB100.7 million (2016: RMB61.7 million) was authorized but not contracted for.

OPERATING RESULTS FOR THE THREE MONTHS ENDED 31 DECEMBER 2017

Sales for the three months ended 31 December 2017 were RMB264.5 million, up 2.8% from RMB257.4 million for the three months ended 30 September 2017, mainly due to the increase in sales of 6-inch wafers and 8-inch wafers in the domestic market.

Gross profit was RMB37.3 million for the three months ended 31 December 2017, a decrease of 11.8% from RMB42.3 million for the three months ended 30 September 2017. Gross margin in the fourth quarter of 2017 was 14.1% compared to 16.4% in the third quarter of 2017, primarily attributable to less favourable product mix and the increase in cost of raw materials.

Other income and gains for the three months ended 31 December 2017 were RMB4.8 million, compared to RMB3.9 million for the three months ended 30 September 2017. Other income and gains in the fourth quarter of 2017 primarily comprised government grants, interest income, sale of scrap materials, technology service income and others.

Selling and distribution costs for the three months ended 31 December 2017 amounted to RMB2.1 million compared to RMB1.9 million for the three months ended 30 September 2017.

General and administrative expenses for the three months ended 31 December 2017 were RMB20.6 million compared to RMB18.4 million for the three months ended 30 September 2017.

Research and development costs for the three months ended 31 December 2017 were RMB7.5 million compared to RMB6.7 million for the three months ended 30 September 2017.

Other expenses for the three months ended 31 December 2017 were RMB2.7 million, compared to RMB5.1 million for the three months ended 30 September 2017. Other expenses in the fourth quarter of 2017 were primarily due to net foreign exchange losses.

As a result of the foregoing factors, the Company recorded net profit of RMB12.8 million for the three months ended 31 December 2017 compared to net profit of RMB14.0 million for the three months ended 30 September 2017.

Management Discussion and Analysis

1. *Revenue Analysis*

For the three months ended 31 December 2017, sales from communication, computer and consumer products were basically in line with the prior quarter.

By Application	4Q17	3Q17	4Q16
Communication	33%	34%	34%
Computer	33%	33%	33%
Consumer	34%	33%	33%

For the three months ended 31 December 2017, sales to the USA, China and Europe accounted for 35%, 51% and 14% of total revenue respectively, compared to 41%, 43% and 16% in the previous quarter.

By Geography	4Q17	3Q17	4Q16
USA	35%	41%	46%
China	51%	43%	40%
Europe	14%	16%	14%
Others	0%	0%	0%

For the three months ended 31 December 2017, sales to IDM and fabless customers accounted for 19% and 81% of total revenue respectively, compared to 21% and 79% in the prior quarter.

By Customer Type	4Q17	3Q17	4Q16
IDM	19%	21%	38%
Fabless	81%	79%	62%

For the three months ended 31 December 2017, sales as a percentage of total revenue from 5-inch, 6-inch and 8-inch wafers were 2%, 46% and 51% respectively, compared to 3%, 44% and 52% in the previous quarter.

By Product	4Q17	3Q17	4Q16
5" wafers	2%	3%	5%
6" wafers	46%	44%	37%
8" wafers	51%	52%	57%
Others[1]	1%	1%	1%

Note 1: Consists of probing services and provision of masks.

2. Utilization and Capacity (8" equivalent)

2-1 Utilization

Overall capacity utilization was 96% for the three months ended 31 December 2017 compared to 94% for the three months ended 30 September 2017.

Fab	4Q17	3Q17	4Q16
Fab 1/2			
5-inch wafers	27%	42%	59%
6-inch wafers	107%	102%	76%
Fab 3			
8-inch wafers	95%	93%	92%
Overall Capacity Utilization Rate	96%	94%	84%

Notes:

1. The capacity utilization rate represents the percentage of the actual number of processing steps (measured by the number of masks used) for the number of semiconductor wafers shipped in the reporting period divided by the total number of processing steps a fab is capable of producing during the corresponding period.

2. The capacity utilization rates stated in the table are calculated on the basis of the theoretical capacity of the Company's fabrication facilities, as discussed in Note 2 to paragraph 2.2 below. In consequence, the utilization rates of actual operating capacity are higher than the figures stated in the table above.

3. The installed capacity of the Company's 5-inch wafers changed from 252,000 masks per month to 66,000 masks per month, which became effective on 1 January 2014.

4. The installed capacity of the Company's 6-inch wafers changed from 510,000 masks per month to 420,000 masks per month, which became effective on 1 January 2014.

5. The utilization rate of the Company's 8-inch wafers in Fab 3 was calculated on the basis of 325,000 masks per month, which became effective during the period from 1 July 2013 to 30 June 2017.

6. The utilization rate of the Company's 8-inch wafers in Fab 3 was calculated on the basis of 360,000 masks per month, which became effective on 1 July 2017.

2-2 *Capacity (8" Equivalent)*

The capacity for the three months ended 31 December 2017 was 157,000 8-inch equivalent wafers, compared to 157,000 8-inch equivalent wafers in the previous quarter and 150,000 8-inch equivalent wafers in the fourth quarter of 2016.

Fab (wafers in thousand)	**4Q17**	**3Q17**	**4Q16**
Fab 1/2			
5-inch wafers	9	9	9
6-inch wafers	71	71	71
Fab 3			
8-inch wafers	77	77	70
Total Capacity	157	157	150

Notes:

1. The Company estimated the capacities of its 5-inch and 6-inch on the basis of 9 and 10 mask steps per wafer respectively and 5-inch and 6-inch wafers were converted to 8-inch equivalent wafers by dividing their wafer numbers using 2.56 and 1.78 respectively.
2. The installed capacity of the Company's fabrication facilities is calculated assuming continuous production of an optimum product mix, which in practice is unlikely ever to be achieved. In consequence, the actual operating capacity is less than the figures stated in the table.
3. The basis on which the capacity of the Company's 8-inch wafers was estimated changed from 22 mask steps per wafer to 14 mask steps per wafer, which became effective on 1 January 2014.

3. *Receivable/Inventory Turnover*

Receivable turnover remained almost flat at 43 days for the three months ended 31 December 2017 compared to the third quarter of 2017.

Inventory turnover slightly increased from 77 days for the three months ended 30 September 2017 to 78 days for the three months ended 31 December 2017.

	4Q17	**3Q17**	**4Q16**
Trade & Notes Receivables Turnover (days)	43	43	38
Inventory Turnover (days)	78	77	83

4. *Capital Expenditures*

Capital expenditures for the three months ended 31 December 2017 amounted to RMB14.6 million, which were mainly spent in improving the capacity of 8-inch wafer line.

(Amount: RMB'000)	**4Q17**	**3Q17**	**4Q16**
Capex	14,635	31,289	37,739

Management Discussion and Analysis

PROSPECTS AND FUTURE PLANS

Looking ahead to 2018, the global economy will likely to carry forward its current momentum to generate steady growth in 2018 although various political and economic uncertainties still remain in various geographic regions. In view of the complicated and positive business environment, the global semiconductor sales growth is expected to be moderate as the demand-supply dynamics for memory products normalize. In addition, the analog IC market is very likely to show comparatively strong growth during the next few years driven by the expansion of power management, signal conversion and automotive-specific analog markets. Apart from this, the Company's business remains highly exposed to economic conditions, and the cyclical and seasonal nature of the semiconductor market. In this case, the Company maintains cautious stance on its business operation and financial performance in the coming year.

Based on its ongoing business growing strategies to enhance the competitive position and sustain its long-term growth and development, the Company has step by step addressed issues of further improving utilization of its existing production facilities including its 6-inch and 8-inch wafers to ensure the accomplishment of its business objectives, and will continuously implement the following major initiatives in the coming year:

- Further improve product mix by de-bottlenecking its existing 8-inch wafer line and continuously keeping full production loading of 6-inch wafer line, and ultimately sustain its profitability;
- Leveraging its leading edges in analog IC specialty process and designated markets, continuously seek cooperation with major IC producers in the supply chain for the establishment of strategic industrial alliances while further promoting the existing strategic industrial cooperative projects to generate new revenue streams;
- Focusing on its business growth strategy by seamlessly working with the existing domestic customers to generate incremental new revenue streams while further consolidating business cooperation with overseas customers;
- Further optimize internal organization and resources allocation, which should be fit for the effective execution of its major strategic initiatives to improve operating efficiency as well as sustain its ongoing growth and development; and
- Continuously dedicate itself to creating environmental and social benefits as well as creating economic benefits, which positively build its sustainable value for itself and its important interested parties.

Moving forward, the Company, by continuously executing its major business strategic initiatives and capitalizing on growth opportunities driven by the encouragement policy of the national and local governments for the development of semiconductor markets, will better position itself for a balanced and stable improvement in the Company's business and financial performance in 2018 and achieving positive development within the domestic IC manufacturing industry.

Profiles of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTOR

Dr. HONG Feng

Dr. HONG Feng, aged 57, is an Executive Director of the fifth session of the Board and the Chief Executive Officer ("CEO") of the Company.

Dr. HONG has been the CEO of the Company since 6 February 2017 and the Executive Director of the Board since 16 May 2017.Dr. HONG began his professional career at Intel Corporation, USA in April of 1994 and worked as a senior process engineer, staff engineer and engineering group leader at its Development Fab in Santa Clara, California, USA, responsible for microprocessor and flash memory process technology development, transfer and mass production. In August of 2002, Dr. HONG joined Grace Semiconductor Manufacturing Corporation in Shanghai as technology development department manager. He was promoted to Fab Director in December of 2003 responsible for Fab operation and management. From March of 2007 to November of 2008, Dr. HONG worked in Chartered Semiconductor in Singapore as Director of Advanced Customized Technology Division. From January of 2009 to March of 2010, Dr. HONG worked in NXP Semiconductors in Jilin, China as Senior Director and General Manager. From April of 2010 to October of 2011, Dr. HONG served his positions as Associate Vice President and Plant Director of the 300mm Fab in Beijing of Semiconductor Manufacturing International Corporation ("SMIC"). Dr. HONG was transferred to SMIC Shanghai in November of 2011, where he served as Associate Vice President of special account sales, special projects and business development. In April of 2013, Dr. HONG joined Wuhan Xin Xin Semiconductor Manufacturing Corporation, where he was appointed Vice President of Corporate Planning and Engineering and Special Assistant to CEO. In March of 2014, Dr. HONG was promoted to Senior Vice President of Business and Engineering Operations. In September of 2014, Dr. HONG became Executive Vice President and Chief Operating Officer and took a comprehensive responsibility for corporate daily operations, as well as legal, public relations, human resources and administration. Additionally, Dr. HONG was selected in "the Recruitment Program of Global Experts" in December of 2010 and "Beijing Overseas Talents Aggregation Project" in March of 2011, and was awarded the National Distinguished Expert and Beijing Distinguished Expert respectively. Dr. HONG was also selected as Wuhan "City Partner" in November of 2016.

Dr. HONG graduated from Fudan University with a Bachelor degree in Physics in 1983, and a Master degree in Electrical Engineering in 1986. Dr. HONG received his Ph.D degree in Material Science and Engineering from North Carolina State University, USA in 1993.

Profiles of Directors, Supervisors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. ZHU Jian

Mr. ZHU Jian, aged 43, is a Non-executive Director of the fifth session of the Board.

Mr. ZHU has been a Non-executive Director of the Board since 2 March 2004. Mr. ZHU previously worked at Shanghai Waigaoqiao Free Trade Zone United Development Co., Ltd. and the Shanghai Waigaoqiao Free Trade Zone Administrative Commission. From 2001 to 2009, Mr. ZHU served as the Deputy General Manager, the General Manager and a director of Shanghai Chemical Industry Park Investment Company Limited. From 2003 to 2008, Mr. ZHU served as the Secretary of the board of directors of Shanghai Chemical Industry Park Development Company Limited ("SCIPD"). Mr. ZHU has been a director and the General Manager of Shanghai Chemical Industry Park (HK) Limited since 2002, an assistant to General Manager of SCIPD since 2005 and was promoted to Deputy General Manager in 2015.

Mr. ZHU graduated from the Accounting Department of Shanghai University of Finance and Economics in 1996. He received a Master of Business Administration degree from China Europe International Business School in 2007.

Mr. David Damian FRENCH

Mr. David Damian FRENCH, aged 61, is a Non-executive Director of the fifth session of the Board.

Mr. FRENCH has been a Non-executive Director of the Board since 20 May 2014. Mr. FRENCH most recently has been the Executive Vice President of businesses development focused on expanding NXP Semiconductor's ("NXP") partnerships and business interests in China, reporting directly to the CEO until leaving NXP in December 2017.

Mr. FRENCH has more than 40 years of experience in the semiconductor industry and has had direct experience in product development, marketing, manufacturing, strategic planning and business management.

Mr. FRENCH started his career at Texas Instruments, working in Microcontroller and DSP product line management, and he later served as GM of logic products at Fairchild semiconductor and GM of Analog Devices' DSP business line.

Mr. FRENCH also served as President and CEO of Cirrus Logic from 1999 to 2007 and joined NXP in April 2012, after working as an advisor to several venture-backed companies. At NXP, Mr. FRENCH spent two years as General Manager of the Portable and Computing Business Unit before taking on the China business development role. Mr. FRENCH now works as an independent advisor, board member and consultant to technology companies and financial institutions with his firm Gaozhanmicroelectronics Management Consulting Company in Shanghai, China and San Francisco bay areas.

Profiles of Directors, Supervisors and Senior Management

Mr. XU Ding

Mr. XU Ding, aged 55, is a Non-executive Director of the fifth session of the Board.

Mr. XU has been a Non-executive Director of the Board since 12 March 2018. From 1996 to 1998, Mr. XU served as the Manager of Product Engineering Department of Shanghai Belling Microelectronics Manufacturing Co., Ltd. From 1998 to 2001, Mr. XU served as the Manager of Product Engineering Department of Shanghai Belling Co., Ltd. ("Shanghai Belling"). From January 2002 to February 2003, Mr. XU served as the General Manager of Communication Business Unit of Shanghai Belling. From March 2003 to August 2009, Mr. XU was appointed as the Vice President & General Manager of Communication Business Unit of Shanghai Belling. From September 2009 to December 2014, Mr. XU was appointed as the Vice President of Shanghai Belling, responsible for marketing, sales and operation. From January 2015 to December 2016, Mr. XU was appointed as the Vice President of Shanghai Belling, responsible for investment, mergers and acquisition. Since January 2017, Mr. XU has been serving as the Investment Director of Huada Semiconductor Co., Ltd.

In addition, from March 2011 to December 2014, Mr. XU served as a director of Shanghai Huahong Grace Semiconductor Manufacturing Corporation. From 2 March 2013 to 23 August 2015, Mr. XU served as a Non-executive Director of the Company. From 2012 to 2015, Mr. XU served as a director of Shanghai Hong Ri International Electronics Co., Ltd. From January 2014 to March 2017, Mr. XU served as the chairman of the board of Shanghai Leadchip Semiconductor Co., Ltd.

Mr. XU received an Executive Master of Business Administration degree from Fudan University in 2000.

Mr. KANG Hui

Mr. KANG Hui, aged 54, is a Non-executive Director of the fifth session of the Board.

Mr. KANG has been a Non-executive Director of the Board since 2 March 2016. Mr. KANG previously worked at Shanghai Coating Company Limited and Shanghai Waigaoqiao Free Trade Zone Development Co., Ltd. From August 2000 to April 2009, Mr. KANG served at the Business, Enterprise Development and Chief Engineer's Office Department of Shanghai Chemical Industry Park Development Company Limited. From November 2001 to April 2009, Mr. KANG served as the Deputy General Manager of Shanghai Chemical Industry Park Investment Company Limited, and was promoted to the General Manager and a director of such company in April 2009. Currently Mr. Kang also serves as a director and Deputy General Manager of Shanghai Chemical Industry Park (HK) Limited.

Mr. KANG graduated from Shanghai Jiao Tong University in 1984.

Profiles of Directors, Supervisors and Senior Management

Mr. YUAN Yipei

Mr. YUAN Yipei, aged 45, is a Non-executive Director of the fifth session of the Board.

Mr. YUAN has been a Non-executive Director of the Board since 7 August 2017. Mr. YUAN is the Vice President of Sino IC Leasing Co., Ltd. ("Sino IC Leasing") since September 2016.

Prior to joining Sino IC Leasing, Mr. YUAN worked at Australia and New Zealand Banking Group Limited ("ANZ") from December 2009 to August 2016. During this period, he served as the director of the Advanced Client Solutions division of ANZ from December 2009 to April 2011. From April 2011, Mr. YUAN was seconded to Bank of Tianjin, and he was appointed as the Vice President of Bank of Tianjin from September 2011 to August 2016. Mr. YUAN served as the director of the investment department of US PEM Investment Group from July 2008 to 2009, where he was primarily responsible for investment business. Between December 2006 and June 2008, he served as the Vice President of Fullerton Financial Holdings Pte. Ltd. (formerly Asia Financial Holdings Pte. Ltd.), where he was responsible for investment and consulting business. He served as the associate director of the investment banking division of Barclays Bank PLC Taiwan from November 2005 to November 2006 and the Vice President of CTBC bank from July 2003 to November 2005. Prior to that, he was the Vice President of the corporate banking division of Citigroup from July 1997 to June 2003.

Mr. YUAN has rich working and management experiences in investment banking, wholesale banking, capital market, and wealth management. Mr. YUAN has solid, practical experiences in strategic planning, general management, and structuring and execution of investment and financing transactions, etc.

Mr. YUAN graduated from National Tsing Hua University with a Bachelor Degree in economics, and graduated from University of Wisconsin-Madison with a Master of Business Administration degree.

Mr. LU Ning

Mr. LU Ning, aged 55, is a Non-executive Director of the fifth session of the Board.

Mr. LU has been a Non-executive Director of the Board since 9 November 2015. From 1997 to 1998, Mr. LU served as the factory manager of MOS circuit Plant of Huajing Electronics Group Co., Ltd (Formerly known as the CSMC Technologies Corporation). From 2001 to 2006, Mr. LU served as the general manager and secretary of the Communist Party Committee of Huayue Microelectronics Co., Ltd.. From 2006 to 2007, Mr. LU was appointed as the director of investment and marketing of Shanghai Belling Corp., Ltd ("Shanghai Belling"). From 2008 to 2009, Mr. LU was appointed as the vice president of marketing of Shanghai Belling. Since 2009, Mr. LU has been appointed as the vice president of operations & production safety of Shanghai Belling. Additionally, Mr. LU has been appointed as the deputy secretary of the Party Committee and the secretary of Discipline Supervision Committee of Shanghai Belling since June 2017 and the Chairman of the trade union of Shanghai Belling since April 2017.

Mr. LU received his Master degree in Semiconductors Physics and Devices Engineering from Tsinghua University in 1988.

Profiles of Directors, Supervisors and Senior Management

Ms. SHEN Qing (Resigned with effect from 10 January 2018)

Ms. SHEN Qing, aged 57, was a Non-executive Director of the fifth session of the Board.

