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ADVANCED SEMICONDUCTOR MANUFACTURING CORPORATION LIMITED

上海先進半導體製造股份有限公司

(A foreign invested joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 03355)

2017 THIRD QUARTER RESULTS ANNOUNCEMENT

Quarterly Results

The board of directors (the "Board") of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") is pleased to announce the unaudited results of the Company for the three months and the nine months ended 30 September 2017 together with unaudited comparative figures for the corresponding periods of last year as follows:

Condensed Statement of Profit or Loss and Other Comprehensive Income

		3 months ended 30 September 2017 (Unaudited) RMB'000	9 months ended 30 September 2017 (Unaudited) RMB'000	3 months ended 30 September 2016 (Unaudited) RMB'000	9 months ended 30 September 2016 (Unaudited) RMB'000
	<i>Notes</i>				
Revenue	4	257,429	748,846	218,071	565,436
Cost of sales		(215,112)	(628,548)	(181,790)	(497,997)
Gross profit		42,317	120,298	36,281	67,439
Other income and gains	5	3,856	14,267	6,244	17,919
Operating expenses		(27,021)	(78,964)	(28,816)	(82,348)
Other expenses	5	(5,116)	(11,447)	—	—
Profit before tax	6	14,036	44,154	13,709	3,010
Income tax	7	—	—	—	—
Profit for the period		14,036	44,154	13,709	3,010
Other comprehensive income for the period		—	—	—	—
Total comprehensive income for the period attributable to ordinary equity holders of the Company		14,036	44,154	13,709	3,010
Earnings per share attributable to ordinary equity holders of the Company					
– Basic and diluted	9	0.92 cent	2.88 cents	0.89 cent	0.20 cent

Details of the dividends proposed for the period are disclosed in note 8 to the condensed financial statements.

Condensed Statement of Financial Position

	30 September 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Non-current assets		
Property, plant and equipment	343,879	350,538
Construction in progress	64,988	41,118
Prepaid land lease payments	27,578	28,155
Intangible assets	1,280	2,473
	<hr/>	<hr/>
Total non-current assets	437,725	422,284
	<hr/>	<hr/>
Current assets		
Inventories	152,523	132,899
Accounts and notes receivables	125,574	102,666
Prepayments, deposits and other receivables	14,092	16,693
Due from related companies	—	16,465
Cash and cash equivalents	551,845	509,355
	<hr/>	<hr/>
Total current assets	844,034	778,078
	<hr/>	<hr/>
Total assets	1,281,759	1,200,362
	<hr/>	<hr/>
Current liabilities		
Accounts payable	158,540	132,921
Other payables and accruals	80,828	61,023
Due to related companies	—	733
Government grants	1,476	2,371
Interest-bearing bank borrowings	—	11,335
	<hr/>	<hr/>
Total current liabilities	240,844	208,383
	<hr/>	<hr/>
Net current assets	603,190	569,695
	<hr/>	<hr/>
Total assets less current liabilities	1,040,915	991,979
	<hr/>	<hr/>
Non-current liabilities		
Government grants	19,080	14,298
	<hr/>	<hr/>
Net assets	1,021,835	977,681
	<hr/>	<hr/>
Equity attributable to equity holders of the Company		
Share capital	1,534,227	1,534,227
Reserves	(512,392)	(556,546)
	<hr/>	<hr/>
Total equity	1,021,835	977,681
	<hr/>	<hr/>

Statement of Changes in Equity

	For the nine months ended 30 September 2017 (Unaudited) RMB'000	For the nine months ended 30 September 2016 (Unaudited) RMB'000
Share capital		
<i>Ordinary shares of RMB1.00 each:</i>		
At beginning and end of period	<u>1,534,227</u>	<u>1,534,227</u>
Capital reserve		
At beginning and end of period	<u>205,363</u>	<u>205,363</u>
Statutory surplus reserve		
At beginning and end of period	<u>19,353</u>	<u>19,353</u>
Accumulated losses		
At beginning of period	(781,262)	(813,672)
Total comprehensive income for the period	<u>44,154</u>	<u>3,010</u>
At end of period	<u>(737,108)</u>	<u>(810,662)</u>
Reserves	<u>(512,392)</u>	<u>(585,946)</u>
Total equity attributable to equity holders of the Company	<u>1,021,835</u>	<u>948,281</u>

