
OUR HISTORY AND DEVELOPMENT

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History and Development

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

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

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

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

Year	Milestones
1997	<ul style="list-style-type: none">• HHNEC was established.
1999	<ul style="list-style-type: none">• HHNEC successfully pilot-ran the DRAM production line.
2000	<ul style="list-style-type: none">• Grace Cayman established Grace Shanghai.
2003	<ul style="list-style-type: none">• HHNEC phased out DRAM production and commenced its foundry services.• Grace Shanghai commenced production of 0.20μm PC chipsets.• Grace Shanghai commenced production of 0.25/0.18μm standalone NOR Flash.
2004	<ul style="list-style-type: none">• Grace Shanghai commenced production of 0.25μm eFlash automotive engine control units.
2005	<ul style="list-style-type: none">• Our Company was incorporated in Hong Kong as the holding company of HHNEC.

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Year	Milestones
	<ul style="list-style-type: none"> • Grace Shanghai commenced production of 0.15μm PC chipsets. • HHNEC commenced production of embedded EEPROM for China’s national ID card.
2006	<ul style="list-style-type: none"> • HHNEC licensed the 0.13μm SONOS technology from Cypress for the production of eFlash.
2007	<ul style="list-style-type: none"> • Grace Shanghai licensed the SuperFlash technology from SST. • HHNEC commenced production of 0.35μm BCD semiconductors. • Grace Shanghai commenced production of 0.18μm eFlash.
2008	<ul style="list-style-type: none"> • HHNEC commenced production of 0.13μm SONOS eFlash.
2009	<ul style="list-style-type: none"> • Grace Shanghai commenced production of the 0.13μm Logic and 0.12μm NOR Flash. • Grace Shanghai commenced production of 0.13μm SONOS for touch panel controllers.
2010	<ul style="list-style-type: none"> • HHNEC commenced production of 0.18μm BCD. • Grace Shanghai commenced production of 0.13μm eFlash based on Superflash technology.
2011	<ul style="list-style-type: none"> • Accumulated shipments by HHNEC of power MOSFET exceeded two million wafers. • Accumulated shipments by Grace Shanghai and HHNEC of SuperFlash-based ICs exceeded one million wafers. • HHNEC commenced production of 600V SJNFET and 1200V NPT IGBT. • The Merger was completed.
2012	<ul style="list-style-type: none"> • Annual shipments by Grace Shanghai and HHNEC of 0.13μm ICs for SIM cards reached approximately 1.8 billion units.
2013	<ul style="list-style-type: none"> • The intra-group Restructuring pursuant to the Merger was substantially completed. • HHGrace delivered magnetic sensor samples for mobile applications.

History of HHNEC and Grace Shanghai prior to the Merger

1. *HHNEC and Our Company*

HHNEC was established on July 17, 1997, with a total investment of US\$1.2 billion and a registered capital of US\$700 million, which was fully paid up. The founders of HHNEC were: (i) Shanghai Hua Hong Microelectronics Co., Ltd., which contributed US\$500 million, holding a 71.4% equity interest, (ii) NEC, which contributed US\$130 million, holding a 18.6% equity

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interest, and (iii) NEC (China) Co., Ltd., a subsidiary of NEC, which contributed US\$70 million, holding a 10% equity interest. At its inception, HHNEC manufactured DRAM for NEC and later changed its focus to developing, manufacturing and selling semiconductor wafers specializing in four technology platforms: eNVM, analog and power management, high voltage and RF.

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

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

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

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

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2. *Grace Cayman and Grace Shanghai*

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

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

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

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

The Merger and the Restructuring

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

1. *The Merger*

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

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

The major steps of the Merger are set out below:

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

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- Upon completion of the Merger on December 28, 2011:
 - (a) the Merger Subsidiary was merged into Grace Cayman with Grace Cayman as the surviving company, and Grace Cayman became our wholly-owned subsidiary. The issued shares of the Merger Subsidiary were converted into Grace Cayman shares and all the then outstanding shares of Grace Cayman were cancelled (the “**Cancelled Grace Shares**”); and
 - (b) in exchange for the Cancelled Grace Shares, we issued a total of 280,715,021 Shares to Grace Cayman’s shareholders based on the Exchange Ratio.

