

SUBSIDIARIES

Except as otherwise listed below, the Company owns 100% of the issued and outstanding share capital of its subsidiaries. As of December 31, 2005, these subsidiaries are as follows:

1. 中芯國際集成電路(上海)有限公司
Semiconductor Manufacturing International (Shanghai) Corporation*
("SMIC Shanghai")
Principal country of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US\$4,000,000,000
Registered capital: US\$1,340,000,000
Equity holder: the Company (100%)
2. **Semiconductor Manufacturing International (Beijing) Corporation**
("SMIC Beijing")
Principal country of operation: Beijing, PRC
Place of incorporation: Beijing, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US\$1,250,000,000
Registered capital: US\$650,000,000
Equity holder: the Company (100%)
3. 中芯國際集成電路(天津)有限公司
Semiconductor Manufacturing International (Tianjin) Corporation*
("SMIC Tianjin")
Principal country of operation: Tianjin, PRC
Place of incorporation: Tianjin, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US\$1,100,000,000
Registered capital: US\$690,000,000
Equity holder: the Company (100%)
4. **Semiconductor Manufacturing International (Chengdu) Corporation**
("SMIC Chengdu")
Principal country of operation: Sichuan, PRC
Place of incorporation: Sichuan, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US\$175,000,000
Registered capital: US\$60,000,000
Equity holder: the Company (56.7%, indirectly through Semiconductor Manufacturing International (AT) Corporation)
5. エス・エム・アイ・シ・ジャパン 株式会社
SMIC Japan Corporation*
Principal country of operation: Japan
Place of incorporation: Japan
Authorised capital: JPY10,000,000
divided into 200 shares of a par value of JPY50,000
Equity holder: the Company (100%)
6. **SMIC, Americas**
Principal country of operation: USA
Place of incorporation: California, US
Registered capital: No registered capital, authorized to issue 50,000,000 shares of common stock
Equity holder: the Company (100%)
7. **Better Way Enterprises Limited**
Principal country of operation: Samoa
Place of incorporation: Samoa
Authorised capital: US\$1,000,000
divided into 1,000,000 shares of a par value of US\$1.00
Equity holder: the Company (100%)
8. **SMIC Europe S.R.L.**
Principal country of operation: Agrate Brianza (Milan), Italy
Place of incorporation: Agrate Brianza (Milan), Italy
Registered capital: Euros10,000
Equity holder: the Company (100%)

* For identification purposes only

Report of the Directors

- 9. Garrison Consultants Limited**
Principal country of operation: Samoa
Place of incorporation: Samoa
Authorised capital: US\$1,000,000 divided into 1,000,000 shares of a par value of US\$1.00
Equity holder: the Company (100%, indirectly through Better Way Enterprises Limited)
- 10. Semiconductor Manufacturing International (AT) Corporation**
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorised capital: US\$1,900,000 divided into 100,000,000 ordinary shares of US\$0.01 each and 90,000,000 Series A preference shares of US\$0.01 each
Equity holder: the Company (56.7%)
- 11. Semiconductor Manufacturing International (Solar Cell) Corporation**
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorised capital: US\$11,000
Equity holder: the Company (100.0%)
- 12. 中芯能源科技(上海)有限公司
SMIC Energy Technology (Shanghai) Corporation***
Principal country of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US\$14,090,000
Registered capital: US\$6,000,000
Equity holder: the Company (100%, indirectly through Semiconductor Manufacturing International (Solar Cell) Corporation)
- 13. SMIC Commercial (Shanghai) Company**
(formerly known as “SMIC Consulting Corporation”)
Principal country of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US\$1,100,000
Registered capital: US\$800,000
Equity holder: the Company (100%)
- 14. 中芯國際開發管理(成都)有限公司
SMIC (Chengdu) Development Corporation***
Principal country of operation: Chengdu, PRC
Place of incorporation: Chengdu, PRC
Legal entity: Wholly foreign owned enterprise
Total Investment: US\$12,500,000
Registered capital: US\$5,000,000
Equity holder: the Company (100%)

SHARE CAPITAL

During the year ended December 31, 2005, the Company issued 48,025,920 ordinary shares to certain of the Company’s eligible participants including employees, directors, officers and service providers of the Company (“eligible participants”) pursuant to the Company’s 2004 stock option plan (the “Stock Option Plan”) and 27,591,342 ordinary shares to certain eligible participants pursuant to the 2004 equity incentive plan of the Company (the “EIP”).