Statement of Cash Flows

	For the nine months ended 30 September 2017 (Unaudited) RMB'000	For the nine months ended 30 September 2016 (Unaudited) RMB'000
Cash flows from operating activities		
Profit before tax	44,154	3,010
Adjustments for:		
Depreciation	57,118	50,161
Amortisation of intangible assets	1,193	1,707
Amortisation of prepaid land lease payments	577	577
Loss/(gain) on disposal of property, plant and equipment	172	(1,080)
Reversal of impairment for doubtful debts	—	(1)
Write-down/(reversal of write-down) of inventories to net realisable value	(274)	1,069
Reversal of welfare payable	(731)	—
Exchange loss/(gain)	8,786	(4,897)
Government grants	(2,012)	(2,869)
Interest income	(5,778)	(6,244)
	<hr/>	<hr/>
Operating profit before working capital changes	103,205	41,433
Increase in accounts and note receivables	(22,908)	(3,268)
Increase in inventories	(19,350)	(31,023)
Decrease/(increase) in prepayments, deposits and other receivables	1,677	(3,581)
Decrease/(increase) in balances with related companies	15,732	(4,600)
Increase in accounts payable	23,045	39,496
Increase in other payables and accruals	20,536	7,090
	<hr/>	<hr/>
Cash generated from operations	121,937	45,547
Interest received	6,702	7,845
Government grants received	5,899	614
	<hr/>	<hr/>
Net cash flows from operating activities	134,538	54,006
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	For the nine months ended 30 September 2017 (Unaudited) RMB'000	For the nine months ended 30 September 2016 (Unaudited) 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	(71,927)	(58,184)
Decrease/(Increase) in non-pledged time deposits with original maturity of over three months when acquired	6,104	(28,241)
	(65,823)	(85,345)
Net cash flows used in investing activities		
Cash flows from financing activities		
Repayment of bank borrowings	(11,335)	—
	(11,335)	—
Net cash flows used in financing activities		
Net increase/(decrease) in cash and cash equivalents	57,380	(31,339)
Cash and cash equivalents at beginning of period	144,142	201,249
Effect of exchange rate changes on cash and cash equivalents	(8,786)	4,897
	192,736	174,807
Cash and cash equivalents at end of period		
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the statement of cash flows	192,736	174,807
Cash and bank balances	192,736	174,807
Non-pledged time deposits with original maturity of over three months when acquired	359,109	361,839
Cash and cash equivalents as stated in the statement of financial position	551,845	536,646
Investing activities affecting both cash and non-cash items		
Addition of items of property, plant and equipment, construction in progress and intangible assets	(74,501)	(73,116)
Increase in the balance of payables for purchases of items of property, plant and equipment, construction in progress and intangible assets	2,574	9,200
Receipt of government grants	—	5,732
Cash flows used in purchases of items of property, plant and equipment, construction in progress and intangible assets	(71,927)	(58,184)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed financial statements of the Company for the three months and the nine months ended 30 September 2017 (the "Third Quarter Results") are prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board.

The Third Quarter Results do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2016 ("2016 financial statements") dated 15 March 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Third Quarter Results are consistent with those followed in the preparation of the Company's 2016 financial statements, except for the adoption of new standards and interpretations effective as of 1 January 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following standards and amendments became effective as of 1 January 2017:

- 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 Cycle - 2014-2016: Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the Third Quarter Results of the Company.

3. SEGMENT INFORMATION

The Company's revenue and profit were mainly derived from the sale of 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 location of customers is presented as follows:

	3 months ended 30 September 2017 (Unaudited) RMB'000	9 months ended 30 September 2017 (Unaudited) RMB'000	3 months ended 30 September 2016 (Unaudited) RMB'000	9 months ended 30 September 2016 (Unaudited) RMB'000
United States of America	104,943	336,630	109,301	290,203
Asia	110,375	302,530	77,734	198,693
Europe	42,111	109,686	31,036	76,540
	257,429	748,846	218,071	565,436

Information about major customers

The Company's revenue of approximately RMB371,752,000 (30 September 2016: RMB301,493,000) was derived from sales to three customers (30 September 2016: three) which individually accounted for more than 10% of the Company's total revenue during the nine months ended 30 September 2017. Sales to a particular customer include sales to a group of entities which are known to be under common control with that customer.

4. REVENUE

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the period.