Ms. SHEN was a Non-executive Director of the Board from 1 November 2010 to 9 January 2018. From 1983 to 1993, Ms. SHEN served as an instructor of the Computer and Micro-electronics Department of the School of Engineering of Shanghai University. From 1993 to 1995, Ms. SHEN served as an instructor of the Computer Application Department of the School of Engineering of Shanghai University. From 1995 to 2000, Ms. SHEN served as the Deputy Director of the Teaching and Research Centre of International Financial Research Institute of Bank of China. From May 2000 to November 2005, Ms. SHEN took various management roles and moved to the Manager of the Treasury and Accounting Department of Shanghai Branch of China Orient Asset Management Co., Ltd. ("COAMC"). From December 2005 to November 2006, Ms. SHEN was appointed as the Manager of the Accounting Department of Shanghai Dongxing Investment Development Holding Company and the General Manager of Shanghai Ruiin Building Company Limited. From November 2006 to April 2008, Ms. SHEN was appointed as the Assistant General Manager of the Treasury and Accounting Department of COAMC. In April 2008, Ms. SHEN was promoted to the current position of Deputy General Manager of Shanghai Branch of COAMC.

Ms. SHEN graduated with a Bachelor of Engineering degree from School of Electronic Instruments of East China Normal University in 1983 and received a Master of Business Administration degree from Shanghai Jiao Tong University in 2000.

Mr. Steven Daryl FREZON (Resigned with effect from 10 June 2017)

Mr. Steven Daryl FREZON, aged 46, was a Non-executive Director of the fifth session of the Board.

Mr. FREZON was a Non-executive Director of the Board from 2 March 2016 to 9 June 2017. Mr. FREZON is the Vice President of Front End Operations for NXP Semiconductors ("NXP").

Mr. FREZON joined Motorola Inc. in 1994 as a Process Engineer in Austin, Texas. Mr. FREZON was then assigned to White Oak Semiconductor in 1997, a joint venture between Motorola and Siemens in Richmond, Virginia, where he was appointed Engineering Section Manager in 1999. Here he worked on equipment selection and technology transfer from the Europe factory. In 2000, he returned to Austin in the role of Engineering Section Manager, serving in this role for 5 years and leading a team of 35. Mr. FREZON was then appointed Engineering Manager of Freescale Chandler Fab in Chandler, Arizona. Here he led a team of 150 employees in a lean manufacturing environment. Mr. FREZON was appointed Director of Operations for Freescale Chandler Fab in 2009. He led a team of 900 employees, developing fab strategy and driving operational excellence. During his tenure, he engaged in a 3-year direct partnership with Toyota Japan on implementation of the "Toyota Way".

In 2013, Mr. FREZON was appointed Vice President Front End Operations for Freescale Semiconductor and transitioned back to Austin, Texas. In this role he was responsible for the 3 internal wafer fabs plus the global facilities team. In 2015, Mr. FREZON was appointed Vice President Front End Operations for NXP following the NXP acquisition of Freescale. He is responsible for the strategy, financial performance, and operational execution of 5 internal wafer fabs. Mr. FREZON is also responsible for NXP Global Facilities, Global Security Operations, and Global Industrial Engineering.

Mr. FREZON holds a Bachelor of Science Degree in Mechanical Engineering from Rensselaer Polytechnic Institute from Troy, New York, USA.

Profiles of Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. CHEN Enhua

Dr. CHEN Enhua, aged 55, is an Independent Non-executive Director of the fifth session of the Board.

Dr. CHEN has been an Independent Non-executive Director of the Board since 2 March 2013. From 1993 to 1999, Dr. CHEN worked for Shanghai Jinqiao EPZ Development Company, where he first served as the Deputy Director of strategic research office and Deputy Director of administration office, and was later on promoted as the Director of planning & finance department, and he has gained extensive experience in financial analysis and management. From 2000 to 2004, Dr. CHEN served as the Board Secretary, the Assistant General Manager and the Deputy General Manager in Shanghai Jinqiao EPZ development Co., Ltd. (a company listed on the Shanghai Stock Exchange). Since 2005, Dr. CHEN has been the Assistant General Manager and the Deputy General Manager of Shanghai Jinqiao (Group) Co. Ltd. From 2006 to 2008, Dr. CHEN also acted as director of the Board of Shanghai Jinqiao EPZ Development Co. Ltd. From 2012 to 2015, Dr. CHEN also acted as the Deputy General Manager of Shanghai Jinqiao Lingang Comprehensive Zone investment & development Co. Ltd..

In 1993, Dr. CHEN was awarded a Ph.D. Degree in Management Engineering by Shanghai Jiao Tong University. From 1999 to 2000, Dr. CHEN completed a six-month MBA training program in California State Polytechnic University.

Mr. JIANG Shoulei

Mr. JIANG Shoulei, aged 74, is an Independent Non-executive Director of the fifth session of the Board.

Mr. JIANG has been an Independent Non-executive Director of the Board since 7 August 2017. From 1968 to 1995, Mr. JIANG successively served as the technician, Deputy Manager, and General Manager of Jiangsu Wuxi 742 Factory, the Deputy Manager of Wuxi Microelectronics United Co., Ltd., and the Vice President of China Huajing Electronic Group Corporation. From 1993 to 1996, Mr. JIANG served as the General Manager of Huayue Microelectronics Co., Ltd. From 1996 to 2004, Mr. JIANG served as the Vice President of Shanghai Huahong (Group) Co., Ltd. From 1990 to 2004, Mr. JIANG served as the Vice Chairman of China Semiconductor Industry Association. Mr. JIANG has been the Honorary advisor of China Semiconductor Industry Association since 2004. From 2004 to 2017, Mr. JIANG served as the Vice President and Secretary-general of Shanghai Integrated Circuit Industry Association. Mr. JIANG currently is the senior advisor of Shanghai Integrated Circuit Industry Association.

Mr. JIANG has been the independent director of Jiangsu Changjiang Electronics Technology Co., Ltd. (600584.SH) since 2012, the independent director of Wuxi Taiji Industry Co., Ltd. (600667.SH) since 2016 and the independent director of Jiangyin Runma Co., Ltd. since 2015.

Mr. JIANG is familiar with China integrated circuit industry and domestic corporations and has rich research and management experience of many years in semiconductor devices. Mr. JIANG has been entitled the State Council Special Allowance and rated as an outstanding contribution expert.

Mr. JIANG graduated from the Department of Radio of Nanjing Institute of Technology (renamed as Southeast University) with a Bachelor Degree in 1967.

Profiles of Directors, Supervisors and Senior Management

Dr. JIANG Qingtang

Dr. JIANG Qingtang, aged 54, is an Independent Non-executive Director of the fifth session of the Board.

Dr. JIANG has been an Independent Non-executive Director of the Board since 2 March 2013. From 1992 to 2001, Dr. JIANG worked for several major semiconductor companies in the United States, including Texas Instruments, National Semiconductor and Siliconix, where he was engaged in technology development and manufacturing operation. From 2001 to 2005, Dr. JIANG served multiple management positions including the Fab Director of Fab 3 and the Senior Fab Director of Fab 1 in Semiconductor Manufacturing International Corporation (a company listed on the Main Board of the Stock Exchange of Hong Kong and the New York Stock Exchange in the US). From 2005 to 2007, Dr. JIANG served as the Vice President of Technology in Shanghai Hua Hong NEC Co., Ltd. From 2007 to 2009, Dr. JIANG served as the Senior Vice President of Operations and the Chief Technology Officer in JA Solar Holdings Co., Ltd. (a company listed on the NASDAQ Stock Exchange). From 2009 to 2013, Dr. JIANG was a director, the Executive Vice President and Chief Operation Officer of Hareon Solar Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange). Since 2014, Dr. JIANG has been the Co-CEO of China New Energy Fund and CEO of SunEdison China.

Dr. JIANG graduated from Beijing University with a Bachelor degree in Physics in 1985, and graduated from Rutgers University of the United States with a Ph.D. degree in Physics in 1992. Dr. JIANG has 23 papers published in journals and industrial publications, and has also obtained 12 patents in the United States and 4 patents in the PRC.

Mr. PU Hanhu

Mr. PU Hanhu, aged 67, is an Independent Non-executive Director of the fifth session of the Board.

Mr. PU has been an Independent Non-executive Director of the Board since 20 December 2012. From 1980 to 1982, Mr. PU served as a Teaching Assistant in Physics Department of East China Normal University. From 1982 to 1985, Mr. PU served as a Teaching Assistant in Electrical Engineering Department of Shanghai University. From 1989 to 1992, Mr. PU served as a Reliability Engineer of Adaptec Inc. From 1992 to 1994, Mr. PU was the Manager of Quality and Reliability in EXEL Microelectronics Inc.. In 1994, Mr. PU joined Integrated Silicon Solution, Inc. ("ISSI", a company listed on the NASDAQ Stock Exchange) and served as the Director of Quality Department, and was promoted as the Global Vice President of Quality from 1996 to 2004. From 2001 to 2009, he also served as the Vice President, and later on as the Senior Vice President of ISSI, and also as the Managing Director of China/Hong Kong Branch. In November 2009, Mr. PU was appointed as the President and CEO of Giantec Semiconductor Inc. ("Giantec") which was founded by Mr. PU with ISSI. From April 2012 to June 2014, Mr. PU was the Chairman and CEO of Giantec. From June 2014 to June 2015, Mr. PU served as the Director of the Board of Giantec. From July 2015 to February 2016, Mr. PU was appointed again as the CEO of Giantec. And from September 2015 to December 2017, Mr. PU again served as the Director of the Board of Giantec.

Mr. PU received a Master of Science degree in Physics from Michigan State University of the United States in 1987, and a Master of Science degree in Electrical Engineering from Michigan State University of the United States in 1989.

Profiles of Directors, Supervisors and Senior Management

Mr. Jesse Bright Riggs PARKER JR. (Resigned with effect from 20 June 2017)

Mr. Jesse Bright Riggs PARKER JR. aged 63, was an Independent Non-executive Director of the fifth session of the Board.

Mr. PARKER was an Independent Non-executive Director of the Board from 17 May 2016 to 19 June 2017. Mr. PARKER is the Founder and Managing Director of Gao Zhan Enterprise Consulting Limited.

Mr. PARKER began his professional career in 1987 at Digital Equipment Corporation as Manager of International Logistics in the international division. He was promoted to Director of Worldwide Marketing at the personal computer division responsible for the company's broad line of personal computer products. In 1995, Mr. PARKER joined IBM Microelectronics as Director of Marketing & Sales responsible for the Asian region. In 1998, Mr. PARKER was promoted to Vice President of Marketing and Sales responsible for IBM's acquisition of Commquest Microelectronics, based in San Diego, California, USA. In 1999, Mr. PARKER joined Softbank International Ventures as Vice president of Business Development responsible for Softbank's global venture capital fund management activities.

In March 2001, Mr. PARKER moved to Shanghai as the Founder and Managing Partner of Dragonvest Partners Equity Fund LP, an early stage venture capital fund investing in technology companies in China. Mr. PARKER continued his career in China as an investor and consultant including as the Managing Director of Tallwood Ventures China with a focus on the semiconductor industry based in Wu Xi, Jiang Su Province China from 2010 to 2015. In January 2013, Mr. PARKER co-founded Wisdom IC Microelectronics to license MEMS process technology to Chinese customers. In December 2015, Wisdom IC Microelectronics was successfully sold to one of its major customers. Mr. PARKER currently provides consulting services to Chinese technology companies.

In addition to Mr. PARKER's professional activities, he teaches investment finance at Shanghai Jiaotong University An Tai College of Economics and Management.

Mr. PARKER holds a bachelor of arts in Chinese History from Hobart College in Geneva, New York, USA and a MBA in international finance from Northeastern University in Boston, Massachusetts, USA.

SUPERVISORS

Mr. ZHANG Yan

Mr. ZHANG Yan, aged 44, is a Shareholders Representative Supervisor of the fifth session of the Supervisory Committee (the "Supervisory Committee").

Mr. ZHANG has been a Shareholders Representative Supervisor of the Supervisory Committee since 7 August 2017. Mr. ZHANG has been the Vice President of Sino IC Leasing Co., Ltd. ("Sino IC Leasing") since July 2017. Before that, Mr. ZHANG was the Director of Sino IC Leasing from February 2016 to July 2017.

Prior to joining Sino IC Leasing, Mr. ZHANG worked at SUMEC group from March 2015 to January 2016, in charge of the preparing work for IPO and fundraising of a newly-founded company. Mr. ZHANG had worked for more than 11 years at Jiangsu Province Branch of China Development Bank from April 2004 to February 2015. Mr. ZHANG served as the Staff Member of Clients Division II from April 2004 to October 2004. From October 2004 to October 2005, Mr. ZHANG was moved to Review and Appraisal Division and promoted as the Deputy Section Chief. From October 2005 to February 2007, Mr. ZHANG was appointed to Financial Cooperation Division as the Deputy Section Chief, and from February 2007 to July 2009, he was promoted to the Section Chief. From July 2009 to July 2011, Mr. ZHANG was moved to Review and Appraisal Division as the Section Chief, and from July 2011 to February 2015, he was promoted to the Deputy Division Chief.

Mr. ZHANG has solid knowledge at credit, trust, bank consortium, direct debt instrument, asset securitization, equity investment, credit evaluation, risk management, and other fields; and has rich experience in new energy, energy conservation, environmental protection, high-end equipment manufacturing, health care, new urbanization, cross-border direct investment, mergers and acquisitions, and other areas of the industry.

Mr. ZHANG graduated from Nanjing University with Master Degree in national economics.

Mr. SUN Biyuan

Mr. SUN Biyuan, aged 43, is a Shareholders Representative Supervisor of the fifth session of the Supervisory Committee.

Mr. SUN has been a Shareholders Representative Supervisor of the Supervisory Committee since 2 March 2010. From July 1996 to March 2006, Mr. SUN served as a Department Manager of Shanghai Zhonghua Certified Public Accountants, engaging in the auditing works for the listed companies. From April 2006 to January 2010, Mr. SUN served as a Finance Manager of Shanghai Chemical Industry Park Investment Company Limited ("SCIPI"). From January 2010 to November 2014, Mr. Sun was promoted to the Finance Director of SCIPI. Mr. Sun has been the Finance Manager of Shanghai Chemical Industry Park Development Company Limited since January 2014.

Mr. SUN graduated from the Accounting Department of Shanghai University of Finance and Economics in July 1996.

Profiles of Directors, Supervisors and Senior Management

Mr. DAI Kun

Mr. DAI Kun, aged 41, is a Shareholders Representative Supervisor of the fifth session of the Supervisory Committee.

Mr. DAI has been a Shareholders Representative Supervisor of the Supervisory Committee since 2 March 2016. Mr. DAI previously worked at the Finance Department of Shanghai Chemical Industry Company Limited from July 2002 to April 2012, and in December 2006 was promoted to Finance Manager. From May 2012 to December 2013, Mr. DAI served at the General Planning Office of Shanghai Chemical Industry Park Development Company Limited. From January 2014 to December 2014, Mr. DAI served as the Finance Director of Shanghai Huayi Tianyuan Chemical Logistics Company Limited. From January 2015 to July 2017, Mr. DAI served as the Finance Director of Shanghai Chemical Industry Park Investment Company Limited. Since April 2017, Mr. DAI has been appointed as the deputy director of the General Planning Office of Shanghai Chemical Industry Park Development Company Limited.

Mr. DAI graduated from the Department of Accounting of Shanghai University of Finance and Economics in 2001. He received a Master of Business Administration degree from Donghua University in 2014.

Ms. XU Yan

Ms. XU Yan, aged 40, is a Shareholders Representative Supervisor of the fifth session of the Supervisory Committee.

Ms. XU has been a Shareholders Representative Supervisor of the Supervisory Committee since 12 March 2018. From July 2002 to December 2006, Ms. XU served as compensation and benefits specialist, human resources supervisor and manager of human resources department of Shanghai Huahong Integrated Circuit Co., Ltd. ("Shanghai Huahong"). From January 2007 to June 2011, Ms. XU served as manager of corporate organizational development & human resources operation and human resources manager of chip division of Shanghai Huahong. From July 2011 to December 2014, Ms. XU served as a director, responsible for human resources, administration and legal affairs of Shanghai Huahong. Since January 2015, Ms. XU has been serving as human resources manager of Huada Semiconductor Co., Ltd.

Ms. XU graduated from Fudan University with a Bachelor degree in business management in 1999 and a Master degree in business management in 2002.

Mr. ZHOU Chengjie

Mr. ZHOU Chengjie, aged 53, is a Shareholders Representative Supervisor of the fifth session of the Supervisory Committee.

Mr. ZHOU has been a Shareholders Representative Supervisor of the Supervisory Committee since 2 March 2013. From 2000 to 2005, Mr. ZHOU served as the Manager of Investment Department and Assistant General Manager of Shanghai East-China Computer Co., Ltd. From 2006 to 2007, Mr. ZHOU served as the Assistant Director of Technology Development Department of Shanghai Belling Corp., Ltd ("Shanghai Belling"). From 2007 to 2008, Mr. ZHOU served as the Director of Investment & Technology Management Department of Shanghai Belling. Since 2009, Mr. ZHOU has been appointed as the Director of Business Development of Shanghai Belling. Since March 2013, Mr. ZHOU has been appointed as the secretary of the Board of Directors of Shanghai Belling. Since December 2016, Mr. ZHOU has been appointed as the Vice President and secretary of the Board of Directors of Shanghai Belling.

Mr. ZHOU received a Bachelor of Science Degree from the University of Science and Technology of China in 1984, and a Master of Science Degree from the University of Science and Technology of China in 1987.

Profiles of Directors, Supervisors and Senior Management

Mr. QIN Shihui

Mr. QIN Shihui, aged 46, is an Employee Representative Supervisor of the fifth session of the Supervisory Committee.

Mr. QIN has been an Employee Representative Supervisor of the Supervisory Committee since 2 March 2016. Mr. QIN has been the Chairman of the trade union of the Company since April 2016. Mr. QIN was the senior manager of manufacturing department in Fab 1 and Fab 2 of the Company from 2015 to May 2016. Mr. QIN joined the Company in August 1991, where he was appointed as photolithographic process engineer and engaged in the installation, commissioning and operation of the first production line of 5-inch of the Company. Mr. QIN also played the roles of photolithographic supervision and diffusion supervision, and served as the shift manager before taking on his current role.

In 2006, Mr. QIN graduated from China University of Petroleum-Beijing majoring in economics.

Mr. MIAO Kang

Mr. MIAO Kang, aged 44, is an Employee Representative Supervisor of the fifth session of the Supervisory Committee.

Mr. MIAO has been an Employee Representative Supervisor of the Supervisory Committee since 19 September 2016. Since 2013, Mr. MIAO has been serving as the senior manager of general ledger accounting of the Company. Mr. MIAO joined the Company in March 1991, where he was engaged in matters relating to the investment of 5-inch, 6-inch, 8-inch production line by the Company as well as the Company's listing affairs on the Stock Exchange. Prior to his current position, Mr. MIAO also served as the accountant of general ledger, accountant of cost and manager of cost accounting of the Company.

In 2013, Mr. MIAO graduated from the Open University of China and Beijing Technology and Business University, majoring in accounting.

Dr. WANG Haihong

Dr. WANG Haihong, aged 49, is an Employee Representative Supervisor of the fifth session of the Supervisory Committee.

Dr. WANG has been an Employee Representative Supervisor of the Supervisory Committee since 12 March 2018. Dr. WANG has been appointed as the manager of ThinFilm department of Fab3 since September 2014 and has over 15 years' working experience at the semiconductor foundry.

From July 1995 to August 1999, Dr. WANG served as a teacher in chemistry department of AnYang Normal University. From August 2002 to January 2006, Dr. WANG worked as a senior engineer in Logic Technology Development Center of Semiconductor Manufacturing International Corporation (Shanghai), engaged in R&D of copper interconnection for 0.13um and 90nm metallization process. In January 2006, Dr. WANG joined the Company and worked as an epitaxy section manager. From July 2011 to September 2014, Dr. WANG served as Fab1&2 and Fab3 epitaxy department manger. Dr. WANG has been appointed as the manager of ThinFilm department of Fab3 since September 2014.