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

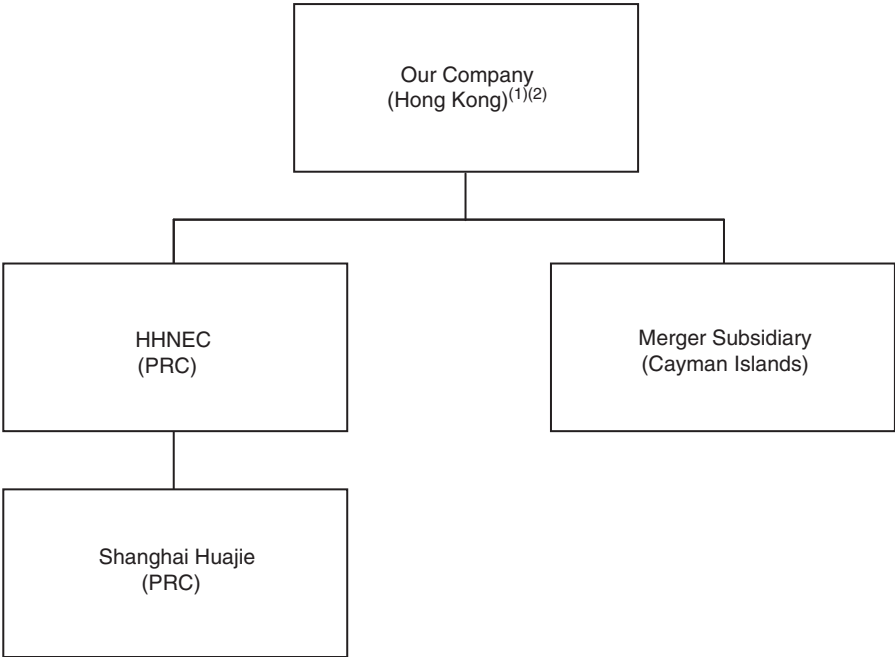
Prior to the completion of the Merger, SAIL converted US\$20 million in principal amount of convertible bonds of Grace Cayman (the “**Grace Convertible Bonds**”) that it held into preferred shares of Grace Cayman. We assumed the remaining Grace Convertible Bonds in the principal amount of US\$69 million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

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

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

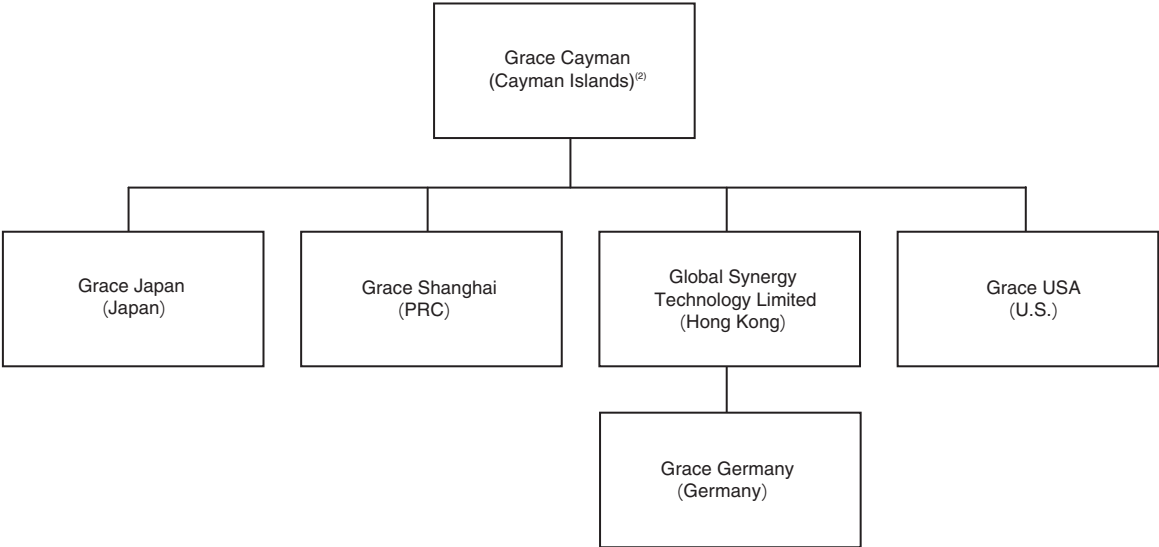
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The following chart illustrates the structure of our Company immediately prior to the Merger (unless otherwise specified, each subsidiary is 100% owned by its holding company):