An analysis of revenue is as follows:

	3 months ended 30 September 2017 (Unaudited) RMB'000	9 months ended 30 September 2017 (Unaudited) RMB'000	3 months ended 30 September 2016 (Unaudited) RMB'000	9 months ended 30 September 2016 (Unaudited) RMB'000
Sale of goods	257,429	748,846	218,071	565,436
Others	—	—	—	—
	257,429	748,846	218,071	565,436

5. OTHER INCOME AND GAINS AND OTHER EXPENSES

	3 months ended 30 September 2017 (Unaudited) RMB'000	9 months ended 30 September 2017 (Unaudited) RMB'000	3 months ended 30 September 2016 (Unaudited) RMB'000	9 months ended 30 September 2016 (Unaudited) RMB'000
Other income and gains				
Subsidy income	596	2,012	1,045	2,869
Interest income	1,999	5,778	2,000	6,244
Net foreign exchange gain	—	—	1,044	4,795
Sale of scrap materials	874	2,621	1,225	1,822
Technology service income	200	3,623	919	1,024
Gain on disposal of property, plant and equipment	—	—	11	1,080
Others	187	233	—	85
	<u>3,856</u>	<u>14,267</u>	<u>6,244</u>	<u>17,919</u>
Other expenses				
Net foreign exchange loss	(5,116)	(11,447)	—	—
	<u>(5,116)</u>	<u>(11,447)</u>	<u>—</u>	<u>—</u>

6. PROFIT BEFORE TAX

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

	3 months ended 30 September 2017 (Unaudited) RMB'000	9 months ended 30 September 2017 (Unaudited) RMB'000	3 months ended 30 September 2016 (Unaudited) RMB'000	9 months ended 30 September 2016 (Unaudited) RMB'000
Cost of inventories sold	215,112	628,548	181,790	497,997
Depreciation	19,559	57,118	17,364	50,161
Amortisation of intangible assets	348	1,193	547	1,707
Amortisation of prepaid land lease payments	192	577	192	577
Research and development costs	6,747	19,542	10,248	29,586
Auditors' remuneration	361	1,082	361	1,082
Employee benefits expense (including directors', supervisors' and senior executives' remuneration):				
– Retirement benefits	5,992	17,322	5,047	15,493
– Accommodation benefits	2,064	5,781	1,825	5,220
– Early retirement and termination benefits	122	205	601	1,181
– Salaries and other staff costs	52,127	149,390	42,230	122,573
– Reversal of welfare payable	—	(731)	—	—
	60,305	171,967	49,703	144,467
Reversal of impairment for doubtful debts	—	—	(10)	(1)
Write-down/(reversal of write-down) of inventories to net realizable value	(2,115)	(274)	1,868	1,069

7. 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 three months and the nine months ended 30 September 2016 and 2017.

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. However, the Company obtained the renewal of “High and New Technology Enterprise”(HNTE) status with a valid period from 1 January 2017 to 31 December 2019 and was recognized by the in-charge tax authority to enjoy the preferential Corporate Income Tax rate at 15%, which shall also be subject to the fulfillment on conditions required for HNTE on yearly basis.

Major components of income tax are as follows:

	3 months ended 30 September 2017 (Unaudited) RMB'000	9 months ended 30 September 2017 (Unaudited) RMB'000	3 months ended 30 September 2016 (Unaudited) RMB'000	9 months ended 30 September 2016 (Unaudited) RMB'000
Provision for income tax in respect of profit for the period	—	—	—	—
Deferred tax	—	—	—	—
Income tax	—	—	—	—

No income tax is provided as the Company does not have taxable profits in the current period.

Deferred tax assets have not been recognised in respect of the deductible temporary differences, including tax losses, as it is not considered probable that sufficient taxable profits will be available against which these deductible temporary differences can be utilised.

8. DIVIDENDS

The Board does not recommend the payment of dividend to the ordinary equity holders of the Company for the nine months ended 30 September 2017 (for the nine months ended 30 September 2016: Nil).

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

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

	3 months ended 30 September 2017 (Unaudited)	9 months ended 30 September 2017 (Unaudited)	3 months ended 30 September 2016 (Unaudited)	9 months ended 30 September 2016 (Unaudited)
Profit attributable to ordinary equity holders of the Company (RMB'000)	<u>14,036</u>	<u>44,154</u>	13,709	<u>3,010</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,534,227</u>	<u>1,534,227</u>	1,534,227	<u>1,534,227</u>

No diluted earnings per share is presented for the three months and the nine months ended 30 September 2016 and 2017 as the Company had no potentially dilutive ordinary shares in issue during those periods.