Additionally, Dr. WANG was awarded nomination of "Shanghai Artizan" in 2016 and she was awarded "Shanghai May 1st Labour Medal" in 2017.

Dr. WANG graduated from Henan Normal University with a Bachelor degree of Science in Chemistry and a Master degree of Science in Chemistry in 1992 and 1995, respectively. Dr. WANG got her ph.D degree of Science in Physical Chemistry from Fudan University in 2002.

Mr. Eric WANG (Resigned with effect from10 June 2017)

Mr. Eric WANG, aged 50, was a Shareholders Representative Supervisor of the fifth session of the Supervisory Committee.

Mr. WANG was a Shareholders Representative Supervisor of the Supervisory Committee from 4 August 2015 to 9 June 2017. Mr. WANG is the General Counsel, Asia Pacific of NXP Semiconductors since May 2015. Mr. WANG began his career as an attorney in 2000. Prior to joining NXP Semiconductors, he practiced law with Testa, Hurwitz & Thibeault LLP in Boston, Kaye Scholer LLP in New York and Shanghai and Sheppard Mullin Richter & Hampton LLP in Shanghai where he counseled and assisted private and public companies in a broad range of industries as well as private equity funds in many aspects of corporate operation and development.

Mr. WANG is a member of the Massachusetts bar. He graduated magnum cum laude from Southern Connecticut State University and holds a Juris Doctor degree from Vanderbilt University School of Law.

Ms. CHEN Yan (Resigned with effect from 10 January 2018)

Ms. CHEN Yan, aged 44, was a Shareholders Representative Supervisor of the fifth session of the Supervisory Committee.

Ms. CHEN was a Shareholders Representative Supervisor of the Supervisory Committee from 30 October 2007 to 9 January 2018. Ms. CHEN worked for the Bank of China Shanghai Branch from August 1994 to May 2000. She joined the Shanghai Branch of China Orient Asset Management Co., Ltd. ("COAMC") in May 2000 and was appointed as a Manager of Second Asset Management Department of COAMC's Shanghai Branch in June 2005. From December 2007 to November 2010, Ms. CHEN served as the Manager of the Investment Department of Shanghai Dongxing Investment Holding Company. In November 2010, Ms. CHEN was appointed as the Senior Manager of the Administration and Risk Management Department of Shanghai Branch of COAMC. In January 2014, Ms. CHEN was promoted to the current position of Assistant General Manager of Shanghai Branch of COAMC.

Ms. CHEN graduated with a Bachelor of Economics degree from Shanghai Jiao Tong University in 2000, and received a Graduate Diploma in Information System from Massey University of New Zealand in 2002. She received an Executive Master of Business degree from Antai College of Economic & Management, Shanghai Jiaotong University in 2013.

Mr. HE Yaojun (Resigned with effect from 9 January 2018)

Mr. HE Yaojun, aged 59, was an Employee Representative Supervisor of the fifth session of the Supervisory Committee.

Mr. HE was an Employee Representative Supervisor of the Supervisory Committee from 19 September 2016 to 8 January 2018. From 2015 to 8 January 2018, Mr. HE served as the director of the president's office of the Company. Mr. HE joined the Company in June 1991, where he served as the director of environmental safety, and engaged in matters relating to adjusting and accepting the environmental project of the Company's 5-inch, 6-inch, 8-inch production lines, and preparation work for construction of the 8-inch production line. Prior to position of director of the president's office of the Company, Mr. HE also served as manager of hydration section and public affairs of the department of power equipment, manager of government affairs, which was a bridge of communication between the Company and the government, and vice director of the president's office.

In 1984, Mr. HE graduated from amateur institute of the East China Institute of Textile Science and Technology, majoring in environmental engineering.

COMPANY SECRETARY

Mr. XIAO Weiming

Mr. XIAO Weiming, aged 53, is the Company Secretary and Investor Relations Director of the Company.

The Stock Exchange of Hong Kong had confirmed that Mr. XIAO was qualified to act as the sole Company Secretary of the Company with effect from 17 May 2016. Mr. XIAO has been the Company's Investor Relations Director since August 2006 and has been the Joint Company Secretary since May 2013. Mr. XIAO started his career at Shanghai Petrochemical Complex in 1984. During 1992 to 1998, he was senior manager of secretary office to the Board at Sinopec Shanghai Petrochemical Company Limited. He was financial director of Edelman Public Relations and its Affiliates, Shanghai, China from 1998 to 2002. He was the Director, Asia & Chief Representative of Van Der Moolen NYSE Specialists Shanghai Office from 2002 to 2005. He was senior counsel and Director of Ketchum Newscan from 2005 to 2006.

Mr. XIAO graduated from Shanghai Petrochemical Secondary School majoring in organic chemistry in 1984. He majored in English at Shanghai Petrochemical College from 1987 to 1989. He completed the post-graduate courses in Business Management at School of Business, East China University of Science & Technology in 1998.

Profiles of Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Dr. GUO Qiang

Dr. GUO Qiang, aged 52, is the Company's Chief Operation Officer.

Dr. GUO has been the Chief Operation Officer of the Company since 1 March 2018. From July 1988 to April 1994, Dr. GUO worked as an engineer and project manager of R&D department in Nan-Nan High-Tech. R & D Corp. in Jiangsu Province. From April 1996 to August 2001, Dr. GUO worked as an engineer of R&D department, senior engineer and principal engineer of quality & reliability ("Q&R") department in Chartered Semiconductor Manufacturing Ltd., Singapore. From August 2001 to February 2003, Dr. GUO worked in Institute of Microelectronics ("IME") and served as member of technical staff, group leader of deep submicron integration circuit department, member of technical council of IME, co-supervisor of Master of Science and Ph.D degree. From February 2003 to November 2005, Dr. GUO worked in Grace Semiconductor Manufacturing Corporation as the department manager, responsible for reliability assurance and failure analysis ("FA"). From November 2005 to April 2012, Dr. GUO worked in Semiconductor Manufacturing International (Shanghai) Corporation, in which he was appointed as deputy director of reliability engineering ("RE") division in Shanghai from November 2005 to December 2007, as a director of analytical lab division from January 2008 to August 2009, as a director of Beijing Q&R division from August 2009 to August 2010 and he was appointed as a director of RE division from August 2010 to April 2012, responsible for overall management of RE and FA functions including Shanghai, Beijing, Tianjin and Wuhan RE and FA departments. From May 2012 to September 2012, Dr. GUO served as Assistant Vice President of R&D department in Shineraytek Optoelectronics Co. Ltd. From October 2012 to January 2017, Dr. GUO worked in Wuhan Xinxin Semiconductor Manufacturing Corporation, in which he was appointed as vice president of Q&R, product & testing and ESH from October 2012 to April 2015, and he was promoted as a senior vice president in May 2015. In February 2017, Dr. GUO joined Yangtze Memory Technologies Co., Ltd. and was appointed as senior vice president of Q&R and ESH.

Additionally, Dr. GUO was selected as Wuhan 3551 talents in 2016. He published 60 papers in International journals or conferences and was awarded a number of US, Taiwai and China mainland patent grants.

Dr. GUO graduated from Nanjing University with a Bachelor of Science degree and a Master of Science degree in Physics in 1985 and 1988, respectively. Dr. GUO received his Ph.D degree in Physics from National University of Singapore in 1997.

Profiles of Directors, Supervisors and Senior Management

Ms. LUO Wenjing

Ms. LUO Wenjing, aged 45, is the Company's Finance Vice President.

Ms. LUO has been the Finance Vice President of the Company from April 2013. Ms. LUO has over 15 years experience in finance management, business control and internal control professions. Ms. LUO started her career in Shanghai Waigaoqiao Free Trade Zone Xin Development Co., Ltd. in 1994. From 1998 to 2003, Ms. LUO joined Siemens China Ltd. Shanghai Branch as commercial manager. From 2003 to 2005, Ms. LUO worked as finance manager in Whirlpool Home Appliance (Shanghai) Co., Ltd., and as financial controller in Phonak Group China from 2005 to 2007. From 2008 until 2013, Ms. LUO served as finance controller of Parker Hannifin Motion and Control (Shanghai) Co., Ltd.

Ms. LUO received a Bachelor Degree of Shanghai International Studies University in 1994 and MBA of Shanghai Jiao Tong University in 2001. She is a member of Chinese Institute of Certified Public Accountants. She is a fellow of the Chartered Institute of Management Accountants, a Certified Global Management Accountant and an International Certified Forensic Accountant.

Mr. ZHOU Weiping (Resigned with effect from 26 January 2018)

Mr. ZHOU Weiping, aged 51, was the Company's Vice President.

Mr. ZHOU was the Vice President of the Company since 9 March 2011 to 25 January 2018. Mr. ZHOU performed all duties and powers of the President of the Company from 5 June 2015 to 6 February 2017. Mr. ZHOU started his career at Shanghai Belling in 1990. During the period from 1990 to 2003, Mr. ZHOU took various roles at Shanghai Belling with increasing levels of responsibility in wafer fab start-up and management. Mr. ZHOU was appointed as the Vice President and the General Manager of manufacturing business unit in 2003 and subsequently was promoted to be the Executive Vice President of Shanghai Belling in 2004. From January 2007 to November 2007, Mr. ZHOU served as the General Manager of Ningbo Shanshan Ulica Solar Technology Developing Company Limited. In December 2007, Mr. ZHOU rejoined the group of Shanghai Belling Corporation Limited and was appointed as the General Manager of Shanghai Belling Microelectronics Manufacturing Company Limited. From 1 September 2008 to 9 March 2011, Mr. ZHOU served as the President and Chief Executive Officer of the Company.

Mr. ZHOU received a Bachelor of Solid State Electronics degree from East China Normal University in 1990 and a Master of Business Administration degree from Fudan University in 2000.

Report of the Directors

The Board of Directors of the Company is pleased to present its report and the audited financial statements of the Company for the year ended 31 December 2017.

Principal activities

The principal activities of the Company are the manufacture and sale of 5-inch, 6-inch and 8-inch semiconductor wafers. There were no significant changes in the nature of the Company's principal activities during the year ended 31 December 2017.

Segment information

The Company's revenue and profit for the year ended 31 December 2017 were mainly derived from the manufacture and sale of 5-inch, 6-inch and 8-inch semiconductor wafers. The Company has only one business segment. The principal assets employed by the Company are located in Shanghai, the PRC. Therefore, no segment information based on the geographical location of the Company's assets is presented.

Business review

A review of the business of the Company during the year ended 31 December 2017 and a discussion on the Company's future business development are provided in the Chairman's Statement on pages 4 to 6 of this Annual Report. A description of the possible risks and uncertainties that the Company may be facing can be found in the Chairman's Statement on pages 4 to 6 of this Annual Report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 17 to the financial statements. The Company has implemented a set of environmental policies to ensure the Company's compliance with the relevant environmental laws and regulations applicable to the businesses of the Company ("Environmental Policies"). During the year ended 31 December 2017, the Company is not aware of any instances of material non-compliance with any relevant environmental laws and regulations applicable to the businesses of the Company and its Environmental Policies. An analysis of the Company's performance during the year using financial key performance indicators is provided in the financial statements on pages 74 to 79 of this Annual Report. In addition, discussions on the Company's relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Company are contained in the Chairman's Statement, the Corporate Governance Report and this Directors' Report on pages 4 to 6, pages 50 to 66 and pages 30 to 46 respectively.

Results and dividends

The Company's profit for the year ended 31 December 2017 and the state of affairs of the Company at that date are set out in the financial statements on pages 74 to 76.

The Board does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2017(2016: Nil).

Summary financial information

A summary of the published results and assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements is set out on pages 48 to 49. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company during the year ended 31 December 2017 are set out in note 13 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year ended 31 December 2017 are set out in notes 27 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association") or the laws of People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Purchase, redemption or sale of listed securities of the Company

The Company did not purchase, redeem or sell any of the Company's listed securities during the year ended 31 December 2017.

Reserves

Details of movements in the reserves of the Company during the year ended 31 December 2017 are set out in note 28 to the financial statements.

Distributable reserves

In accordance with the Articles of Association, the Company is entitled to distribute dividends based on the lower of the Company's distributable reserves determined under PRC accounting standards and International Financial Reporting Standards ("IFRSs"). As at 31 December 2017, the Company did not have distributable reserves available for distribution.

Charitable donation

The Company's charitable donation amounted to RMB42,700 during the year ended 31 December 2017.

Report of the Directors

Major customers and suppliers

During the year ended 31 December 2017, sales to the Company's five largest customers accounted for 59.00% of the total sales for the year and sales to the largest customer included therein amounted to 23.00%. Purchases from the Company's five largest suppliers accounted for 34.70% of the total purchases for the year and purchases from the largest supplier accounted for 12.43%.

None of the Directors or any of their close associates or any Shareholders which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Company's five largest customers and suppliers.

Directors

The Directors of the Company during the year ended 31 December 2017 and up to the date of this annual report were:

Executive Director

Dr. HONG Feng (appointed with effect from 16 May 2017)

Non-executive Directors

Mr. ZHU Jian, Chairman
Mr. David Damian FRENCH, Vice Chairman
Mr. XU Ding, Vice Chairman (appointed with effect from 12 March 2018)
Ms. SHEN Qing, Vice Chairman (resigned with effect from 10 January 2018)
Mr. Steven Daryl FREZON (resigned with effect from 10 June 2017)
Mr. KANG Hui
Mr. YUAN Yipei (appointed with effect from 7 August 2017)
Mr. LU Ning

Independent Non-executive Directors

Mr. Jesse Bright Riggs PARKER JR. (resigned with effect from 20 June 2017)
Dr. CHEN Enhua
Mr. JIANG Shoulei (appointed with effect from 7 August 2017)
Dr. JIANG Qingtang
Mr. PU Hanhu

Directors', Supervisors' and senior management's biographies

Biographical details of the Directors, Supervisors and the senior management of the Company are set out on pages 15 to 29 of this annual report.

Directors' and Supervisors' service contracts

Each of the Directors and Supervisors has entered into a service contract with the Company with effect from the date of appointment of the respective Director and Supervisor, for a term of no more than three years.

None of the Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Supervisors' remuneration

The Directors' and Supervisors' fees are subject to Shareholders' approval at general meetings. Other emoluments of the Directors and Supervisors are determined by the Board with reference to their duties, responsibilities and performance and the results of the Company.

Directors' and Supervisors' interest in material transaction, arrangement or contracts

No Director and Supervisor had a material interest, either directly and indirectly, in any material transaction, arrangement or contracts of significance to the business of the Company to which the Company was a party during the year.

Directors', Supervisors' and chief executives' interests and short positions

As at 31 December 2017, none of the Directors, Supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' indemnities

The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company.

Substantial Shareholders' interests and short positions

As at 31 December 2017, the interests and short positions of the following persons (not being a Director, Supervisor or chief executive of the Company) in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage in the relevant class of issued share capital	Percentage in the total issued share captial
SCIP (HK) Limited ("SCIP (HK)") *(Note 1)*	H-shares	222,574,584 (Long position)	Beneficial owner	19.67%	14.51%
Shanghai Chemical Industrial Park Investment Enterprise Company Limited ("SCIPI") *(Note 1)*	Domestic shares	122,220,616 (Long position)	Beneficial owner	31.32%	7.97%
Pudong Science and Technology Investment (Cayman) Co., Ltd.	H-shares	204,403,444 (Long position)	Beneficial owner	18.07%	13.32%
("PDSTI Cayman") *(Note 2 and 4)*	Unlisted foreign shares	6,321,756 (Long position)	Beneficial owner	50.00%	0.41%
Sino Xin Yuan Limited *(Note 3 and 4)*	H-shares	204,403,444 (Long position)	Beneficial owner	18.07%	13.32%
	Unlisted foreign shares	6,321,756 (Long position)	Beneficial owner	50.00%	0.41%
Huada Semiconductor Co., Ltd. ("Huada Semiconductor") *(Note 5)*	Domestic shares	390,250,016 (Long position)	Beneficial owner/ Interest of controlled corporation	100%	25.44%
Shanghai Belling Co., Limited ("Shanghai Belling") *(Note 5)*	Domestic shares	88,726,400 (Long position)	Beneficial owner	22.74%	5.78%

Substantial Shareholders' interests and short positions (continued)

Notes:

1. SCIP (HK) is a wholly-owned subsidiary of SCIPI which in turn is 100% controlled by Shanghai Chemical Industrial Park Development Co., Ltd. ("SCIPD"). Accordingly, SCIPI and SCIPD are taken as having interests in the 222,574,584 H-shares of the Company which are beneficially held by SCIP (HK), and SCIPD is taken as having interests in the 122,220,616 domestic shares of the Company which are beneficially held by SCIPI. Pursuant to the Company's announcement dated 23 August 2017, SCIPI had entered into with Huada Semiconductor a share transfer agreement relating to the disposal of 122,220,616 domestic shares of the Company by SCIPI to Huada Semiconductor (the "Share Transfer"). After the completion of the Share Transfer, SCIPI will have no interests in domestic shares of the Company.

2. PDSTI Cayman is a wholly-owned subsidiary of Shanghai Pudong Science and Technology Investment Co., Ltd. ("PDSTI"), which in turn is 51.00% controlled by 上海宏天元創業投資合夥企業 (limited partnership, "宏天元創業投資"). 上海宏天元投資管理有限公司 ("宏天元投資管理") in turns holds 31.66% interests in宏天元創業投資. 上海宏天元投資有限公司("宏天元投資") in turns holds 57.14% interests in宏天元投資管理 and 0.64% interests in宏天元創業投資. Therefore, PDSTI, 宏天元創業投資, 宏天元投資管理 and宏天元投資are taken as having interests in the 204,403,444 H-shares and 6,321,756 unlisted foreign shares of the Company which are beneficially held by PDSTI Cayman.

3. Sino Xin Yuan Limited is a wholly-owned subsidiary of SINO IC Holdings Limited ("SICH"), and SICH is a wholly-owned subsidiary of Sino IC Leasing Co., Ltd. ("Sino IC Leasing"). National Integrated Circuit Industry Investment Fund Co., Ltd. ("National Integrated Circuit Industry Investment Fund") in turns holds 32.30593% interests in Sino IC Leasing. Therefore, SICH, Sino IC Leasing and National Integrated Circuit Industry Investment Fund are taken as having interests in the 204,403,444 H-shares and 6,321,756 unlisted foreign shares of the Company which are beneficially held by Sino Xin Yuan Limited.

4. Pursuant to the Company's announcement dated 26 May 2017, PDSTI Cayman had entered into with Sino Xin Yuan Limited (i) a share transfer agreement relating to the disposal of 6,321,756 unlisted foreign shares of the Company by PDSTI to Sino Xin Yuan Limited (the "Unlisted Foreign Share Disposal"), and (ii) a share transfer agreement relating to the disposal of 204,403,444 H-shares of the Company by PDSTI to Sino Xin Yuan Limited (the "H Share Disposal") on 24 May 2017. Immediately after the completion of the Unlisted Foreign Share Disposal and the H Share Disposal, PDSTI holds 204,403,444 H-shares of the Company and 6,321,756 unlisted foreign shares of the Company.