During the year ended December 31, 2005, the Company repurchased 6,895,534 ordinary shares from eligible participants pursuant to the terms of the Company’s 2001 Preference Shares Stock Plan and 2001 Regulation S Preference Shares Stock Plan (collectively the “2001 Preference Shares Plans”).

	Number of Ordinary Shares Outstanding
Outstanding Share Capital as at December 31, 2005	18,301,680,867

* For identification purposes only

Under the terms of the Company's 2004 Equity Incentive Plan, the Compensation Committee of the Company may grant restricted share units ("Restricted Share Units") to eligible participants. Each Restricted Share Unit represents the right to receive one ordinary share. Restricted Share Units granted to new employees generally vest at a rate of 10% upon the second anniversary of the vesting commencement date, an additional 20% on the third anniversary of the vesting commencement date and an additional 70% upon the fourth anniversary of the vesting commencement date. Restricted Share Units granted to existing employees generally vest at a rate of 25% upon the first, second, third and fourth anniversaries of the vesting commencement date. Upon vesting of the Restricted Share Units and subject to the terms of the Insider Trading Policy and the payment by the participants of applicable taxes, the

Company will issue the relevant participants the number of ordinary shares underlying the awards of Restricted Share Units.

For the twelve months ended December 31, 2004, the Compensation Committee granted a total of 118,190,824 RSUs pursuant to which the Company issued an aggregate of 18,536,451 ordinary shares to its eligible participants on or around July 1, 2005. For the twelve months ended December 31, 2005, the Compensation Committee granted a total of 122,418,740 Restricted Share Units, and on February 20, 2006, the Compensation Committee granted a total of 3,110,000 Restricted Share Units. The remaining vesting dates of these Restricted Share Units (after deducting the number of Restricted Share Units granted but cancelled due to the departure of eligible participants prior to vesting) approximately are as follows:

Vesting dates	Approximate no. of RSUs (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2006	
1-Jan	280,000
1-Jul	1,006,524
1-Aug	500,000
1-Sep	15,364,685
13-Sep	250,000
16-Oct	12,500
2007	
1-Jan	10,622,500
25-Apr	20,000
29-Apr	50,000
1-Jul	1,006,524
1-Aug	520,000
1-Sep	15,364,685
13-Sep	250,000
16-Oct	12,500
2008	
1-Jan	10,710,000
25-Apr	40,000
29-Apr	100,000
1-Jul	1,006,524
1-Aug	540,000
1-Sep	15,364,685
13-Sep	250,000
16-Oct	12,500

Report of the Directors

Vesting dates	Approximate no. of RSUs (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2009	
1-Jan	10,710,000
25-Apr	140,000
29-Apr	350,000
1-Jul	506,524
1-Aug	640,000
1-Sep	15,364,685
13-Sep	250,000
16-Oct	12,500
2010	
1-Jan	10,430,000
2011	
1-Jan	87,500

REPURCHASE, SALE OR REDEMPTION OF SECURITIES

Other than repurchases by the Company of ordinary shares from employees pursuant to the terms of the 2001 Stock Option Plans, as disclosed in the paragraph (Share Capital)

above, the Company has not repurchased, sold or redeemed any additional ordinary shares in 2005.

The number of shares that the Company repurchased on a monthly basis in 2005, pursuant to the terms of the Stock Options Plans, is set forth below.

Month	Number of Ordinary Shares Repurchased	Highest Repurchase Price Per Share (in HK\$)	Lowest Repurchase Price Per Share (in HK\$)	Aggregate Price Paid (in HK\$)
January	780,000	\$0.8657	\$0.0857	\$293,046.00
February	858,000	\$0.8657	\$0.039	\$283,315.10
March	0	-	-	-
April	1,923,100	\$0.1169	\$0.039	\$104,040.89
May	0	-	-	-
June	1,466,400	\$0.8657	\$0.039	\$202,820.57
July	0	-	-	-
August	1,053,334	\$0.039	\$0.039	\$41,080.03
September	0	-	-	-
October	609,700	\$0.8657	\$0.039	\$107,593.43
November	0	-	-	-
December	205,000	\$0.8657	\$0.039	\$32,865.50

PUBLIC FLOAT

As at the date of this annual report, the public (as defined in the Rules Governing the Listing of Securities on the HKSE ("Listing Rules")) holds more than 25% of the Company's total issued share capital.

DEBT TO EQUITY RATIO

As of December 31, 2005, the Company's debt to equity ratio was 33.2% calculated based on the sum of the short-term borrowings, current portion of long-term debt and long-term debt divided by total shareholders' equity.