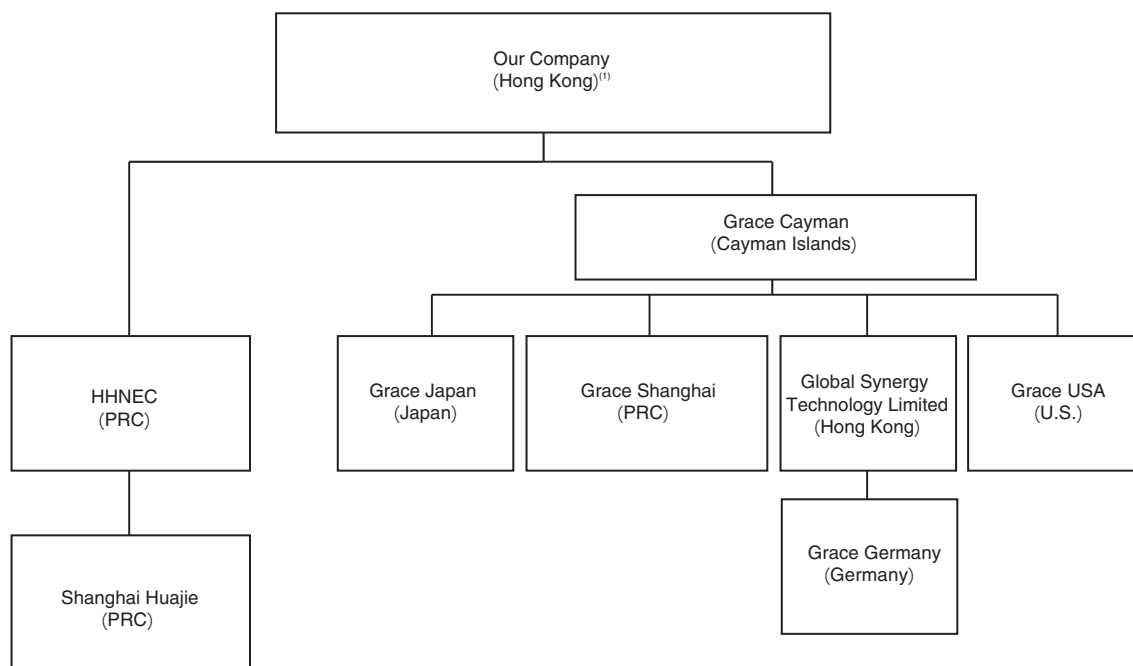
- (1) As at the Latest Practicable Date, Sino-Alliance International, Ltd. was still holding 3,645 Escrow Shares as the relevant shareholders did not return the relevant signed transfer documents for the release of the Escrow Shares.
- (2) Associates are not included in the chart. For details of our associates, see Note 1 to the Accountants’ Report in Appendix I.

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



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



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

2. **The Restructuring**

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

The major steps of the Restructuring are set out below:

- On March 16, 2012, Grace Cayman and our Company entered into an equity transfer agreement.
- On March 31, 2012, Grace Shanghai received the approval of Shanghai Municipal Commission of Commerce for the equity transfer. Following such approval, Grace Shanghai registered the equity transfer with the Shanghai Administration for Industry & Commerce.