5. Huada Semiconductor is a wholly-owned subsidiary of China Electronics Corporation Limited ("CEC"). Therefore, CEC is taken as having interests in the 301,523,616 domestic shares of the Company which are beneficially held by Huada Semiconductor. In addition, as the date of this report, Huada Semiconductor has a 25.47% equity interest in Shanghai Belling, therefore, CEC and Huada Semiconductor are taken as having interests in the 88,726,400 domestic shares of the Company which are beneficially held by Shanghai Belling.

Pursuant to Section 336 of the SFO, the Shareholders are required to file disclosure of interests forms when certain criteria are fulfilled. When a shareholding in the Company changes, it is not necessary for the Shareholder to notify the Company and the Stock Exchange unless a specific threshold is passed, therefore a substantial Shareholder's latest shareholding in the Company may be different from the shareholding filed with the Company and the Stock Exchange.

Share option scheme

As at 31 December 2017, the Company had no share option scheme within the meaning of Chapter 17 of the Listing Rules.

Directors', Supervisors' and chief executives' rights to acquire shares or debenture

During the year ended 31 December 2017, none of the Directors, Supervisors or chief executives of the Company was granted options to subscribe for shares or debenture of the Company. During the year ended 31 December 2017, none of the Directors or Supervisors or chief executives nor their spouses or minor children had any right to acquire shares or debenture of the Company or had exercised any such right.

Furthermore, at no time during the year ended 31 December 2017 was the Company a party to any arrangements to enable the Directors, Supervisors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Changes in information of Directors and Supervisors

Pursuant to Rule 13.51B of the Listing Rules, the changes in Directors and Supervisors' information are set out below.

Dr. HONG Feng has been appointed as the Executive Director for the fifth session of the Board with effect from 16 May 2017.

Mr. Steven Daryl FREZON resigned as a Non-executive Director and a member of the Audit and Risk Management Committee for the fifth session of the Board with effect from 10 June 2017.

Mr. Jesse Bright Riggs PARKER JR. resigned as an Independent Non-executive Director and members of the Audit and Risk Management Committee, the Nomination Committee and the Remuneration Committee for the fifth session of the Board with effect from 20 June 2017.

Mr. David Damian FRENCH ceased to be a member of the Nomination Committee for the fifth session of the Board with effect from 7 August 2017.

Mr. YUAN Yipei has been appointed as a Non-executive Director and members of the Audit and Risk Management Committee and the Nomination Committee for the fifth session of the Board with effect from 7 August 2017.

Changes in information of Directors and Supervisors (continued)

Mr. JIANG Shoulei has been appointed as an Independent Non-executive Director and members of the Audit and Risk Management Committee, the Nomination Committee and the Remuneration Committee for the fifth session of the Board with effect from 7 August 2017.

Ms. SHEN Qing resigned as a Non-executive Director and members of the Audit and Risk Management Committee and the Strategic Development Committee and Vice Chairman for the fifth session of the Board with effect from 10 January 2018.

Mr. XU Ding has been appointed as a Non-executive Director and members of the Audit and Risk Management Committee and the Strategic Development Committee and Vice Chairman for the fifth session of the Board with effect from 12 March 2018.

Mr. Eric WANG resigned as a Shareholders Representative Supervisor and the Chairman for the fifth session of the Supervisory Committee with effect from 10 June 2017.

Mr. ZHANG Yan has been appointed as a Shareholders Representative Supervisor and the Chairman for the fifth session of the Supervisory Committee with effect from 7 August 2017.

Mr. HE Yaojun resigned as an Employee Representative Supervisor for the fifth session of the Supervisory Committee with effect from 9 January 2018.

Ms. CHEN Yan resigned as a Shareholders Representative Supervisor for the fifth session of the Supervisory Committee with effect from 10 January 2018.

Ms. XU Yan has been appointed as a Shareholders Representative Supervisor for the fifth session of the Supervisory Committee with effect from 12 March 2018.

Ms. WANG Haihong has been appointed as an Employee Representative Supervisor for the fifth session of the Supervisory Committee with effect from 12 March 2018.

Save as disclosed above, as at 31 December 2017, there were no changes to information which are required to be disclosed and have been disclosed by Directors and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

Connected transactions

General disclosure for the continuing connected transactions during the year ended 31 December 2017

(1) *The Continuing Connected Transactions Between the Company and NXP Group for the Period Between 1 January 2017 and 18 April 2017*

For the period between 1 January 2017 and 18 April 2017, the Company had the following material continuing connected transactions with NXP B.V. ("NXP CCT"), a connected person of the Company by virtue of being the substantial Shareholder, and its subsidiaries and associates (having the meanings ascribed to them in the Listing Rules) ("NXP Group") during the year ended 31 December 2017, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Pursuant to the Company's announcement dated 24 April 2017, on 19 April 2017, NXP B.V. had disposed 408,806,888 H shares of the Company and 12,643,512 unlisted foreign shares of the Company, being all shares it held in the Company, to Pudong Science and Technology Investment (Cayman) Co., Ltd., a third party independent of the Company and its connected persons. ("Share Disposal"). Immediately after the completion of the Share Disposal, NXP B.V. ceased to be a shareholder of the Company. Therefore, NXP B.V. ceased to be a connected person of the Company with effect from 19 April 2017 and transactions between NXP Group and the Company ceased to be continuing connected transactions under Chapter 14A of the Listing Rules with effect from 19 April 2017.

Details relating to the NXP CCT and the applicable annual caps of such transaction for the period between 1 January 2017 and 18 April 2017 are set out as follows:

Types of Transactions	Actual for the period between 1 January 2017 and 18 April 2017 RMB'000	Approved annual caps 2017 (disclosed in the Company's Announcement) RMB'000
Sales	26,706	260,200
Technology transfer	266	19,200

Connected transactions *(continued)*

General disclosure for the continuing connected transactions during the year ended 31 December 2017 *(continued)*

(II) The Continuing Connected Transactions Between the Company and Shanghai Belling Co. Limited ("Shanghai Belling") with effect from 28 December 2017

Pursuant to the Company's announcement dated 14 December 2017 and 29 January 2018, on 7 December 2017, China Orient Asset Management Co., Limited ("COAMC") had entered into a share transfer agreement with Huada Semiconductor Co., Limited ("Huada Semiconductor") in relation to the disposal of 179,303,000 domestic shares of the Company by COAMC to Huada Semiconductor ("Share Transfer"). Upon the completion of the Share Transfer on 28 December 2017, Huada Semiconductor became a substantial shareholder of the Company.

As at the date of this report, Huada Semiconductor has a 25.47% equity interest in Shanghai Belling. On 16 January 2018, the Company received a letter from Shanghai Belling stating that, amongst other things, Huada Semiconductor has the right (which it has exercised) to appoint the majority of directors to the board of Shanghai Belling. As a result, Shanghai Belling is considered to be a subsidiary undertaking (having the meanings as ascribed to it in the Hong Kong Companies Ordinance) of Huada Semiconductor, and also a subsidiary of Huada Semiconductor under the Listing Rules. As Shanghai Belling is a subsidiary of Huada Semiconductor and Huada Semiconductor is a substantial shareholder of the Company, Shanghai Belling has become a connected person of the Company by virtue of Rule 14A.07 of the Listing Rules with effect from 28 December 2017.

Therefore, the Frame Foundry Agreement entered into between the Company and Shanghai Belling on 8 November 2015 in connection with the Company's production of wafers for Shanghai Belling and the transactions contemplated thereunder ("Shanghai Belling CCT") have become continuing connected transactions of the Company under the Listing Rules with effect from 28 December 2017, and certain details of which are disclosed in compliance with the requirements of Chapter 14A of this Listing Rules.

Connected transactions *(continued)*

General disclosure for the continuing connected transactions during the year ended 31 December 2017 *(continued)*

(II) The Continuing Connected Transactions Between the Company and Shanghai Belling Co. Limited ("Shanghai Belling") with effect from 28 December 2017 (continued)

Details relating to the consideration paid by Shanghai Belling to the Company under the Shanghai Belling CCT and the applicable proposed cap of such transactions for the period between 28 December 2017 and 31 December 2017 are set out as follows:-

Types of Transactions	Actual for the period between 28 December 2017 and 31 December 2017 RMB'000	Proposed cap for the period between 28 December 2017 and 7 November 2018 ("Proposed Cap") (disclosed in the Company's announcement) RMB'000
Sales	0	34,000

Specific disclosure for the continuing connected transactions conducted during the year ended 31 December 2017

(I) The Continuing Connected Transactions Between the Company and NXP Group for the Period Between 1 January 2017 and 18 April 2017

As disclosed in the Company's announcement dated 22 July 2014 and 9 December 2016 and the circular dated 11 August 2014, the Company entered into the following agreements in respect of the continuing connected transactions conducted for the period between 1 January 2017 and 18 April 2017:

Connected transactions *(continued)*

Specific disclosure for the continuing connected transactions conducted during the year ended 31 December 2017 *(continued)*

(A) Sales

(i) NXP Foundry Services Agreement

On 1 January 2002, the Company (as the seller) and Philips Semiconductors B.V. ("Philips Semiconductors") (as the buyer), the predecessor of NXP Semiconductors Netherlands B.V. ("NXP Semiconductors"), a member of NXP Group, entered into the Philips Foundry Services Agreement, the former title of the NXP Foundry Services Agreement, whereby the Company manufactured and sold licensed products and identification products to the NXP Group (previously Philips Group) by using the manufacturing process and other design rules and proprietary information provided by the buyer. Pursuant to the agreement, prices for finished semiconductor wafers were initially stated in the agreement and were reviewed quarterly and adjusted by mutual agreement between the parties with reference to the then prevailing materials, supply and process costs and market prices of the products. Prices for good dies (packaged and unpackaged) were agreed separately between the parties. The term of the agreement expired on 31 December 2017 and thereafter has been automatically renewed for a further period of three years.

(ii) NXP Cooperation Agreement

On 29 May 2002, the Company (as the seller) and Philips Semiconductors (as the buyer), the predecessor of NXP Semiconductors, a member of NXP Group, entered into the Philips Cooperation Agreement, the former title of the NXP Cooperation Agreement, whereby the Company manufactured and sold licensed products to the NXP Group by using the technology and know-how transferred to the Company by the buyer. Pursuant to the agreement, prices for the licensed products and identification products sold by the Company under the NXP Cooperation Agreement and the payment terms were determined in accordance with the provisions of the NXP Foundry Services Agreement. The term of the agreement expired on 31 December 2017 and thereafter has been automatically renewed for a further period of three years.

Prior to 19 April 2017, NXP B.V. was 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 was an associate of NXP B.V. and a connected person of the Company. Immediately after the completion of the Share Disposal, NXP B.V. ceased to be a shareholder of the Company, and therefore both NXP B.V. and NXP Semiconductors ceased to be connected persons of the Company with effect from 19 April 2017.

The applicable annual cap for the transactions under the NXP Foundry Services Agreement and the NXP Cooperation Agreement for the year ended 31 December 2017 was RMB260.2 million.

Connected transactions *(continued)*

Specific disclosure for the continuing connected transactions conducted during the year ended 31 December 2017 *(continued)*

(B) Technology Transfer

(i) Technology Transfer and Cooperation Agreement

On 12 January 2005, the Company (as the buyer) and Philips Semiconductors International B.V. (as the supplier), the predecessor of NXP B.V., entered into the Technology Transfer and Cooperation Agreement for a period of 10 years from 2 March 2004 to 1 March 2014 and thereafter was automatically renewed for a further period of 10 years from 2 March 2014 to 1 March 2024 following such renewal being approved at the Company's extraordinary general meeting held on 20 September 2011, pursuant to which the supplier agreed (a) to transfer to the Company the relevant knowledge and experience relating to foundry manufacturing service, (b) to grant to the Company a license to manufacture at its production facility in the People's Republic of China and to sell the licensed products, (c) to provide the Company with technical assistance for the manufacture, testing and assembly of the licensed products and (d) to provide technical trainings to the Company's engineers. The Company agreed to pay a consideration equivalent to 3% of the net selling price of each product the Company sold to the supplier and its other customers ("Technology Transfer Royalty Fee"). 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%. Save as disclosed, all other terms and conditions of the Technology Transfer and Cooperation Agreement remain unchanged.

(ii) NXP Identification Licensing Agreement

On 29 May 2002, the Company (as the buyer) and Royal Philips (as the supplier) entered into the Philips Identification Licensing Agreement, the former title of the NXP Identification Licensing Agreement, whereby Royal Philips agreed to grant the Company a non-exclusive and non-transferable license over certain intellectual property rights relating to non-volatile memory and the EEPROM process technology for use in manufacturing the identification products. On 28 September 2006, Royal Philips assigned all its rights and obligations under the agreement to a NXP Group member NXP Semiconductors. Pursuant to the agreement, the Company agreed to pay a consideration equivalent to 10% of the net selling price of each product the Company produced by using the technology under the agreement and sold to its customers ("Licensing Royalty Fee"). The current term of the agreement will expire on 31 December 2017 and will antonatically review for a period of 3 years thereafter. 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, all other terms and conditions of the NXP Identification Licensing Agreement remain unchanged.

Connected transactions *(continued)*

Specific disclosure for the continuing connected transactions conducted during the year ended 31 December 2017 *(continued)*

(B) Technology Transfer *(continued)*

Prior to 19 April 2017, NXP B.V. was a connected person of the Company by virtue of it being a substantial shareholder of the Company. Sine NXP Semiconductors is a subsidiary of NXP B.V., it was an associate of NXP B.V. and a connected person of the Company. Immediately after the completion of the Share Disposal, NXP B.V. ceased to be a shareholder of the Company, and therefore both NXP B.V. and NXP Semiconductors ceased to be connected persons of the Company with effect from 19 April 2017.

The applicable annual cap for the transactions under the Technology Transfer and Cooperation Agreement and the NXP Identification Licensing Agreement for the year ended 31 December 2017 was RMB19.2 million.

(II) The Continuing Connected Transactions Between the Company and Shanghai Belling with effect from 28 December 2017

On 8 November 2015, the Company (as the supplier) and Shanghai Belling (as the buyer) entered into the Frame Foundry Agreement, whereby the Company manufactures 5, 6 and 8 inch semiconductor wafers for Shanghai Belling. Prices for finished semiconductor wafers are mutually agreed between the parties after arms' length negotiation between the parties with reference to the market price of similar type of products or similar products or similar products offered by Independent Third Parties (having the meaning of third parties which are independent of the Company and connected persons of the Company) manufacturers in the market, prevailing costs of the Company's suppliers in respect of the materials and suppliers relevant to the manufacturing of the products, the process costs relevant to the manufacturing of the products, the minimum acceptable product yields. The term of the Frame Froundy Agreement is 3 years from 8 November 2015 to 7 November 2018. The Frame Foundry Agreement entered into between the Company and Shanghai Belling and the transactions contemplated thereunder have become continuing connected transactions of the Company under the Listing Rules with effect from 28 December 2017 since Shanghai Belling became a connected person of the Company with effect from the same date. Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable annual reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding the continuing connected transactions contemplated under the Frame Foundry Agreement. It is expected that the Proposed Cap in respect of the Frame Foundry Agreement for the period between 28 December 2017 and 7 November 2018 will not exceed, in aggregate, RMB 34.0 million.

Within the Reporting Period, all requirements in respect of the said connected transactions (including all continuing connected transactions) under Chapter 14A of the Listing Rules have been complied with by the Company.

Opinion of the Independent Non-executive Directors

The Independent Non-executive Directors have reviewed all the continuing connected transactions set out above and have confirmed that during the year ended 31 December 2017, these continuing connected transactions were all conducted and entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better; and (iii) according to the relevant agreements governing the terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Opinion of the Company's auditor

The auditor of the Company has carried out procedures on the continuing connected transactions that have been disclosed by the auditor of the Company in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The work consisted of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures and testing transactions on a sample basis where the auditor of the Company considered appropriate. The work was substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditor of the Company to obtain assurance that the auditor of the Company would become aware of all significant matters that might be identified in an audit. Accordingly, the auditor of the Company does not express an audit opinion on the disclosed continuing connected transactions.

Furthermore, due to the nature of connected persons and transactions, it was not practicable for the auditor of the Company to determine whether the disclosed continuing connected transactions and the books and records of the Company include all continuing connected transactions. It was impracticable for the auditor of the Company to quantify the potential impact of this on the disclosures of continuing connected transactions in the Company's annual report. Accordingly, the auditors' report on continuing connected transactions relates solely to the continuing connected transactions that have been disclosed to the auditor of the Company and in the books and records of the Company made available to the auditor of the Company.

Opinion of the Company's auditor (continued)

Based on the foregoing, in respect of the disclosed continuing connected transactions:

a. nothing has come to the attention of the auditor of the Company that causes the auditor of the Company to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services by the Company, nothing has come to the attention of auditor of the Company that causes the auditor of the Company to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

c. nothing has come to the attention of the auditor of the Company that causes the auditor of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the attention of the auditor of the Company that causes the auditor of the Company to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value approved by the Shareholders in the Extraordinary General Meeting held on 25 September 2014.

Directors' interests in competing businesses

During the year ended 31 December 2017 and up to the date of this annual report, save as disclosed below, none of the Directors had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company.

Mr. David Damian FRENCH has been a Non-executive Director of the Board since 20 May 2014. He most recently has been the Executive Vice President of businesses development focused on expanding NXP Semiconductor's ("NXP") partnerships and business interests in China, reporting directly to the CEO until leaving NXP in December 2017.

Mr. Steven Daryl FREZON was a Non-executive Director of the Board from 2 March 2016 to 9 June 2017. He is currently the Vice President of Front End Operations for NXP Semiconductors, he is responsible for the strategy, financial performance, and operational execution of 5 internal wafer fabs. He is also responsible for NXP Global Facilities, Global Security Operations, and Global Industrial Engineering.

Mr. LU Ning has been a Non-executive Director of the Board since 9 November 2015. He is currently the Vice President of operations & production safety of Shanghai Belling.

Since Mr. FRENCH, Mr. FREZON and Mr. LU were not directly involved in managing the Company during the period for which they were the Directors, the Board is of the view that the Company is capable of carrying on its businesses independent of, and at arm's length from, the competing businesses. When making decisions on the matters related to the Company, Mr. FRENCH, Mr. FREZON and Mr. LU have acted and, where applicable, will continue to act in the best interest of the Company.

Auditor

The financial statements of the Company have been audited by Ernst & Young. A resolution for their reappointment as auditor of the Company for the year ending 31 December 2018 will be proposed at the forthcoming annual general meeting.

Public float

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirements of the Listing Rules throughout the year ended 31 December 2017.

BY ORDER OF THE BOARD

ZHU Jian
Chairman

Shanghai, the PRC
14 March 2018

Summary of Sustainability Report

The Company regards the environment, society and governance as an indispensable part of its life gene, and strives to create environmental and social benefits while creating economic benefits.

Attaching great importance to the communication with stakeholders, the Company establishes a variety of communication channels to listen to the voices of stakeholders and fulfill various social responsibilities. The key important stakeholders of the Company include: government and supervision institutions, shareholders, customers and partners, employees, communities, media, etc. In 2017, on the basis of the integration of stakeholder communication mechanism in its daily operation, the Company has taken the initiatives to send out questionnaires to actively obtain the suggestions and opinions from stakeholders on the sustainable development of the Company, which are sincerely responded in the Sustainability Report of this year.