10. COMMITMENTS

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

	30 September 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Capital commitments in respect of property, plant and equipment:		
– contracted, but not provided for	23,413	15,425
– authorised, but not contracted for	102,446	61,705
	<u>125,859</u>	<u>77,130</u>

11. RELATED PARTY TRANSACTIONS

Before 24 April 2017, the Company was under the significant influence of NXP B.V., which held 27.47% of the equity interest of the Company. The companies controlled by NXP B.V. were considered to be related to the Company.

On 24 April 2017, the Company was informed by NXP B.V., a substantial shareholder of Company, that it had disposed 408,806,888 H shares of the Company and 12,643,512 unlisted foreign shares of the Company (the "Total Disposal Shares") to Pudong Science and Technology Investment (Cayman) Co., Ltd., a third party independent of the Company and its connected persons (as defined in the Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")) on 19 April 2017 (the "Disposal"). The Total Disposal Shares represent approximately 27.47% of the total issued share capital of the Company as at the time of the Disposal. Immediately after completion of Disposal, NXP B.V. ceased to be a shareholder of the Company.

On 26 May 2017, the Company was informed by Pudong Science and Technology Investment (Cayman) Co., Ltd., a substantial shareholder of Company, that it had disposed 204,403,444 H shares of the Company and 6,321,756 unlisted foreign shares of the Company to Sino Xin Yuan Limited, a third party independent of the Company and its connected persons (as defined in the Listing Rules) on 24 May 2017. The share disposal represent approximately 13.74% of the total issued share capital of the Company as at the time of the disposal.

On 23 August 2017, the Company was informed by Shanghai Chemical Industrial Park Investment Company Limited, a substantial shareholder of Company, that it had disposed 122,220,616 domestic shares of the Company to Huada Semiconductor Co., Ltd. on 18 August 2017. The share disposal represent approximately 7.97% of the total issued share capital of the Company as at the time of the disposal. Huada Semiconductor holds 26.45% interests in Shanghai Belling Co., Limited ("Shanghai Belling"), and Shanghai Belling holds 88,726,400 domestic shares of the Company, representing approximately 5.78% of the total issued share capital of the Company.

The Company had the following material transactions with the related parties during the period:

		3 months ended	9 months ended	3 months ended	9 months ended
		30 September	30 September	30 September	30 September
		2017	2017	2016	2016
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000	<i>RMB'000</i>	<i>RMB'000</i>
Sales	(i)	—	26,706	24,714	64,605
Technology transfer fees	(ii)	—	266	242	792
Compensation paid/payable to key management personnel (including directors, supervisors and senior executives)		5,060	10,722	984	2,710

Notes:

- (i) Sales to 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 by agreement of the parties.

In the opinion of the directors (including the independent non-executive directors), all of the above transactions were carried out in the ordinary course of business of the Company.

The related party transactions set out in Notes (i) and (ii) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Operating Results Review

Summary:

(Amount: RMB'000)	3Q'17	2Q'17	3Q'16	QoQ% Change	YoY% Change
Revenue	257,429	269,096	218,071	-4.3%	18.0%
Gross profit	42,317	46,601	36,281	-9.2%	16.6%
Other income and gains	3,856	4,151	6,244	-7.1%	-38.2%
Operating expenses	(27,021)	(26,232)	(28,816)	3.0%	-6.2%
Other expenses	(5,116)	(4,802)	—	6.5%	—
Finance costs	—	—	—	—	—
Income tax	—	—	—	—	—
Net income	14,036	19,718	13,709	-28.8%	2.4%
EPS	0.92cent	1.29cents	0.89cent	—	—

Sales for the three months ended 30 September 2017 were RMB257.4 million, down 4.3% from RMB269.1 million for the three months ended 30 June 2017. This was primarily attributable to the decrease in the sales of 8-inch wafers.

Gross profit for the three months ended 30 September 2017 amounted to RMB42.3 million, decreased by 9.2% from RMB46.6 million for the three months ended 30 June 2017, while gross margin for the three months ended 30 September 2017 was 16.4%, compared to 17.3% for the three months ended 30 June 2017, which was mainly attributable to the depreciation of the US dollar against the Renminbi (“RMB”) and the increase in manufacturing costs (i.e. labour and spare parts).