DIVIDENDS AND DIVIDEND POLICY

At the end of 2005, the Company's accumulated deficit increased to US\$247.9 million from an accumulated deficit of US\$136.4 million at the end of 2004. The Company has not declared or paid any cash dividends on the ordinary shares. We intend to retain any earnings for use in the Company's business and do not currently intend to pay cash dividends on the ordinary shares. Dividends, if any, on the outstanding shares will be declared by and subject to the discretion of the Board and must be approved at the annual general meeting of shareholders. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

- the Company's results of operations and cash flow;
- the Company's future prospects;
- the Company's capital requirements and surplus;
- the Company's financial condition;
- general business conditions;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company; and
- other factors deemed relevant by the Board.

The Company's ability to pay cash dividends will also depend upon the amount of distributions, if any, received by the Company from its wholly-owned Chinese operating subsidiaries. Under the applicable requirements of Chinese Company Law, the Company's subsidiaries in China may only distribute dividends after they have made allowances for:

- recovery of losses, if any;
- allocation to the statutory common reserve funds;
- allocation to staff and workers' bonus and welfare funds; and
- allocation to a discretionary common

reserve fund if approved by the Company's shareholders.

More specifically, these operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as statutory common reserves and a discretionary percentage of their net profit has been set aside for the staff and workers' bonus and welfare funds. These operating subsidiaries are not required to set aside any of their net profit as statutory common reserves if such reserves are at least 50% of their respective registered capital. Furthermore, if they record no net income for a year, they generally may not distribute dividends for that year.

CONTRACTS OF SIGNIFICANCE

There were no contracts of significance during the year in which any of the Directors were materially interested.

MAJOR SUPPLIERS AND CUSTOMERS

In 2005, the Company's largest and five largest raw materials suppliers accounted for approximately 10.6% and 40.7%, respectively, of the Company's overall raw materials purchases. Having made reasonable enquiries, the Company is not aware of any Director or shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) or their respective associates which had interests in any of the Company's five largest suppliers in 2005. Almost all of the Company's materials are imported free of value-added tax and import duties due to concessions granted to the semiconductor industry in China.

For 2005, the Company's largest and five largest customers accounted for approximately 25.8% and 64.0%, respectively, of the Company's total overall sales. The Company's Chief Executive Officer, Richard Ru Gin Chang, and his wife together hold shareholding interests of less than 0.1% in one of the Company's five largest customers in 2005, Texas Instruments Incorporated. Having made reasonable enquiries, the Company is not aware of any other Director or shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) or their respective associates which had interests in any of the Company's five largest customers in 2005.

Report of the Directors

PRE-EMPTIVE RIGHTS

The Company confirms that no pre-emptive rights exist in the law of the Cayman Islands.

DIRECTORS' INTERESTS

As at December 31, 2005, the interests or short positions of the Directors in the ordinary shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of

the laws of Hong Kong) ("SFO")), which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Board Member	Nature of Interest	Number of Shares	Percentage of Aggregate Interests to Total Issued Share Capital
Richard R. Chang	Personal Interest ⁽¹⁾	33,579,550	
	Personal Interest ⁽²⁾	17,100,000	
	Corporate Interest ⁽³⁾	20,000,000	
	Interest of Spouse	9,790,000	
	Interest of Child under 18	11,200,000	
Total		91,669,550	*
Ta-Lin Hsu	Corporate Interest ⁽⁴⁾	15,300,010	
	Personal Interest ⁽⁵⁾	500,000	
Total		15,800,010	*
Yen-Pong Jou	Personal Interest ⁽⁵⁾	500,000	*
Tsuyoshi Kawanishi	Personal Interest ⁽⁵⁾	500,000	
	Personal Interest ⁽⁶⁾	1,500,000	
Total		2,000,000	*
Henry Shaw	Personal Interest ⁽⁵⁾	500,000	*
Lip-Bu Tan	Personal Interest ⁽⁵⁾	500,000	*
Yang Yuan Wang	Personal Interest ⁽⁵⁾	500,000	*

Notes:

* Indicates less than 1%.

1. Pursuant to a Charitable Pledge Agreement dated December 1, 2003, Richard Ru Gin Chang and his spouse, Scarlett K. Chang (collectively, the "Donors") have pledged to transfer 10,000,000 of such ordinary shares as a charitable gift to The Richard and Scarlett Chang Family Foundation, a Delaware nonprofit nonstock corporation organized exclusively for religious, charitable, scientific, literary and education purposes within the meaning of Section 501(c)(3) of the US Internal Revenue Code of 1986, as amended, such transfer to be made in full at or prior to the death of the surviving Donor. In addition, 2,639,550 of such ordinary shares are jointly held by Richard Ru Gin Chang and his spouse, Scarlett K. Chang.