The Company continues to improve the quality of its products and services and makes unremitting pursuit to achieve "zero defect" in the production process. Through the establishment and continuous improvement of the management system, the Company focuses on site management and strictly controls the product quality. The Company pays great attention to the protection of customers' confidential information and its own R&D intellectual property rights, so as to completely eradicate the loss, abnormal use, unauthorized disclosure and embezzlement of the customer information and its own intellectual property rights under the guarantee of the corresponding management system. The Company strongly opposes all armed organizations that infringe human rights, and strictly implements the Guidelines for Conflict-Free Metal of ASMC, and requires all suppliers to provide corresponding evidence to confirm that minerals from the conflict area have not been used.

The Company regards environmental protection as a key part of its corporate social responsibility. Based on the principle of "prevention is better than cure", the Company continuously updates and improves its environmental management system and policies, and sets energy efficiency management objectives to explore the effective use of energy. The Company values the efficient use of water resources and waste management, explores the use of new energy resources, actively copes with climate change and minimizes negative impacts on the environment in its production and service process.

The Company respects human rights and pays attention to employee communication, carries out diversified activities for employees, promotes their culture building, and balances their life and work. In addition, the Company encourages its employees to participate in public services, cooperates with neighboring communities, concerns charitable acclivities, cares for vulnerable group and contribute its every strength to build a harmonious society.

For more information about the Company's environmental and social performance during the reporting period, please refer to the Company's 2017 Sustainability Report, which can be browsed or downloaded from the Company's website.

Five Year Financial Summary

SUMMARY OF STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,013,296**	796,137	741,079	797,356	722,146
Cost of sales	**(855,705)**	(686,541)	(642,917)	(660,606)	(617,915)
Gross profit	**157,591**	109,596	98,162	136,750	104,231
Other income and gains	**19,062**	30,433	42,213	19,999	25,040
Selling and distribution costs	**(7,732)**	(7,680)	(7,964)	(7,021)	(6,979)
General and administrative expenses	**(74,383)**	(63,180)	(66,487)	(65,890)	(65,001)
Research and development costs	**(27,057)**	(36,745)	(31,818)	(34,702)	(38,221)
Other expense	**(14,108)**	—	—	—	(5,890)
Finance costs	**—**	(14)	—	(501)	(643)
Profit before tax	**53,373**	32,410	34,106	48,635	12,537
Income tax	**3,600**	—	—	—	—
Profit for the year	**56,973**	32,410	34,106	48,635	12,537
Other comprehensive income for the year	**—**	—	—	—	—
Total comprehensive income for the year attributable to ordinary equity holders of the Company	**56,973**	32,410	34,106	48,635	12,537
Earnings per share (RMB)					
– Basic and diluted	**3.71 cents**	2.11 cents	2.22 cents	3.17 cents	0.82 cents

Five Year Financial Summary

SUMMARY OF STATEMENT OF FINANCIAL POSITION

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,300,568**	1,200,362	1,110,641	1,071,885	1,025,729
Total liabilities	**265,914**	222,681	165,370	160,720	163,199
Net assets/total equity	**1,034,654**	977,681	945,271	911,165	862,530

Report on Corporate Governance

CORPORATE GOVERNANCE PRACTICES

The Board fully acknowledges its responsibilities to act in the best interests of all shareholders and to maximise shareholders' value. The Board also attaches great importance to a continuing improvement in the Company's corporate governance policies and practices. The Company has established a range of policies and practices consistent with those required by the Corporate Governance Code and Corporate Governance Report (the "Governance Code") as set out in Appendix 14 to the Listing Rules in relation to, amongst others, the appointment, removal and remuneration of the Directors, responsibilities, composition and meetings of the Board and its committees, segregation of duties between the chairman of the Board and the president who is the head of the executive management.

Save as disclosed in this report, the Company has fully complied with the Governance Code contained in Appendix 14 to the Listing Rules during the Reporting Period.

In some areas, such policies and practices exceed the mandatory requirements of the Governance Code. For instance, to enhance transparency of its operation and performance, the Company has volunteered to announce its financial results on a quarterly basis since it became listed on the main board of the Stock Exchange on 7 April 2006. Additionally, in order to regulate both corporate and individual behaviour for the purpose of ensuring achievement of corporate goals, the Board has adopted a set of general business principles and a code of conduct which are applicable to all employees of the Company and require all employees above certain grades to certify their compliance therewith annually.

SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by its Directors and Supervisors.

In addition, the Company has adopted an employee share dealing code to regulate securities transactions by the management and other relevant employees who, because of their office or employment, are likely to be in possession of unpublished inside information of the Company.

Sixty days before the meeting scheduled to approve the Company's annual results for the year ended 31 December 2016 and thirty days before each of the three meetings scheduled to approve the Company's results for the three months ended 31 March 2017, the six months ended 30 June 2017 and the nine months ended 30 September 2017 respectively, the company secretary notified the Directors, Supervisors, management and other relevant employees of the restricted period for securities transactions.

The Company, having made specific enquiry of all its Directors and Supervisors, confirms that its Directors and Supervisors have complied with the required standards set out in the Model Code throughout the Reporting Period.

BOARD OF DIRECTORS

Board Process and Effectiveness

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

The Board operates mainly by way of regular meetings which are held at least four times a year and supplemented by interim meetings and circulated written resolutions as and when necessary. In the Reporting Period, the Board held four Board meetings. Details of Directors' attendance at the shareholders' general meetings and the meetings of the Board and its committees, namely, the Audit and Risk Management Committee, the Remuneration Committee, the Nomination Committee and the Strategic Development Committee, held during the Reporting Period are set out in tables on pages 54, 55, 57, 58, 59 and 60 of this annual report respectively.

The types of decisions which are to be taken by the Board include those relating to the Company's strategic direction, objectives, business plans, audited or unaudited financial statements, profit distribution proposals, proposals of appointment or reappointment of external auditor, proposals of changes to the share capital, proposals of amendments to the Articles of Association, as well as the appointment and remuneration of senior officers. The management is responsible for the implementation of the overall strategy of the Company and its daily operations and administration in accordance with the business plans approved by the Board from time and time. The Board has adopted detailed rules concerning authority delegated to the management and a list of matters reserved for its own decision.

In particular, the Directors fully acknowledge their responsibility for reviewing and approving the accounts prepared by the management for each financial period, which shall give a true and fair view of the state of affairs of the Company and of the results and cash flows for that period. The Directors are currently not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. During the Reporting Period, the Company also provides all members of the Board with monthly updates on the Company's performance, position and prospects.

The Board has access to the management of the Company to discuss enquiries, to the company secretary on regulatory and compliance matters and to external professionals for advice when necessary. The company secretary continuously advise all Directors on the continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance therewith.

The Company has arranged appropriate liability insurance to indemnity the Directors of the Company for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Report on Corporate Governance

BOARD COMPOSITION

During the year ended 31 December 2017 and up to the date of this annual report, the Board comprised the following Directors:

Executive Director

Dr. HONG Feng (appointed with effect from 16 May 2017)

Non-executive Directors

Mr. ZHU Jian, Chairman
Mr. David Damian FRENCH, Vice Chairman
Mr. XU Ding, Vice Chairman (appointed with effect from 12 March 2018)
Ms. SHEN Qing, Vice Chairman (resigned with effect from 10 January 2018)
Mr. Steven Daryl FREZON (resigned with effect from 10 June 2017)
Mr. KANG Hui
Mr. YUAN Yipei (appointed with effect from 7 August 2017)
Mr. LU Ning

Independent Non-executive Directors

Mr. Jesse Bright Riggs PARKER JR. (resigned with effect from 20 June 2017)
Dr. CHEN Enhua
Mr. JIANG Shoulei (appointed with effect from 7 August 2017)
Dr. JIANG Qingtang
Mr. PU Hanhu

The Non-executive Directors bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Company. Their participation in the Board promotes critical review and control of the management process.

Biographic details of all Directors in office are given on pages 15 to 22 of this annual report. Relationships including financial, business, family or other material/relevant relationships), if any, among members of the Board are also disclosed. There is no such relationship as between the chairman of the Board and the president of the Company.

Following the resignation of Mr. Jesse Bright Riggs PARKER JR. as an Independent Non-executive Director, and the members of the Audit and Risk Management Committee, the Nomination Committee and the Remuneration Committee for the fifth session of the Board of the Company with effect from 20 June 2017, the Company was unable to fulfill: (i) Rule 3.25 of the Listing Rules which requires the majority of the Remuneration Committee to be Independent Non-executive Directors; and (ii) Code Provision A.5.1 of Corporate Governance Code to the Listing Rules which requires the majority of the Nomination Committee to be Independent Non-executive Directors.

Following the appointment of Mr. JIANG Shoulei as an Independent Non-executive Director and the membes of the Audit and Risk Management Committee, the Nomination Committee and the Remuneration Committee with effect from 7 August 2017, the Company fully complies with the requirements under Listing Rules 3.25 and code provision A.5.1 of the Governance Code to the Listing Rules.

The Company has received from each Independent Non-Executive Director a confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in Rule 3.13 of the Listing Rules.

NOMINATION AND APPOINTMENT OF DIRECTORS

Pursuant to the PRC company law and the Articles of Association, Directors shall be elected at the Company's general meetings each for a term of three years and upon expiry of their term, may offer themselves for re-election.

To comply strictly with this statutory requirement and safeguard the shareholders' right in this respect, during the Reporting Period, the Company convened an annual general meeting on 16 May 2017, for the purpose of, among other matters, electing Dr. HONG Feng as an Executive Director for the fifth session of the Board to fill the vacancy caused by the resignation of Dr. WANG Qingyu. The Company convened an Extraordinary General Meeting on 7 August 2017, for the purpose of, among other matters, electing Mr. YUAN Yipei as an Non-executive Director for the fifth session of the Board to fill the vacancy caused by the resignation of Mr. Steven Daryl FREZON and electing Mr. JIANG Shoulei as an Independent Non-executive Director for the fifth session of the Board to fill the vacancy caused by the resignation of Mr. Jesse Bright Riggs PARKER JR. The Company convened an extraordinary general meeting on 12 March 2018, for the purpose of, among other matters, electing Mr. XU Ding as an Non-executive Director for the fifth session of the Board to fill the vacancy caused by the resignation of Ms. SHEN Qing.

The Company has established a Nomination Committee. Pursuant to the terms of reference of the Nomination Committee, the Nomination Committee is responsible for studying the selection criteria and procedure for the nomination of Directors and senior management; evaluating the suitability of candidates; and making relevant proposals to the Board. Please refer to the section entitled "Nomination Committee" for the details of the functions of the committee.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

During the year ended 31 December 2017 and up to the date of this annual report, the post of the Chairman of the Board was held by Mr. ZHU Jian and the post of the CEO (as head of the executive management) was held by Dr. HONG Feng (appointed with effect from 6 February 2017). The segregation of the roles of the Chairman and the CEO ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company's business. The respective responsibilities of the Chairman and the CEO are set out in the Articles of Association.

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Directors of the Company has been appointed for a term of no more than three years and is subject to re-election or removal at the Company's general meetings in accordance with the Articles of Association of the Company.

SHAREHOLDERS' GENERAL MEETINGS

The table below sets out the details of general meetings (annual general meeting and extraordinary general meetings) attendance of each Director during the Reporting Period.

Directors	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy
Executive Director			
Dr. HONG Feng *(appointed with effect from 16 May 2017)*	1	1	0
Non-executive Directors			
Mr. ZHU Jian	2	2	0
Mr. David Damian FRENCH	2	0	0
Ms. SHEN Qing *(resigned with effect from 10 January 2018)*	2	2	0
Mr. Steven Daryl FREZON *(resigned with effect from 10 June 2017)*	1	0	0
Mr. KANG Hui	2	0	0
Mr. YUAN Yipei *(appointed with effect from 7 August 2017)*	1	1	0
Mr. LU Ning	2	0	0
Independent Non-executive Directors			
Mr. Jesse Bright Riggs PARKER JR. *(resigned with effect from 20 June 2017)*	1	1	0
Dr. CHEN Enhua	2	2	0
Mr. JIANG Shoulei *(appointed with effect from 7 August 2017)*	0	0	0
Dr. JIANG Qingtang	2	1	0
Mr. PU Hanhu	2	0	0

BOARD MEETINGS

The table below sets out the details of Board meeting attendance of each Director during the Reporting Period.

Directors	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy
Executive Director			
Dr. HONG Feng *(appointed with effect from 16 May 2017)*	3	3	0
Non-executive Directors			
Mr. ZHU Jian	4	4	0
Mr. David Damian FRENCH	4	4	0
Ms. SHEN Qing *(resigned with effect from 10 January 2018)*	4	3	1
Mr. Steven Daryl FREZON *(resigned with effect from 10 June 2017)*	2	1	1
Mr. KANG Hui	4	3	1
Mr. YUAN Yipei *(appointed with effect from 7 August 2017)*	2	2	0
Mr. LU Ning	4	4	0
Independent Non-executive Directors			
Mr. Jesse Bright Riggs PARKER JR. *(resigned with effect from 20 June 2017)*	2	2	0
Dr. CHEN Enhua	4	4	0
Mr. JIANG Shoulei *(appointed with effect from 7 August 2017)*	2	2	0
Dr. JIANG Qingtang	4	4	0
Mr. PU Hanhu	4	4	0

BOARD COMMITTEES

The Board has appointed four Board committees, namely, the Audit and Risk Management Committee, the Remuneration Committee, the Nomination Committee and the Strategic Development Committee, to oversee particular aspects of the Company's affairs.

Audit and Risk Management Committee

Membership

The Audit and Risk Management Committee currently comprises five members, including two Non-executive Directors and three Independent Non-executive Directors. The members of the Audit and Risk Management Committee are Dr. CHEN Enhua, Mr. XU Ding (appointed as member with effect from 12 March 2018), Mr. YUAN Yipei (appointed as member with effect from 7 August 2017), Mr. JIANG Shoulei (appointed as member with effect from 7 August 2017) and Dr. JIANG Qingtang. Dr. CHEN Enhua serves as the chairman of the Audit and Risk Management Committee, he has appropriate professional qualifications and experience in financial matters. Mr. Steven Daryl FREZON ceased to be a member of the Audit and Risk Management Committee with effect from 10 June 2017. Mr. Jesse Bright Riggs PARKER JR. ceased to be a member of the Audit and Risk Management Committee with effect from 20 June 2017. Ms. SHEN Qing ceased to be a member of the Audit and Risk Management Committee with effect from 10 January 2018.

Role and Function

The terms of reference of the Audit and Risk Management Committee are aligned with those set out in code provision C.3.3 of the Governance Code, including monitoring of the Company's relationship with its external auditor, review of financial information of the Company and oversight of the Company's financial reporting system, risk management and internal control systems. The detailed terms of reference are disclosed on the Stock Exchange's website and the Company's website.

It is the practice of the Audit and Risk Management Committee to meet in person immediately preceding each of the meetings of the full Board scheduled to consider and approve financial results. Special meetings may be called at the discretion of the chairman of the Audit and Risk Management Committee to review significant control or financial issues.

Work

During the Reporting Period, the Audit and Risk Management Committee met on four occasions and discharged its responsibilities in its review of the Company's financial information, risk management and internal control systems, and its other duties as set out in its terms of reference. The work performed by the Audit and Risk Management Committee included, amongst other things:

(1) Review of the Company's financial results, respectively, for the year ended 31 December 2016, for the three months ended 31 March 2017, for the six months ended 30 June 2017 and for the nine months ended 30 September 2017, with recommendations to the Board for approval;

(2) Review of presentations and management letters from the Company's external auditor concerning matters arising from their audit or review of the financial results for the respective financial periods;

(3) Review of reports from the management (including the internal audit department) concerning finance matters, internal control, risk management and compliance; and

(4) Review of reports from the management concerning the 2017 Sustainability Report.

Meeting

The table below sets out the details of meeting attendance of each member of the Audit and Risk Management Committee during the Reporting Period.

Directors	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy
Dr. CHEN Enhua	4	4	0
Ms. SHEN Qing *(resigned with effect from 10 January 2018)*	4	2	2
Mr. Steven Daryl FREZON *(resigned with effect from 10 June 2017)*	2	1	1
Mr. YUAN Yipei *(appointed with effect from 7 August 2017)*	2	2	0
Mr. Jesse Bright Riggs PARKER JR. *(resigned with effect from 20 June 2017)*	2	2	0
Mr. JIANG Shoulei *(appointed with effect from 7 August 2017)*	2	2	0
Dr. JIANG Qingtang	4	4	0

Remuneration Committee

Membership

The Remuneration Committee currently comprises three members, including one Non-executive Director and two Independent Non-executive Directors. The members of the Remuneration Committee are Mr. PU Hanhu, Mr. KANG Hui and Mr. JIANG Shoulei (appointed as member with effect from 7 August 2017). Mr. PU Hanhu serves as the chairman of the Remuneration Committee. Mr. Jesse Bright Riggs PARKER JR. ceased to be a member of the Remuneration Committee with effect from 20 June 2017.

Role and Function

The terms of reference of the Remuneration Committee are aligned with those set out in code provision B.1.2 of the Governance Code, including making recommendations on the Company's policy and structure for remuneration of the Directors, Supervisors and management, determining specific remuneration packages of the senior officers, and reviewing and approving performance-based remuneration by reference to corporate goals and objectives. The detailed terms of reference are disclosed on the websites of the Stock Exchange and the Company.

Work

During the Reporting Period, the Remuneration Committee held four meetings and performed, amongst other things, the following work:

(1) Review and approval of the year 2016 management bonuses for senior officers of the Company;

(2) Review and approval of remuneration arrangement for a resigned senior officer of the Company;

(3) Review and approval of the year 2017 operation performance target for senior officers of the Company; and

(4) Review and approval of the employment service contract and remuneration package of a senior officer of the Company.

Meeting

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the Reporting Period.

Directors	Number of meetings requiring attendance	Number of meetings attended in person or by way of correspondence	Number of meetings attended by proxy
Mr. PU Hanhu *(Chairman)*	4	4	0
Mr. KANG Hui	4	4	0
Mr. Jesse Bright Riggs PARKER JR. *(resigned with effect from 20 June 2017)*	2	2	0
Mr. JIANG Shoulei *(appointed with effect from 7 August 2017)*	2	2	0

Nomination Committee

Membership

The Nomination Committee currently comprises five members, including two Non-executive Directors and three Independent Non-executive Directors. The members of the Nomination Committee are Mr. ZHU Jian, Mr. YUAN Yipei (appointed as member with effect from 7 August 2017), Mr. JIANG Shoulei (appointed as member with effect from 7 August 2017), Dr. CHEN Enhua and Mr. PU Hanhu. Mr. ZHU Jian serves as the chairman of the Nomination Committee. Mr. David Damian FRENCH ceased to be a member of the Nomination Committee with effect from 7 August 2017. Mr. Jesse Bright Riggs PARKER JR. ceased to be a member of the Nomination Committee with effect from 20 June 2017.

Role and Function

The terms of reference of the Nomination Committee are aligned with those set out in code provision A.5.2 of the Governance Code, including studying the selection criteria and procedure for the nomination of Directors and senior management and making proposals to the Board; establishing proper succession plans for Directors and senior management and regularly reviewing the plans to meet the needs of the Company; as well as evaluating the suitability of candidates for Directors and senior management and making proposals to the Board. The detailed terms of reference are disclosed on the Stock Exchange's website and the Company's website.

Work

During the Reporting Period, the Nomination Committee held four meetings and performed, amongst other things, the following work:

(1) Review and making recommendation of the candidates for Directors for the fifth session of the Board to the Board;

(2) Review and evaluation of selection criteria for senior officer; and

(3) Review and evaluation of candidates for senior officer and make recommendations to the Board.