Other income and gains for the three months ended 30 September 2017 were RMB3.9 million, compared to RMB4.2 million for the three months ended 30 June 2017. Other income and gains in the third quarter and second quarter of 2017 mainly comprised government grants, interest income, sale of scrap materials, technology service income and others.

Operating expenses for the three months ended 30 September 2017 amounted to RMB27.0 million, compared to RMB26.2 million for the three months ended 30 June 2017, which was due mainly to the increase in general and administrative expenses.

Other expenses for the three months ended 30 September 2017 were RMB5.1 million, compared to RMB4.8 million for the three months ended 30 June 2017. Other expenses in the second and the third quarter of 2017 only comprised net foreign exchange loss.

As a result, the Company recorded net income of RMB14.0 million for the three months ended 30 September 2017, compared to RMB19.7 million for the three months ended 30 June 2017.

I. Revenue Analysis

By Application

For the three months ended 30 September 2017, sales from communication, computer and consumer products accounted for 34%, 33% and 33% of total revenue respectively, which were basically in line with the breakdown in the previous quarter.

	3Q'17	2Q'17	3Q'16
Communication	34%	33%	34%
Computer	33%	33%	33%
Consumer	33%	34%	33%

By Geography

For the three months ended 30 September 2017, sales to the USA, Europe and Asia Pacific accounted for 41%, 16% and 43% of total revenue respectively, compared to 46%, 14% and 40% for the three months ended 30 June 2017.

	3Q'17	2Q'17	3Q'16
USA	41%	46%	50%
Europe	16%	14%	14%
Asia Pacific	43%	40%	36%

By Customer Type

For the three months ended 30 September 2017, sales to IDM and fabless customers accounted for 21% and 79% of total revenue respectively, compared to 17% and 83% in the second quarter of 2017.

	3Q'17	2Q'17	3Q'16
IDM	21%	17%	26%
Fabless	79%	83%	74%

By Product

For the three months ended 30 September 2017, sales as a percentage of total revenue from 5-inch, 6-inch and 8-inch wafers were 3%, 44% and 52% respectively, compared to 3%, 42% and 55% in the previous quarter.

	3Q'17	2Q'17	3Q'16
5-inch wafers	3%	3%	5%
6-inch wafers	44%	42%	38%
8-inch wafers	52%	55%	56%
Others ¹	1%	0%	1%

Note 1: Consists of probing services and provision of masks

II. Utilization and Capacity (8" equivalent)

II-1 Utilization

Overall capacity utilization for the three months ended 30 September 2017 was 94%, compared to 103% for the three months ended 30 June 2017.

Fab	3Q'17	2Q'17	3Q'16
Fab 1/2			
5-inch wafers	42%	35%	55%
6-inch wafers	102%	101%	71%
Fab 3			
8-inch wafers	93%	109%	90%
Overall Capacity Utilization Rate	94%	103%	81%

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.

II-2 Capacity (8" equivalent wafers)

The capacity for the three months ended 30 September 2017 was 157,000 8-inch equivalent wafers, compared to 150,000 8-inch equivalent wafers for the previous quarter and the third quarter of 2016.

Fab (wafers in thousands)	3Q'17	2Q'17	3Q'16
Fab1/2			
5-inch wafers	9	9	9
6-inch wafers	71	71	71
Fab-3			
8-inch wafers	77	70	70
Total Capacity	157	150	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 number by 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.

III. Profit and Expense Analysis

III-1. Gross Profit Analysis

Gross profit for the three months ended 30 September 2017 amounted to RMB42.3 million, decreased by 9.2% from RMB46.6 million for the three months ended 30 June 2017, while gross margin for the three months ended 30 September 2017 was 16.4%, compared to 17.3% for the three months ended 30 June 2017, which was mainly attributable to the depreciation of the US dollar against the Renminbi ("RMB") and the increase in manufacturing costs (i.e. labour and spare parts).

(Amount: RMB'000)	3Q'17	2Q'17	3Q'16
Cost of sales	(215,112)	(222,495)	(181,790)
Gross profit	42,317	46,601	36,281
Gross margin	16.4%	17.3%	16.6%

III-2. Other Income and Gains

Other income and gains for the three months ended 30 September 2017 were RMB3.9 million, compared to RMB4.2 million for the three months ended 30 June 2017. Other income and gains in the third quarter and second quarter of 2017 mainly comprised government grants, interest income, sale of scrap materials, technology service income and others.