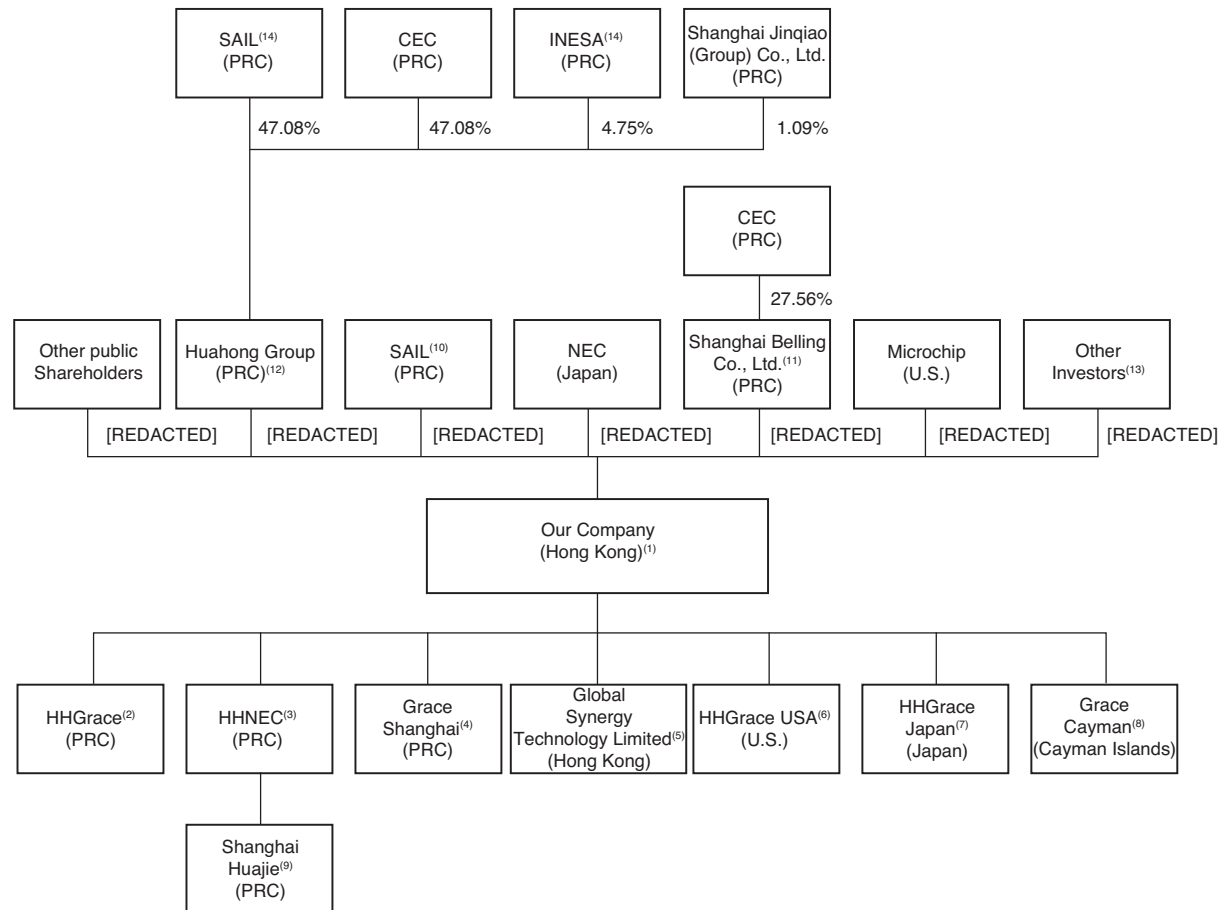
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- On January 24, 2013, HHGrace was established as a wholly-owned subsidiary of our Company and a WFOE to consolidate the assets and liabilities of HHNEC and Grace Shanghai. This consolidation has been substantially completed except for certain administrative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

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

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



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

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OUR SUBSIDIARIES

1. *Subsidiaries of the Group*

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

(1) *HHGrace*

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

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

(2) *Global Synergy Technology Limited*

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

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

(3) *HHGrace USA*

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

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

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

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(4) *HHGrace Japan*

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

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

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

(5) *Shanghai Huajie*

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

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

(6) *HHNEC*

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

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(7) *Grace Shanghai*

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

(8) *Grace Cayman*

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

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

(1) *Grace Germany*

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

SHAREHOLDERS’ APPROVAL AND PRC LEGAL COMPLIANCE

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

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