Meeting

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the Reporting Period.

Directors	Number of meetings requiring attendance	Number of meetings attended in person or by way of correspondence	Number of meetings attended by proxy
Mr. ZHU Jian *(Chairman)*	4	4	0
Mr. David Damian FRENCH *(resigned with effect from 7 August 2017)*	1	1	0
Mr. YUAN Yipei *(appointed with effect from 7 August 2017)*	3	2	1
Mr. Jesse Bright Riggs PARKER JR. *(resigned with effect from 20 June 2017)*	0	0	0
Mr. JIANG Shoulei *(appointed with effect from 7 August 2017)*	3	3	0
Dr. CHEN Enhua	4	4	0
Mr. PU Hanhu	4	4	0

Strategic Development Committee

Membership

The Strategic Development Committee currently comprises five members, including four Non-executive Directors and one Independent Non-executive Director. The members of the Strategic Development Committee are Mr. LU Ning, Mr. David Damian FRENCH, Mr. XU Ding (appointed as member with effect from 12 March 2018), Mr. KANG Hui and Dr. JIANG Qingtang. Mr. LU Ning serves as the chairman of the Strategic Development Committee. Ms. SHEN Qing ceased to be a member of the Strategic Development Committee with effect from 10 January 2018.

Role and Function

The terms of reference of the Strategic Development Committee have been formulated under the authorization of the Board, including studying and reviewing the Company's proposals on major projects such as investment, capital deployment, operation of assets and financing plans and providing opinions thereon which shall be approved by the Board in accordance with the Articles of Association of the Company; investigating, studying and reviewing the Company's long-term development strategy; and providing proposals on major issues that will affect the Company's development. The detailed terms of reference are disclosed on the Stock Exchange's website and the Company's website.

Work

During the Reporting Period, the Strategic Development Committee held two meetings and performed, amongst other things, the following work:

(1) Review and consideration of its near-term business strategies and future development direction; and

(2) Review and consideration of its long-term business strategies in conjunction with the policy and capital support at both the state and local government levels for the development of semiconductor industry in the domestic market.

Meeting

The table below sets out the details of meeting attendance of each member of the Strategic Development Committee during the Reporting Period.

Directors	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy
Mr. LU Ning *(Chairman)*	2	2	0
Mr. David Damian FRENCH	2	2	0
Ms. SHEN Qing *(resigned with effect from 10 January 2018)*	2	2	0
Mr. KANG Hui	2	1	1
Dr. JIANG Qingtang	2	2	0

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for ensuring that the Company establishes good corporate governance practices and procedures. The Company developed the terms of reference for the Board on corporate governance function which are aligned with those set out in code provision D.3.1 of the Governance Code, including developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors. The detailed terms of reference are disclosed on the Stock Exchange's website and the Company's website. During the Reporting Period, the Board had performed the duties under D.3.1 of the Governance Code on corporate governance functions, including executing its Board Diversity Policy to align with the code provision A.5.6 of the Governance Code.

BOARD DIVERSITY POLICY

In December 2013, the Board adopted a board diversity policy with its summary as follows:

The Company commits to selecting the best candidates to serve as members of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

Pursuant to the Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, the Company has provided an induction programme to newly appointed Directors after their respective appointments. The Company has provided regular briefings and updates to the Directors on the Company's business, operations, risk management and corporate governance matters, and it has also provided written training materials to the Directors on the latest developments of the Listing Rules, applicable laws, rules and regulations relating to Directors' duties and responsibilities (the "Trainings") from time to time.

All Directors of the Company namely, Dr. HONG Feng (appointed with effect from16 May 2017), Mr. ZHU Jian, Mr. David Damian FRENCH, Ms. SHEN Qing (resigned with effect from 10 January 2018), Mr. Steven Daryl FREZON (resigned with effect from 10 June 2017), Mr. KANG Hui, Mr. YUAN Yipei (appointed with effect from 7 August 2017), Mr. LU Ning, Mr. Jesse Bright Riggs PARKER JR. (resigned with effect from 20 June 2017), Dr. CHEN Enhua, Mr. JIANG Shoulei (appointed with effect from 7 August 2017), Dr. JIANG Qingtang and Mr. PU Hanhu have received the Trainings during the Reporting Period and the Company has also requested all Directors of the Company to provide the Company with their respective training records in relation to any relevant training each of them has received during the Reporting Period pursuant to the Governance Code.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

A Pursuant to Article 80 of the Articles of Association, Shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures:

(a) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more counterpart requisitions stating the object of the meeting and requiring the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof. The Board shall as soon as possible proceed to convene the extraordinary general meeting of shareholders or a class meeting thereof after receipt of such requisition(s). The amount of shareholdings referred to above shall be calculated as at the date of deposit of the requisition(s).

(b) If the Board fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the requisitionists may themselves convene such a meeting (in a manner as similar as possible to the manner in which shareholders' meetings are convened by the Board) within four (4) months from the date of receipt of the requisition(s) by the Board.

B Any reasonable expenses incurred by the requisitionists by reason of failure by the Board to duly convene a meeting shall be repaid to the requisitionists by the Company and any sum so repaid shall be set-off against sums owed by the Company to the defaulting directors.

C The objects of the meeting must be stated in the related requisition deposited at the registered office of the Company.

Procedures for Proposing Resolutions to the Agenda of General Meetings

A Pursuant to Article 60 of the Articles of Association, Shareholder(s) holding in aggregate 3% or above of the total issued share capital of the Company shall in writing propose resolutions to the agenda of the general meetings to the convener of the general meetings 10 days before the date of the general meetings.

B The convener shall despatch a circular and announcement setting out the proposed resolutions to all the Shareholders within two days after the date on which the written proposal is received by the convener and shall place the proposed resolutions on the agenda for such general meeting for Shareholders' consideration.

Shareholders' Enquiries to the Board

Shareholders may at any time make enquiry to the Board or make request for the Company's information to the extent such information is publicly available, through the following contact information:

Contact person:	The Company Secretary
Place of business in the PRC:	385 Hong Cao Road, Shanghai 200233, the PRC
Tel:	+86 (21) 6485 1900
Fax:	+86 (21) 6485 3925
Email:	ir@asmc.com.cn

AMENDMENT TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, there has been no change to the Articles of Association.

COMPANY SECRETARY

Mr. XIAO Weiming ("Mr. XIAO"), the company secretary, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

During the year ended 31 December 2017, Mr. XIAO has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

EXTERNAL AUDITORS' REMUNERATION

The Company's external auditor is Ernst & Young. During the Reporting Period, total remuneration paid or payable to Ernst & Young related its audit services and non-audit services was as follows.

Audit services	RMB1,422,000
Non-audit services	RMB200,000

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that a sound and effective risk management and internal control system is maintained, as well as maintains timely and effective communication with the management team in terms of the progress and achievements of relevant works. The internal control system includes a defined management structure with specified limits of authority, to achieve business objectives and safeguard assets against unauthorized use or disposition; to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and to ensure compliance with the Listing Rules, the relevant legislations and regulations.

The Board, aided by the management team, managed to identify, assess and control the risks and their changes the Company encountered. Having identified and assessed the Company's significant risks, the management designed corresponding strategy and implemented relevant measures, to mitigate and monitor potential impairments on the Company from those significant risks. In addition, the management designed risk management and internal control system to ensure effectiveness and continuity of relevant works.

The system is designed to provide reasonable, but not absolute assurance against material misstatement or loss, to manage rather than eliminate risks of failure in operational systems, and to ensure achievement of the Company's objectives.

Internal Control Framework

The Company operates within an established framework of internal controls, which is consistent with the principles outlined in the Committee of Sponsoring Organisations of the Treadway Commission (the COSO) framework and encompasses five inter-related components, including control environment, risk assessment, control activities, information and communication, and monitoring. The internal control framework also serves as criteria for the effectiveness of the internal control system in supporting the achievement of objectives in the three separate but overlapping areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

Under our framework, the management is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board and its Audit and Risk Management Committee oversee the actions of the management and monitor the effectiveness of the controls that have been put in place.

Risk Management System

The Company has developed a series of procedures to ensure the upgrade and consolidation of risk management system, including:

- Reviewing the structure of the Company's risk management system, amending Procedure of Risk Management and Internal Control, establishing standard procedures in terms of risk identification, risk assessment, risk strategy, countermeasures and supervision, as well as risk management report;
- The Company frequently communicates with owners of risk management procedure and owners of internal control procedure, requests quarterly reports from those owners on the summary of events with potential risks so as to timely update countermeasures, identify emerging risks, as well as avoid deficiency in relative countermeasures and internal controls;
- The management regularly monitors and supervises the execution of countermeasures of risks according to Procedure of Risk Management and Internal Control and judges whether the countermeasures to mitigate and control risks are fully implemented as expected based on the achievement of the target of Key Risk Indicator ("KRI");
- Owners of risk management provide quarterly report to the Audit and Risk Management Committee on the basis of the reporting templates.

(Paragraphs 1 to 4 above are referred to as the "Effectiveness Review Processes").

General Business Principles and Code of Conduct

The Board has adopted a set of "General Business Principles" and a "Code of Conduct" for employees. Amongst other things, the Code of Conduct requires employees to keep inside information in strict confidence, refrain from accepting personal benefits through the power or authority derived from their position, and restriction of unauthorized transfer of confidential information. The Company gives frequent orientation and refreshing trainings on the "General Business Principles" and "Code of Conduct" to all employees, and requires all employees above certain grades to certify their compliance therewith annually.

In respect of the Code of Conduct, the Company has established and improved procedures for handling employees' complaints and alerts of wrongdoings. Complaints may be submitted on an anonymous basis. Such complaints should normally be reported or directed to the Internal Audit Manager and, in the event of involvement of any member of senior management, to the Audit and Risk Management Committee directly. Any employee who reports a breach (or alleged breach) by another employee of the Code of Conduct in good faith will be protected from retaliation.

The Role of the Audit and Risk Management Committee

The Audit and Risk Management Committee, primarily through the agency of the internal audit department, is responsible for ensuring the existence and effectiveness of internal controls and discharges its responsibilities mainly by receiving and reviewing periodic reports from the external auditor, the financial management, internal auditor, owners of risk management and compliance officer.

The Role of the Internal Audit Department

The Company has established an internal audit department and relative policies and procedures, and executed daily internal audit tasks accordingly. It plays an important role in monitoring the internal governance and risk management of the Company. It accesses without restriction to review all aspects of the Company's activities, records, information and assets which it considers necessary to fulfill its responsibilities. Its main tasks include:

- review the effectiveness and efficiency of material internal controls and risk management by using the Effectiveness Review Processes on a regular basis to ensure that the internal controls are carried out appropriately and function as intended;
- conduct special reviews on areas of concern identified by the management or the Audit and Risk Management Committee; and
- provide the Audit and Risk Management Committee with its audit findings and recommendations for improving the internal control system of the Company.

The department also conducts special investigations in relation to the violations of the Company's General Business Principles and Code of Conduct. Any breaches identified are appropriately disciplined together with corrective actions taken by the management, and reported to the Audit and Risk Management Committee.

The internal audit manager reports directly to the Audit and Risk Management Committee on audit matters and to the Chief Executive Officer of the Company on administrative matters. The internal audit manager has the right to consult the Audit and Risk Management Committee without reference to the management.

Review of System of Risk Management and Internal Controls

The internal audit department prepares its internal audit plan annually, which is mainly based on the annual risk assessment and reviewed by the Audit and Risk Management Committee and the Board. Additionally, the internal audit department communicates with the owners and coordinators of risk management to review the monitoring report on the implementation of risk management countermeasures for the previous year.

During the Reporting Period and up to the date of this annual report, the internal audit department conducted reviews of internal control systems, both at the entity level and also the various processes/transactions levels, and issued quarterly reports to the Audit and Risk Management Committee and the Board and management for the findings observed.

The Audit and Risk Management Committee and the Board, primarily through the agency of the internal audit department, conducted a review of the internal controls annually, as well as provided comments on the risk management report from owners of risk management, reviewed the risk management system to ensure that the controls in place are appropriate, effective and sufficient, as well as identified any significant control failings or weakness (if any) and the extent to which they have resulted in underseen outcomes or contingencies that have had, could have had or may in the future have, a material impact on the Company's financial performance or condition and the effectiveness of the Company's processes for financial reporting and Listing Rules Compliance. The Audit and Risk Management Committee and the Board also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

Conclusion

Management, aided by the internal audit department, is working continually to ensure that clear, practical and effective internal controls are in place throughout the Company's business operations, to identify and correct any perceived deficiencies and to monitor and enforce compliance with those controls. Management, aided by owners and coordinators of risk management, is working continually to ensure that clear, practical and effective risk management system is in place, to help identify, assess and control the risks the Company has encountered, as well as monitor and supervise the implementation of risk management countermeasures.

The Board supports the actions of management and owners of risk management, in cooperation with the internal audit department, in enhancing the Company's system of risk management and internal controls throughout its business. During the Reporting Period and up to date of this annual report, the Board is not aware of any material adverse effect on the Company resulting from any inadequacy of risk management countermeasures and internal controls or any failure in their observance and considers the risk management countermeasures and internal controls to be effective and adequate.

Report of the Supervisory Committee

During the year ended 31 December 2017, all members of the Supervisory Committee discharged their duties in compliance with the applicable requirements of the Company Law of the PRC, the Securities Law of the PRC, the Listing Rules, and the Articles of Association and proactively protected the interests of the Company and its Shareholders.

The Supervisors of the Supervisory Committee during the year ended 31 December 2017 and up to the date of this annual report were:

Shareholders Representative Supervisors

Mr. Eric WANG, Chairman (resigned with effect from 10 June 2017)
Mr. ZHANG Yan, Chairman (appointed with effect from 7 August 2017)
Mr. SUN Biyuan
Mr. DAI Kun
Ms. CHEN Yan (resigned with effect from 10 January 2018)
Ms. XU Yan (appointed with effect from 12 March 2018)
Mr. ZHOU Chengjie

Employee Representative Supervisors

Mr. QIN Shihui
Mr. HE Yaojun (resigned with effect from 9 January 2018)
Mr. MIAO Kang
Ms. WANG Haihong (appointed with effect from 12 March 2018)

Changes in Information of Supervisors

Pursuant to Rule 13.51B of the Listing Rules, the changes in Supervisors' information are set out below.

Mr. Eric WANG resigned as a Shareholders Representative Supervisor and the Chairman for the fifth session of the Supervisory Committee with effect from 10 June 2017.

Mr. ZHANG Yan has been appointed as a Shareholders Representative Supervisor and the Chairman for the fifth session of the Supervisory Committee at the Extraordinary General Meeting held on 7 August 2017 (with a term of office from 7 August 2017 to 1 March 2019).

Mr. HE Yaojun resigned as an Employee Representative Supervisor for the fifth session of the Supervisory Committee with effect from 9 January 2018.

Ms. CHEN Yan resigned as a Shareholders Representative Supervisor for the fifth session of the Supervisory Committee with effect from 10 January 2018.

Ms. XU Yan has been appointed as a Shareholders Representative Supervisor for the fifth session of the Supervisory Committee at the Extraordinary General Meeting held on 12 March 2018 (with a term of office from 12 March 2018 to 1 March 2019).

Report of the Supervisory Committee

Ms. WANG Haihong was democratically elected as the Employee Representative Supervisor for the fifth session of the Supervisory Committee at the staff representative meeting of the Company on 30 January 2018 (with a term of office from 12 March 2018 to 1 March 2019).

During the year ended 31 December 2017, the Supervisory Committee held two meetings as follows:

At the third meeting of the fifth session of the Supervisory Committee held on 15 March 2017, the Supervisory Committee reviewed and approved the audited financial statements for the year ended 31 December 2016 prepared in accordance with IFRS and PRC GAAP, the preliminary results announcement and annual report (including the Report of the Supervisory Committee) for the year ended 31 December 2016, the profit distribution proposal for the year ended 31 December 2016, and the proposed appointment and terms of engagement of the Company's PRC and international auditor for 2017.

At the fourth meeting of the fifth session of the Supervisory Committee held on 9 August 2017, the Supervisory Committee reviewed and approved the financial statements, the preliminary results announcement and interim report for the six months ended 30 June 2017.

The independent opinions of the Supervisory Committee on its work during the year ended 31 December 2017 are summarized as follows:

1. The Supervisory Committee reviewed the Company's financial statements and interim report for the six months ended 30 June 2017 and financial statements and annual report for the year ended 31 December 2016 and is of the view that they were true and reliable and that the external auditor engaged by the Company gave objective and fair opinions on the financial statements.

2. The Supervisory Committee oversaw the annual assessment by the Audit and Risk Management Committee of the Company's systems of risk management and internal control and is of the view that it is effective and adequate.

3. The Supervisory Committee monitored the discharge of duties by the Directors and managers of the Company and is of the view that during the year ended 31 December 2017, all the Directors and managers had diligently and faithfully discharged their duties under the Articles of Association, worked towards maximising the interests of the Shareholders and the Company, and dedicated to promoting the development of the Company. The Supervisory Committee was not aware of any act of the Directors or managers during their discharge of duties that were in contradiction to the laws or regulations of the PRC or the Articles of Association or detrimental to the interests of Shareholders.

BY ORDER OF THE SUPERVISORY COMMITTEE

ZHANG Yan
Chairman

Shanghai, the PRC
14 March 2018

Independent Auditor's Report

EY安永

To the members of
Advanced Semiconductor Manufacturing Corporation Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the financial statements of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") set out on pages 74 to 128, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Net realisable value of inventories	
The Company measures inventories at the lower of cost and net realisable value. As at 31 December 2017, the total inventory amounted to RMB160 million, which represented 12% of the total assets. The Company's inventories may have a net realisable value below cost due to obsolete and slow-moving items caused by technology changes and upgrade. The calculation of net realisable values involves significant management estimates related to forecast inventory usage, price discounting and scrap values. Please refer to notes 2.4 and 3 to the financial statements for summary of accounting policies and judgements relating to inventory provision, and note 18 to the financial statements for disclosures relating to inventories for the Company.	Our audit procedures included reviewing the basis for the calculation of the net realisable value of inventory, assessing the consistency of provisioning policy applied and the rationale for the recording of inventory write-down. We also tested the underlying data used by management to identify and quantify obsolete and slow-moving inventory, including testing the ageing calculation, comparing management's estimation against historical usage, recalculating the provision for a sample of inventories and reviewing subsequent developments after the balance sheet date.
Revenue recognition	
The Company is principally engaged in the manufacturing and sales of silicon wafers products. The Company's revenue amounted to RMB1,013 million during the year ended 31 December 2017. The terms of the Company's sales agreements with different customers may differ, which affects the basis for revenue recognition. Given the significant amount and volume of transactions and the risk of overstatement of revenue, we considered it a key audit matter. Please refer to note 2.4 to the financial statements for summary of accounting policies relating to revenue recognition, and notes 4 and 5 to the financial statements for disclosures relating to revenue for the Company.	Our audit procedures included evaluating the Company's revenue recognition policy, and understanding the basis of revenue recognition and the overall transaction process and procedures adopted by the management. Based on our understanding of the sales transaction process, we tested relevant internal controls relating to the process to substantiate our reliance on internal controls over the revenue transactions cycle. We have performed analytical procedures on the Company's revenue by key customers, by major categories of products and by quarters to identify any significant fluctuations. We have performed revenue cut-off procedures as well as test of details on a sampling basis as part of our substantive audit procedures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the Company are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit and Risk Management Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong

14 March 2018

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	5	**1,013,296**	796,137
Cost of sales		**(855,705)**	(686,541)
Gross profit		**157,591**	109,596
Other income and gains	6	**19,062**	30,433
Selling and distribution expenses		**(7,732)**	(7,680)
General and administrative expenses		**(74,383)**	(63,180)
Research and development costs		**(27,057)**	(36,745)
Other expenses	6	**(14,108)**	—
Finance costs	7	**—**	(14)
Profit before tax	7	**53,373**	32,410
Income tax	10	**3,600**	—
Profit for the year		**56,973**	32,410
Other comprehensive income for the year		**—**	—
Total comprehensive income for the year attributable to ordinary equity holders of the Company		**56,973**	32,410
Earnings per share attributable to ordinary equity holders of the Company – Basic and diluted	12	**3.71 cents**	2.11 cents

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

The accompanying notes form an integral part of the financial statements.