(Amount: RMB'000)	3Q'17	2Q'17	3Q'16
Other income and gains	3,856	4,151	6,244

III-3. Operating Expenses Analysis

Operating expenses for the three months ended 30 September 2017 amounted to RMB27.0 million, compared to RMB26.2 million for the three months ended 30 June 2017, which was due mainly to the increase in general and administrative expenses.

(Amount: RMB'000)	3Q'17	2Q'17	3Q'16
Selling and distribution costs	(1,867)	(1,903)	(1,839)
General and administrative expenses	(18,407)	(17,479)	(16,729)
Research and development costs	(6,747)	(6,850)	(10,248)

IV. Financial Condition Review

IV-1. Liquidity Analysis

Total current assets as at 30 September 2017 were RMB844.0 million, compared to RMB794.7 million as at 30 June 2017, representing the increase in cash and cash equivalents and inventories of RMB21.4 million and RMB19.6 million. Higher inventory was largely attributable to an increase in work in progress, representing higher wafer input as a result of improved order demand in the reporting quarter. Total current liabilities increased from RMB198.6 million as at 30 June 2017 to RMB240.8 million as at 30 September 2017, largely attributable to the increase of RMB27.0 million in other current liabilities and RMB15.3 million in accounts payable.

(Amount: RMB'000)	3Q'17	2Q'17	3Q'16
Cash and cash equivalents	551,845	530,456	536,646
Accounts and notes receivables	125,574	118,697	88,577
Inventories	152,523	132,890	129,161
Other current assets	14,092	12,652	16,146
Total current assets	844,034	794,695	770,530
Interest-bearing borrowings	—	—	—
Accounts payable	158,540	143,290	138,253
Other current liabilities	82,304	55,287	72,221
Total current liabilities	240,844	198,577	210,474
Net current assets	603,190	596,118	560,056
Current ratio (x)	3.50	4.00	3.66

IV-2. Receivable/Inventory Turnover

Receivable turnover for the three months ended 30 September 2017 was 43 days, compared to 38 days for the three months ended 30 June 2017.

Inventory turnover days increased to 77 days for the three months ended 30 September 2017 from 74 days for the three months ended 30 June 2017.

	3Q'17	2Q'17	3Q'16
Accounts and notes receivable turnover (days)	43	38	35
Inventory turnover (days)	77	74	82

IV-3. Debt Service

Net cash reserves as at 30 September 2017 amounted to RMB551.8 million compared to RMB530.5 million as at 30 June 2017, representing a sequential increase of 4.0%. This was mainly attributable to an increase of RMB21.4 million in cash and cash equivalents.

(Amount: RMB'000)	3Q'17	2Q'17	3Q'16
Cash and cash equivalents	551,845	530,456	536,646
Interest-bearing borrowings	—	—	—
Net cash reserves	551,845	530,456	536,646

V. Capital Expenditures

The amount of capital expenditures for the three months ended 30 September 2017 was RMB31.3 million, compared to RMB37.5 million for the three months ended 30 June 2017. The capital expenditures incurred in the reporting quarter were mostly spent in improving the capacity of 8-inch wafer line.

(Amount: RMB'000)	3Q'17	2Q'17	3Q'16
Capex	31,289	37,481	30,782

VI. Outlook for the Fourth Quarter of 2017

The Company maintained strong business operation and financial performance in the third quarter of 2017 following a ten-year best quarterly sales in the previous quarter, which representing favourable results in both the 6-inch and 8-inch wafers line. The 6-inch wafer line recorded its best quarterly sales in the third quarter of 2017 since 2009, and its utilization rate hit a quarterly record high in the reporting quarter. Apart from this, the 8-inch wafer production line in the reporting quarter achieved one of the best quarterly operating performances in its history i.e. sales and utilization rate.

Based on the current order book in hand, the Company expects its revenue for the fourth quarter of 2017 to increase on a yearly basis primarily benefiting from stable order demand from most of its domestic customers, and despite the recent slowdown in demand from some of its overseas customers.

By order of the Board

Advanced Semiconductor Manufacturing Corporation Limited

HONG Feng

Executive Director & Chief Executive Officer

Shanghai, the PRC, 7 November 2017

As at the date of this announcement, the executive director of the Company is Hong Feng; the non-executive directors of the Company are Zhu Jian, David Damian French, Shen Qing, Kang Hui, Yuan Yipei and Lu Ning; and the independent non-executive directors of the Company are Chen Enhua, Jiang Shoulei, Jiang Qingtang and Pu Hanhu.