Statement of Financial Position

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment	13	**348,140**	350,538
Construction in progress	14	**54,603**	41,118
Prepaid land lease payments	15	**27,385**	28,155
Intangible assets	16	**950**	2,473
Deferred tax assets	26	**3,600**	—
Total non-current assets		**434,678**	422,284
Current assets			
Inventories	18	**160,032**	132,899
Accounts and notes receivables	19	**124,672**	102,666
Prepayments, deposits and other receivables	20	**12,350**	16,693
Due from related companies	21	**—**	16,465
Cash and cash equivalents	22	**568,836**	509,355
Total current assets		**865,890**	778,078
Total assets		**1,300,568**	1,200,362
Current liabilities			
Accounts payable	23	**162,215**	132,921
Other payables and accruals		**82,261**	61,023
Due to related companies	21	**—**	733
Government grants	24	**1,240**	2,371
Interest-bearing bank borrowings	25	**—**	11,335
Total current liabilities		**245,716**	208,383
Net current assets		**620,174**	569,695
Total assets less current liabilities		**1,054,852**	991,979

Statement of Financial Position

31 December 2017

	Notes	**31 December 2017 RMB'000**	31 December 2016 RMB'000
Non-current liabilities			
Government grants	24	**20,198**	14,298
Net assets		**1,034,654**	977,681
Equity attributable to equity holders of the Company			
Share capital	27	**1,534,227**	1,534,227
Reserves	28	**(499,573)**	(556,546)
Total equity		**1,034,654**	977,681

Zhu Jian
Director

Chen Enhua
Director

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Share capital	27		
Ordinary shares of RMB1.00 each:			
At beginning and end of year		**1,534,227**	1,534,227
Capital reserve	28 (a)		
At beginning and end of year		**205,363**	205,363
Statutory surplus reserve	28 (b)		
At beginning and end of year		**19,353**	19,353
Accumulated losses	28 (c)		
At beginning of year		**(781,262)**	(813,672)
Total comprehensive income for the year		**56,973**	32,410
At end of year		**(724,289)**	(781,262)
Reserves		**(499,573)**	(556,546)
Total equity attributable to equity holders of the Company		**1,034,654**	977,681

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Profit before tax		**53,373**	32,410
Adjustments for:			
Depreciation	7	**77,861**	67,926
Amortisation of intangible assets	7	**1,523**	2,208
Loss/(gain) on disposal of items of property, plant and equipment		**188**	(1,080)
Amortisation of prepaid land lease payments	7	**770**	770
Reversal of impairment for doubtful debts	7	**—**	(1)
Reversal of write-down of inventories to net realisable value	7	**(3,214)**	(1,111)
Finance costs	7	**—**	14
Exchange loss/(gain)		**11,684**	(12,847)
Government grants		**(2,505)**	(4,357)
Interest income		**(7,886)**	(8,198)
Operating profit before working capital changes		**131,794**	75,734
Increase in accounts and notes receivables		**(22,006)**	(32,121)
Increase in inventories		**(23,919)**	(32,581)
Decrease/(increase) in prepayments, deposits and other receivables		**4,184**	(4,891)
Decrease/(increase) in balances with related companies		**15,732**	(7,202)
Increase in accounts payable		**28,855**	32,516
Increase in other payables and accruals		**21,238**	1,550
Cash generated from operations		**155,878**	33,005
Interest paid		**—**	(14)
Interest received		**8,045**	9,180
Government grants received		**7,274**	1,351
Net cash flows from operating activities		**171,197**	43,522

Statement of Cash Flows

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		**—**	1,080
Purchases of items of property, plant and equipment, construction in progress and intangible assets		**(88,697)**	(94,276)
Decrease/(increase) in non-pledged time deposits with original maturity of over three months when acquired		**7,199**	(31,615)
Net cash flows used in investing activities		**(81,498)**	(124,811)
Cash flows from financing activities			
New bank borrowings		**—**	11,335
Repayment of bank borrowings		**(11,335)**	—
Net cash flows from/(used in) financing activities		**(11,335)**	11,335
Net increase/(decrease) in cash and cash equivalents		**78,364**	(69,954)
Cash and cash equivalents at beginning of year		**144,142**	201,249
Effect of exchange rate changes on cash and cash equivalents		**(11,684)**	12,847
Cash and cash equivalents at end of year		**210,822**	144,142
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the statement of cash flows		**210,822**	144,142
Cash and bank balances	22	**210,822**	144,142
Non-pledged time deposits with original maturity of over three months when acquired	22	**358,014**	365,213
Cash and cash equivalents as stated in the statement of financial position		**568,836**	509,355
Investing activities affecting both cash and non-cash items			
Addition of items of property, plant and equipment, construction in progress and intangible assets		**(89,136)**	(110,856)
Increase in the balance of payables for purchases of items of property, plant and equipment, construction in progress and intangible assets		**439**	10,848
Receipt of government grants for property, plant and equipment		**—**	5,732
Cash flows used in purchases of items of property, plant and equipment, construction in progress and intangible assets		**(88,697)**	(94,276)

The accompanying notes form an integral part of the financial statements.

Notes to Financial Statements

31 December 2017

1. CORPORATE INFORMATION

Advanced Semiconductor Manufacturing Corporation Limited (the "Company") was initially established in the People's Republic of China (the "PRC") on 4 October 1988 as a Sino-foreign joint venture company with limited liability under the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment with a tenure of operation of 30 years from 4 October 1988 to 3 October 2018.

On 2 March 2004, the Company was re-registered as a foreign invested joint stock company with limited liability. The tenure of operation of the Company was revised to infinite. On 7 April 2006, the Company's H-shares were successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The registered office and principal place of business of the Company is located at 385 Hongcao Road, Shanghai 200233, the PRC.

The Company is principally engaged in the manufacture and sale of 5-inch, 6-inch and 8-inch silicon wafers.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Interpretations of the Standing Interpretation Committee approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention. The financial statements are prepared in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise stated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following revised IFRSs for the first time for the current year's financial statements:

- Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative;*
- Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses;*
- Annual Improvements 2014-2016 Cycle.

The nature and the impact of each amendment is described below:

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period in Note 17.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company applied amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements 2014-2016 Cycle

Amendments to IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As at 31 December 2017, the Company had no interest that was classified as held for sale. These amendments did not affect the Company's financial statements.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity.

(a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

Cash deposits, notes receivable and trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE *(continued)*

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2017, the Company performed a detailed analysis of IFRS 15. Application of the standard is not expected to have any impact on the Company.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its financial statements.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE *(continued)*

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

IFRS 17 *Insurance Contracts*

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. As the Company is not an insurer, this standard is not applicable to the Company.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. As the Company has no investment property, these amendments are not applicable to the Company.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE *(continued)*

Annual Improvements 2014-2016 Cycle

These improvements include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Company.

IAS 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Company.

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17. As the Company is not an insurer, this standard is not applicable to the Company.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE *(continued)*

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation;

or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Company 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 Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Company 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 Company 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 Company or an entity related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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 Company. 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 Company 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 categorised 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 Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses.

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 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 Company recognises such parts as individual assets with specific useful lives and depreciation.

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 the property, plant and equipment are as follows:

Buildings	30 years
Plant and machinery	5-10 years
Office equipment	5 years
Motor vehicles	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 on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction in progress

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which is stated at cost less accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of purchase, construction, installation and testing, and capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

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 as 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.

Software

Software is stated at cost less any impairment losses and is amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to ten years, commencing from the date when the products are put into commercial production.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Company 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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. In determining fair value less costs of disposal, an appropriate valuation model is used. An impairment loss is charged to profit or loss in the period in which it arises.

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 profit or loss in the period in which it arises.

Operating 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 Company is the lessee, rentals payable under operating leases are charged to 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, 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 Company commits to purchase or sell the assets. 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.

The Company's financial assets include cash and bank balances, accounts and notes receivables and other receivables and amounts due from related companies.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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 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 includes 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 profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expense for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement in the asset. In that case, the Company 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 Company has retained.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in 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 and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net off directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, amounts due to related companies and interest-bearing bank borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method 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 profit or loss.

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 a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is 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 based on the estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, 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 Company'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, which are not restricted as to use.

Provisions

A provision 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 embodying economic benefits 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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the 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 where the deferred tax liability arises from goodwill or 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary differences 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.

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 utilised. 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 and only if the Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company 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 services have been rendered; and

(c) 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.

EMPLOYEE BENEFITS

Pension scheme

The employees of the Company which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Company is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises restructuring costs involving the payment of termination benefits.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency transactions

The functional and presentation currency of the Company is RMB.

Foreign currency transactions recorded by the Company are initially recorded using the 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 are recognised in 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 determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements 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 could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company'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 statements:

(a) Impairment of 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:

(i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence;

(ii) 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

(iii) 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) Deferred tax assets

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidences. Recognition primarily involves judgement regarding the future performance of the Company. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, overall uncertain tax planning strategies and the periods in which estimated tax losses can be utilised.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

(c) Provision for obsolete and slow-moving inventories

The Company's inventories are stated at the lower of cost and net realisable value. The Company makes provisions based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories are reviewed annually for obsolescence provisions, if appropriate.

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 the assets and liabilities within the next financial year, are discussed below:

(a) Impairment test of assets

Management assesses whether an asset is impaired when there are indicators that the carrying amounts may not be recoverable. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(b) Deferred tax assets

The carrying amount of deferred tax assets and related financial models and budgets are reviewed by management at the end of each reporting period. To the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow the utilisation of the tax losses carried forward, the asset balance will not be recognised.

(c) Provision for slow-moving inventories

Provision for slow-moving inventories is made based on the age and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which such estimate has been made.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(d) Impairment on accounts receivable

Impairment on accounts receivable is made based on assessment of the recoverability of the trade receivables and other receivables. The identification of impairment on accounts receivable requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, any such differences will have an impact on the carrying value of the receivables and impairment expenses/write-back in the period in which the estimate has been made.

4. SEGMENT INFORMATION

The Company's revenue and profit were mainly derived from the sale of silicon wafers. The Company has only one reportable operating segment.

The principal assets employed by the Company are located in Shanghai, the People's Republic of China (the "PRC"). Therefore, no segment information based on the geographical location of the Company's assets is presented.

The Company's revenue attributed to geographical areas based on the locations of customers is presented as follows:

	2017	2016
	RMB'000	RMB'000
United States of America	**427,648**	395,706
Europe	**147,733**	108,591
China	**435,891**	287,620
Others	**2,024**	4,220
	1,013,296	796,137

Information about major customers

Revenue of approximately RMB475,895,000 (2016: RMB414,418,000) was derived from sales to three customers which individually accounted for more than 10% of the Company's total revenue during the year. Sales to a particular customer include sales to a group of entities which are known to be under common control with that customer.

5. REVENUE

Revenue represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts.

An analysis of revenue is as follows:

	2017	2016
	RMB'000	RMB'000
Sale of goods	**1,013,296**	796,137
Others	**—**	—
	1,013,296	796,137

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2017	2016
	RMB'000	RMB'000
Other income and gains		
Interest income	**7,886**	8,198
Government grants	**2,505**	4,357
Net foreign exchange gain	**—**	12,984
Sale of scrap materials	**4,061**	2,462
Technology service income	**4,378**	1,265
Gain on disposal of property, plant and equipment	**—**	1,080
Others	**232**	87
	19,062	30,433
Other expenses		
Net foreign exchange loss	**(14,108)**	—
	(14,108)	—

7. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	2017 RMB'000	2016 RMB'000
Cost of inventories sold	**855,705**	686,541
Depreciation	**77,861**	67,926
Amortisation of intangible assets	**1,523**	2,208
Amortisation of prepaid land lease payments	**770**	770
Research and development costs	**27,057**	36,745
Auditors' remuneration	**1,622**	1,422
Employee benefit expense (including directors', supervisors' and senior executives' remuneration as set out in note 8):		
Retirement benefits (note 9) – defined contribution fund	**23,343**	20,762
Accommodation benefits (note 9) – defined contribution fund	**7,865**	7,050
Early retirement and termination benefits	**304**	1,296
Salaries and other staff costs	**204,288**	167,505
	235,800	196,613
Interest on bank borrowings	**—**	14
Reversal of impairment for doubtful debts	**—**	(1)
Reversal of write-down of inventories to net realisable value	**(3,214)**	(1,111)

8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 **RMB'000**	2016 RMB'000
Fees	**3,349**	3,382
Other emoluments for directors and supervisors:		
– Salaries, allowances and other benefits	**3,546**	650
– Performance-related bonuses	**2,396**	116
– Retirement benefits	**180**	66
	6,122	832
	9,471	4,214

(a) Independent non-executive directors

The fees paid or payable to independent non-executive directors during the year were as follows:

	2017 **RMB'000**	2016 RMB'000
Dr. Chen Enhua	**272**	272
Dr. Jiang Qingtang	**254**	257
Mr. Pu Hanhu	**250**	253
Mr. Jesse Bright Riggs PARKER Jr.*	**128**	173
Mr. Jiang Shoulei**	**105**	—
Mr. James Arthur Watkins	**—**	38
	1,009	993

* This director resigned during the year ended 31 December 2017.

** This director was appointed during the year ended 31 December 2017.

There were no other emoluments payable to the independent non-executive directors during the year.

8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and supervisors

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Performance-related bonuses RMB'000	Retirement benefits RMB'000	Total remuneration RMB'000
2017					
Executive director:					
Dr. Hong Feng*	—	2,201	2,119	42	4,362
	—	2,201	2,119	42	4,362
Non-executive directors:					
Mr. Zhu Jian	323	—	—	—	323
Mr. David Damian FRENCH	236	—	—	—	236
Mr. Kang Hui	242	—	—	—	242
Mr. Yuan Yipei*	100	—	—	—	100
Mr. Lu Ning	237	—	—	—	237
Ms. Shen Qing	254	—	—	—	254
Mr. Steven Daryl FREZON**	111	—	—	—	111
	1,503	—	—	—	1,503
Supervisors:					
Mr. Zhang Yan*	68	—	—	—	68
Mr. Sun Biyuan	173	—	—	—	173
Mr. Zhou Chengjie	173	—	—	—	173
Mr. Dai Kun	173	—	—	—	173
Mr. Qin Shihui	—	510	111	46	667
Mr. Miao Kang	—	442	95	46	583
Mr. He Yaojun	—	393	71	46	510
Mr. Eric Wang**	77	—	—	—	77
Ms. Chen Yan	173	—	—	—	173
	837	1,345	277	138	2,597
	2,340	3,546	2,396	180	8,462

* These directors and the supervisor were appointed during the year ended 31 December 2017.

** These directors and the supervisor resigned during the year ended 31 December 2017.

8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION *(continued)*

(b) *Executive directors, non-executive directors and supervisors* *(continued)*

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Performance-related bonuses RMB'000	Retirement benefits RMB'000	Total remuneration RMB'000
2016					
Non-executive directors:					
Dr. Chen Jianming*	30	—	—	—	30
Mr. Zhu Jian	309	—	—	—	309
Ms. Shen Qing	249	—	—	—	249
Mr. Lu Ning	235	—	—	—	235
Mr. David Damian FRENCH	238	—	—	—	238
Mr. Steven Daryl FREZON**	208	—	—	—	208
Mr. Kang Hui**	208	—	—	—	208
	1,477	—	—	—	1,477
Supervisors:					
Mr. Eric Wang	179	—	—	—	179
Mr. Sun Biyuan	179	—	—	—	179
Ms. Chen Yan	179	—	—	—	179
Mr. Shen Zhongyi*	—	78	9	7	94
Mr. Yang Yanhui*	30	—	—	—	30
Mr. Zhou Chengjie	179	—	—	—	179
Mr. Dai Kun**	166	—	—	—	166
Mr. Qin Shihui**	—	351	70	35	456
Mr. Miao Kang**	—	116	17	12	145
Mr. He Yaojun**	—	105	20	12	137
	912	650	116	66	1,744
	2,389	650	116	66	3,221

* The director and these supervisors resigned during the year ended 31 December 2016.

** These directors and the supervisors were appointed during the year ended 31 December 2016.

There was no arrangement in which a director or a supervisor waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION *(continued)*

(c) Five highest paid employees

The five highest paid individuals in the Company include one (2016: Nil) executive director for the year ended 31 December 2017, details of whose emoluments have been disclosed above.

The details of the emoluments for the year of the remaining four (2016: five) highest paid individuals who are neither directors nor chief executive of the Company are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and other benefits	**3,326**	4,045
Performance-related bonuses	**2,834**	1,409
Retirement benefits	**180**	168
	6,340	5,622

The number of the four (2016: five) non-director and non-chief executive, highest paid employees, whose remuneration fell within the following bands, is as follows:

	2017 **Number of** **Individuals**	2016 Number of Individuals
Nil - HK$1,000,000	**—**	—
HK$1,000,001 - HK$1,500,000	**1**	4
HK$1,500,001 - HK$2,000,000	**1**	1
HK$2,000,001 - HK$2,500,000	**1**	—
HK$2,500,001 - HK$3,000,000	**1**	—
	4	5

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Company to any of the directors, supervisors and non-director and non-chief executive highest paid employees of the Company as an inducement to join or upon joining the Company. During the year ended 31 December 2017, no compensation for loss of office was paid to the resigned director of the Company (2016: Nil).

(d) Remunerations of senior management

All members of senior management are included in directors, supervisors or the five highest paid employees. Details of their emoluments have been disclosed above.

9. RETIREMENT BENEFITS AND ACCOMMODATION

Retirement benefits

As stipulated by PRC law and regulations, the Company participates in a defined contribution retirement plan. All local employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company is required to make contributions to the Labour and Social Security Bureau of the Shanghai Government at a rate of 20% of the employees' salaries and wages of the previous year for its local employees, limited to a ceiling amount of three times of the previous year's average basic salaries within the geographical area where the local employees are under employment with the Company.

The Company has no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Shanghai Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and each of its local Chinese employees are required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the Provident Fund Management Centre. There are no further obligations on the part of contribution by the Company except for these contributions to the accommodation fund. The accommodation benefits do not apply to expatriate employees.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong during the years ended 31 December 2017 and 2016.

In accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, the provision for Mainland China current income tax has been based on a statutory rate of 25% of the assessable profits of the Company for the year. However, the Company qualifies as a "High and New Technology Enterprise" and thus was granted a preferential rate of 15% from 1 January 2017 to 31 December 2019.

Major components of income tax are as follows:

	2017 **RMB'000**	2016 RMB'000
Provision for income tax in respect of the profit for the year	**—**	—
Deferred tax	**(3,600)**	—
Income tax	**(3,600)**	—

10. INCOME TAX *(continued)*

A numerical reconciliation between income tax and profit before tax multiplied by the applicable tax rate is as follows:

	2017	2016
	RMB'000	RMB'000
Profit before tax	**53,373**	32,410
Tax at the applicable tax rate of 15%	**8,006**	4,862
Tax effect of:		
– Expenses not deductible for tax purposes	**196**	193
– Temporary differences not recognised	**(2,282)**	(5,906)
– Tax loss not recognised	**—**	851
– Recognition of deferred tax assets related to previously unrecognised tax losses	**(3,600)**	—
– Tax loss utlised from prior years	**(5,920)**	—
Income tax	**(3,600)**	—

11. DIVIDENDS

The board of directors recommends no payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2017 (31 December 2016: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share amounts is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to ordinary equity holders of the Company (RMB'000)	**56,973**	32,410
Weighted average number of ordinary shares in issue ('000)	**1,534,227**	1,534,227

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2017:					
At 31 December 2016 and at 1 January 2017:					
Cost	163,675	3,858,807	85,155	2,222	4,109,859
Accumulated depreciation and impairment	81,651	3,598,550	77,338	1,782	3,759,321
Net carrying amount	82,024	260,257	7,817	440	350,538
At 1 January 2017, net of accumulated depreciation and impairment	82,024	260,257	7,817	440	350,538
Transferred from construction in progress	268	74,054	1,329	—	75,651
Disposal	—	188	—	—	188
Depreciation provided during the year	5,458	69,727	2,488	188	77,861
At 31 December 2017, net of accumulated depreciation and impairment	76,834	264,396	6,658	252	348,140
At 31 December 2017:					
Cost	163,943	3,903,179	85,418	2,222	4,154,762
Accumulated depreciation and impairment	87,109	3,638,783	78,760	1,970	3,806,622
Net carrying amount	76,834	264,396	6,658	252	348,140

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2016:					
At 31 December 2015 and at 1 January 2016:					
Cost	163,675	3,819,095	80,316	2,169	4,065,255
Accumulated depreciation and impairment	76,196	3,589,168	74,861	1,832	3,742,057
Net carrying amount	87,479	229,927	5,455	337	323,198
At 1 January 2016, net of accumulated depreciation and impairment	87,479	229,927	5,455	337	323,198
Transferred from construction in progress	—	90,007	4,927	332	95,266
Depreciation provided during the year	5,455	59,677	2,565	229	67,926
At 31 December 2016, net of accumulated depreciation and impairment	82,024	260,257	7,817	440	350,538
At 31 December 2016:					
Cost	163,675	3,858,807	85,155	2,222	4,109,859
Accumulated depreciation and impairment	81,651	3,598,550	77,338	1,782	3,759,321
Net carrying amount	82,024	260,257	7,817	440	350,538

As at 31 December 2017, the Company has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB14,272,000 (2016: RMB15,047,000). Until the certificates are received, the Company has no right to assign or pledge these buildings. The Company believes that it is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matters did not have any significant impact on the Company's financial position as at 31 December 2017.

14. CONSTRUCTION IN PROGRESS

	2017	2016
	RMB'000	RMB'000
At beginning of year	**41,118**	25,528
Additions	**89,136**	110,856
Transferred to property, plant and equipment	**(75,651)**	(95,266)
At end of year	**54,603**	41,118

15. PREPAID LAND LEASE PAYMENTS

	2017	2016
	RMB'000	RMB'000
Carrying amount:		
At beginning of year	**28,925**	29,695
Amortisation for the year	**(770)**	(770)
At end of year	**28,155**	28,925
Current portion included in prepayments, deposits and other receivables	**(770)**	(770)
Non-current portion	**27,385**	28,155

The leasehold land is located in Mainland China and is held under a long term lease of 50 years from 9 August 2004 to 9 August 2054.

16. INTANGIBLE ASSETS

	2017 RMB'000	2016 RMB'000
Cost:		
At beginning of year	**38,070**	38,070
Addition	**—**	—
At end of year	**38,070**	38,070
Accumulated amortisation:		
At beginning of year	**(35,597)**	(33,389)
Amortisation for the year	**(1,523)**	(2,208)
At end of year	**(37,120)**	(35,597)
Net book value:	**950**	2,473

The intangible assets are computer software.

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

Financial assets

	Loans and receivables	
	2017 **RMB'000**	2016 RMB'000
Accounts and notes receivables	**124,672**	102,666
Financial assets included in prepayments, deposits and other receivables	**3,467**	3,705
Due from related companies	**—**	16,465
Cash and cash equivalents	**568,836**	509,355
	696,975	632,191

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Financial liabilities

	Financial liabilities measured at amortised cost	
	2017	2016
	RMB'000	RMB'000
Accounts payable	**162,215**	132,921
Financial liabilities included in other payables and accruals	**41,225**	33,876
Due to related companies	**—**	733
Interest-bearing bank borrowings	**—**	11,335
	203,440	178,865

The Company's principal financial instrument is cash and cash equivalents. The Company has various other financial assets and liabilities such as accounts and notes receivables, other receivables, current accounts with related companies, accounts payable, as well as other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The main risks arising from the Company's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of the risks and they are summarised below:

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Foreign currency risk

The Company operates in Mainland China and its principal activities are transacted in RMB, the functional currency of the Company. However, the Company has transactional currency exposures. This exposure mainly arises from sales in United States dollars and other currencies.

The Company's financial assets and liabilities are subject to foreign currency risk as a result of certain bank deposits, receivables and payables denominated in United States dollars. Therefore, the fluctuations in the exchange rate of RMB against US$ could affect the Company's results of operations. Whilst the Company did not engage in forward foreign exchange transactions or other hedging activities, it took steps to minimise its exposure to exchange risk by immediate sale of foreign currency balances.

The following table demonstrates the sensitivity to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in US$ rate	**Effect on profit before tax RMB'000**
2017	**+5%**	**9,671**
	-5%	**(9,671)**
2016	+5%	9,478
	-5%	(9,478)

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Foreign currency risk (continued)

The foreign currency profile of the financial assets and liabilities denominated in currencies other than the functional currency of the Company at the end of the reporting period was as follows:

	2017	2016
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents:		
US$	**202,354**	187,390
Others	**88**	94
	202,442	187,484
Accounts and notes receivables:		
US$	**57,529**	49,328
Prepayments, deposits and other receivables:		
US$	**1,413**	—
Others	**113**	—
	1,526	—
Due from related companies:		
US$	**—**	16,465
Financial liabilities		
Accounts payable:		
US$	**63,837**	57,551
Others	**2,705**	5,576
	66,542	63,127
Other payables and accruals:		
US$	**4,041**	5,338
Others	**759**	749
	4,800	6,087
Due to related companies:		
US$	**—**	733

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Credit risk

The Company trades only with recognised and creditworthy third parties. It is the Company'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 Company's exposure to bad debts is not significant.

The credit risk of the Company's other financial assets, which comprise cash and cash equivalents, amounts due from related companies and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Company trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Company minimises its exposure to credit risk by only dealing with counterparties with acceptable credit ratings.

At the end of the reporting period, the Company had certain concentrations of credit risk as 17% (2016: 15%) and 55% (2016: 57%) of the Company's trade receivables were due from the Company's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Company's exposure to credit risk arising from accounts and notes receivables are disclosed in note 19 to the financial statements.

The Company is exposed to concentration of credit risk on its cash and cash equivalents as approximately 32% (2016: 33%) of its cash and cash equivalents are deposited with one bank.

Liquidity risk

The working capital requirements and cash flows of the Company have historically been and continue to be subject to quarterly and yearly fluctuations, depending on a number of factors including the level of sales, the collection of receivables and the servicing of financing obligations. If the Company is unable to manage fluctuations in cash flows, its business, operating results and financial condition may be materially adversely affected.

The Company monitors its risk of shortage of funds to ensure the ability of the Company to meet its liabilities as and when they fall due. The liquidity reserve of the Company comprises the bank borrowing facility and cash and cash equivalents (note 22) available as at each month end in meeting its liabilities. The Company maintained flexibility through cash generated from operating activities and credit facilities from banks which include unutilised revolving short term loan facilities of USD10,000,000, RMB50,000,000, RMB100,000,000, USD15,000,000, RMB80,040,000, that will expire in April 2018, July 2018, October 2018, Novemeber 2018 and December 2018 respectively.

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Liquidity risk *(continued)*

The maturity profile of the Company's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
2017				
Accounts payable	**73,824**	**41,506**	**46,885**	**162,215**
Other payables and accruals	**41,225**	**—**	**—**	**41,225**
	115,049	**41,506**	**46,885**	**203,440**
2016				
Accounts payable	23,336	109,573	12	132,921
Other payables and accruals	33,876	—	—	33,876
Due to related companies	—	733	—	733
Interest-bearing bank borrowings	—	—	11,335	11,335
	57,212	110,306	11,347	178,865

Capital management

The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to support its continuing business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017.

The Company monitors capital by using net debt over tangible net assets ratio which is the net debt divided by the tangible net assets. The Company's policy is to maintain the net debt over tangible net assets ratio of not more than one. Net debt includes interest-bearing bank borrowings less cash and cash equivalents. Tangible net assets include total equity plus reserves, less intangible assets.

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of financial assets and liabilities of the Company at the end of the reporting period approximated to their fair values.

Changes in liabilities arising from financing activities

	2017 **RMB'000**	2016 RMB'000
Interest-bearing bank borrowings		
At beginning of year	**11,335**	—
Cash flows	**(11,335)**	11,335
At end of year	**—**	11,335

18. INVENTORIES

	2017 **RMB'000**	2016 RMB'000
Raw materials	**34,738**	30,795
Spare parts and consumables	**35,873**	32,554
Work in progress	**76,760**	58,929
Finished goods	**12,661**	10,621
Total inventories at the lower of cost and net realisable value	**160,032**	132,899

19. ACCOUNTS AND NOTES RECEIVABLES

	2017 **RMB'000**	2016 RMB'000
Accounts receivable	**99,674**	80,102
Notes receivable	**24,998**	22,564
	124,672	102,666
Impairment	**—**	—
	124,672	102,666

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Credit terms granted by the Company to its customers generally range from 30 to 60 days. The Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Accounts and notes receivables are non-interest-bearing.

An ageing analysis of the accounts and notes receivables as at the end of the reporting period, based on the invoice date and net of impairment, was as follows:

	2017 **RMB'000**	2016 RMB'000
Outstanding balances with ageing:		
Within 30 days	**87,171**	66,551
Between 31 and 90 days	**32,544**	30,106
Between 91 and 180 days	**4,957**	6,009
Between 181 and 365 days	**—**	—
Over 365 days	**—**	—
	124,672	102,666

The movements in the impairment for accounts receivable were as follows:

	2017 **RMB'000**	2016 RMB'000
At beginning of year	**—**	1
Charged for the year	**—**	204
Unutilised amount reversed	**—**	(205)
At end of year	**—**	—

19. ACCOUNTS AND NOTES RECEIVABLES *(continued)*

The analysis of accounts and notes receivables that were not impaired at the end of the reporting period was as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			<60 days	61-180 days	181-365 days	>365 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017	**124,672**	**109,192**	**15,480**	**—**	**—**	**—**
31 December 2016	102,666	91,979	10,324	363	—	—

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 Company. Based on past experience, the directors of the Company 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 the credit quality of those customers and the balances are still considered fully recoverable. The Company does not hold any collateral or other credit enhancements over these balances.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Prepayments	**3,909**	2,099
Deposits	**—**	106
Input value-added tax	**2,320**	5,076
Sundry debtors	**6,121**	9,412
	12,350	16,693

21. BALANCES WITH RELATED PARTIES

At the beginning of the year, the Company was under the significant influence of NXP B.V., which holds 27.47% of the equity interest of the Company. Therefore, the companies controlled by NXP B.V. were considered to be the Company's related parties. On 19 April 2017, NXP B.V. disposed all 27.47% of the equity interest of the Company to Pudong Science and Technology Investment (Cayman) Co., Ltd. (the "Disposal"). Immediately after completion of Disposal, NXP B.V. and its subsidiaries ceased to be related parties of the Company.

The amounts due from/to related companies are unsecured and interest-free. All the balances with related companies arose from trade transactions in the ordinary course of business of the Company.

22. CASH AND CASH EQUIVALENTS

	2017 **RMB'000**	2016 RMB'000
Cash and bank balances	**210,822**	144,142
Non-pledged time deposits	**358,014**	365,213
	568,836	509,355

At the end of the reporting period, the cash and cash equivalents of the Company denominated in Renminbi ("RMB") amounted to RMB366,394,000 (2016: RMB321,871,000). 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 Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2017, non-pledged time deposits with an original maturity of over three months when acquired amounting to RMB358,014,000 (31 December 2016: RMB365,213,000) were included in cash and cash equivalents in the statement of financial position.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Non-pledged time deposits are made for varying periods depending on the immediate cash requirements of the Company, and earn interest at the respective time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

23. ACCOUNTS PAYABLE

An ageing analysis of the accounts payable as at the end of the reporting period, based on the invoice date, was as follows:

	2017 RMB'000	2016 RMB'000
Outstanding balances with ageing:		
Within 30 days	**87,701**	69,104
Between 31 and 90 days	**66,496**	55,611
Between 91 and 180 days	**4,823**	7,272
Between 181 and 365 days	**2,912**	829
Over 365 days	**283**	105
	162,215	132,921

24. GOVERNMENT GRANTS

	2017 RMB'000	2016 RMB'000
At beginning of year	**16,669**	13,943
Received during the year	**7,274**	7,083
Recognised in profit or loss	**(2,505)**	(4,357)
At end of year	**21,438**	16,669
Current	**1,240**	2,371
Non-current	**20,198**	14,298

Various grants have been received from the government to support the Company's operation. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value of the grant is recorded as deferred government grant and will be amortised over the useful life of the related asset once all attaching conditions are complied with.

25. INTEREST-BEARING BANK BORROWINGS

	2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Discounted bank accepted notes	—	—	—

	2016		
	Effective interest rate (%)	Maturity	RMB'000
Discounted bank accepted notes	3.7~4.65	2017	11,335

The carrying amounts of the Company's current borrowings approximate to their fair values.

26. DEFERRED TAX

The deferred tax assets as at the end of reporting period are as follows:

	2017 RMB'000	2016 RMB'000
Tax losses	**3,600**	—
Deferred tax assets	**3,600**	—

Deferred tax assets have not been recognised in respect of the following items:

	2017 RMB'000	2016 RMB'000
Tax losses	**4,687**	88,587
Deductible temporary differences	**54,340**	54,036
	59,027	142,623

The above tax losses are available for offsetting against future taxable profits of the Company before the expiry of the five year period. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

27. SHARE CAPITAL

	Notes	**31 December 2017 Number of shares '000**	31 December 2016 Number of shares '000	**31 December 2017 RMB'000**	31 December 2016 RMB'000
Authorised		**1,534,227**	1,534,227	**1,534,227**	1,534,227
Issued and fully paid:					
Non-listed Foreign Shares	(a)	**12,643**	12,643	**12,643**	12,643
Domestic Shares	(b)	**390,250**	390,250	**390,250**	390,250
H shares	(c)	**1,131,334**	1,131,334	**1,131,334**	1,131,334
Total		**1,534,227**	1,534,227	**1,534,227**	1,534,227

According to the relevant regulations of the PRC, Domestic Shares, Non-listed Foreign Shares and H shares are ordinary shares in the Company's share capital. The holders of ordinary shares are entitled to receive dividends declared by the Company, and are entitled to voting rights without restriction.

(a) Non-listed Foreign Shares

Although currently there are no applicable PRC laws or regulations governing the rights of Non-listed Foreign Shares, and the Company's Articles of Association contain no express provisions as to whether Non-listed Foreign Shares constitute a different class of shares from the H-shares, Jingtian & Gongcheng, the Company's legal advisor as to PRC law, has confirmed that the subsistence of Non-listed Foreign Shares does not contravene any PRC laws or regulations, and until new laws or regulations are introduced, the holders of Non-listed Foreign Shares shall be treated as being in the same class as the holders of Domestic Shares and enjoy the same rights as the holders of Domestic Shares, plus the following rights:

- to request the Company to pay dividends in foreign currencies;
- to request the Company distribute its assets upon the winding-up of the Company in foreign currencies and remit them out of the PRC, subject to the applicable foreign exchange control regulations; and
- may resolve disputes with holders of Domestic Shares or H-shares by way of arbitration.

27. SHARE CAPITAL *(continued)*

(b) Domestic Shares

Domestic Shares may only be subscribed for by, and traded between, legal or natural persons of Mainland China and must be subscribed for and traded in RMB. The Domestic Shares held by Huada Semiconductor Co., Ltd., Shanghai Chemical Industry Park Investment Enterprise Co., Ltd. and Shanghai Belling Co., Ltd. are not admitted for listing on any stock exchange and no arrangement has been made for the Domestic Shares to be traded or dealt with on any other authorised trading facility in Mainland China.

(c) H shares

H shares may only be subscribed for in Hong Kong dollars by, and traded between, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than Mainland China.

28. RESERVES

(a) Capital reserve

Capital reserve mainly consists of share premium less share issuance expenses in the Global Offering. On 7 April 2006, pursuant to the Global Offering, a share premium of RMB287,930,000 was created. Share issue expenses of RMB82,606,000 in relation to the Global Offering had been offset against the share premium.

(b) Statutory surplus reserve

According to the Company Law of the PRC, the Company is required to allocate 10% of its profit after tax determined under PRC accounting standards to the statutory surplus reserve until such reserve reaches 50% of the authorised share capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC, part of this reserve may be converted to increase the share capital, provided that the remaining balance after the capitalisation is not less than 25% of the authorised share capital.

(c) Accumulated losses

The amount which the Company can legally distribute by way of a dividend is determined based on the lower of the Company's retained earnings recorded in the financial statements prepared in accordance with the PRC accounting standards and IFRSs.

29. COMMITMENTS

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

	2017 RMB'000	2016 RMB'000
Capital commitments in respect of property, plant and equipment:		
– contracted, but not provided for	**74,962**	15,425
– authorised, but not contracted for	**100,734**	61,705
	175,696	77,130

30. RELATED PARTY TRANSACTIONS

As set out in note 21 to the financial statements, the companies controlled by NXP B.V. ceased to be related to the Company on 19 April 2017.

The Company had the following material transactions with the companies controlled by NXP B.V. during the year before 19 April 2017:

	Notes	2017 RMB'000	2016 RMB'000
Sales	(i)	**26,706**	87,074
Technology transfer fees	(ii)	**266**	815

Notes:

(i) Sales to the related companies were carried out on terms equivalent to those that prevail in arm's length transactions.

(ii) Royalties in the form of technology transfer fees (including identification licensing fees) paid/payable to a related company were determined at 1% of the net sales of certain specified products sold according to the agreement signed by both parties.

In the opinion of the directors, all transactions above were carried out in the ordinary course of business of the Company.

Details of directors', supervisors' and senior management's emoluments are disclosed in note 8 to the financial statements.

The above related party transaction set out in Note (i) and (ii) constitutes continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), their details are disclosed on pages 38 to 45 in the Report of the Directors.

Pursuant to the Company announcement dated 29 January 2018, as Shanghai Belling Co., Ltd. is a subsidiary of Huada Semiconductor Co., Ltd. and Huada Semiconductor Co., Ltd. is a substantial shareholder of the Company, Shanghai Belling Co., Ltd. has become a connected person of the Company by virtue of Rule 14A.07 of the Listing Rules with effect from 28 December 2017.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2018.