2. The Compensation Committee has granted Dr. Chang options to purchase an aggregate of 15,100,000 ordinary shares if fully exercised, and an award of 2,000,000 Restricted Share Units (each representing the right to receive one ordinary share) (the "RSU"). As of December 31, 2005, none of these options have been exercised and 25% of the RSUs have vested.

3. These ordinary shares are held by Jade Capital Company, LLC, a Delaware limited liability company (the "LLC"), of which Richard Ru Gin Chang and his spouse, Scarlett K. Chang (collectively, the "Members"), are the sole members. It is the current intent of the Members that all or a portion of the net income of the LLC be used for philanthropic purposes, including but not limited to contributions to charitable organizations that are tax-exempt under Section 501(c)(3) of the US Internal Revenue Code of 1986, as amended.

4. Ta-Lin Hsu has a controlling interest in AP3 Co-Investment Partners, LDC, which holds 15,300,010 ordinary shares.
5. Each Independent Non-executive Director and Non-executive Director was granted an option to purchase 500,000 ordinary shares, if fully exercised at a price per share of US\$0.22. These options were fully vested on March 19, 2005 and will expire on November 9, 2009. As of December 31, 2005, these options have not been exercised. Lai Xing Cai has declined such option.
6. Tsuyoshi Kawanishi has been granted options to purchase an aggregate of 1,500,000 ordinary shares, if fully exercised. As of December 31, 2005, these options have not been exercised.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election or election at the forthcoming AGM has or proposes to have

a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders' interest

Set out below are the names of the parties (not being a Director or chief executive of the Company) which were interested in 5 percent or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were interested as at December 31, 2005 as recorded in the register kept by the Company under section 336 of the SFO.

Name of Shareholder	Number of Shares Held	Percentage Held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	1,814,991,340 (long position) ⁽¹⁾	9.92% (long position)
	26,426,137 (long position) ⁽²⁾	0.14% (long position)
	11,690,563 (long position) ⁽³⁾	0.06% (long position)
	6,851,119 (short position) ⁽³⁾	0.03% (short position)
	4,794,491 (short position) ⁽⁴⁾	0.03% (short position)
Total:	1,853,108,040 (long position)	10.12% (long position)
	11,645,610 (short position)	0.06% (short position)
Credit Suisse Group ⁽⁵⁾	2,760,000 (long position) ⁽⁶⁾	0.02% (long position)
	381,346,030 (long position) ⁽⁷⁾	2.08% (long position)
	1,383,837,000 (long position) ⁽⁸⁾	7.56% (long position)
	25,705,000 (long position) ⁽⁹⁾	0.14% (long position)
	234,000 (long position) ⁽¹⁰⁾	0.00% (long position)
	418,500 (long position) ⁽¹¹⁾	0.00% (long position)
	2,695,000 (short position) ⁽⁶⁾	0.01% (short position)
	161,430,000 (short position) ⁽⁷⁾	0.88% (short position)
	2,001,626,000 (short position) ⁽⁸⁾	10.94% (short position)
	24,000,000 (short position) ⁽⁹⁾	0.13% (short position)
	Total:	1,794,300,530 (long position)
	2,189,751,000 (short position)	11.96% (short position)

Report of the Directors

Notes:

- (1) All such shares are held by S. I. Technology Production Holdings Limited ("SITPHL") which is wholly-owned by Shanghai Industrial Holdings Limited ("SIHL"). SIHL is an indirect non-wholly owned subsidiary of SIIC which are holding SIHL's shares through its wholly-owned subsidiaries namely, SIIC Capital (B.V.I.) Limited, Shanghai Investment Holdings Limited and SIIC CM Development Limited, which together are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of SIHL. By virtue of the SFO, SIIC and its subsidiaries namely, Shanghai Investment Holdings Limited and Shanghai Industrial Investment Treasury Company Limited are deemed to be interested in the 1,814,991,340 Shares held by SITPHL. The Company's Directors, Lai Xing Cai (resigned from the Board on February 6, 2006) who is the chairman of SIHL and Fang Yao, who is the executive director of SIHL. It is the Company's understanding that voting and investment control over the ordinary shares beneficially owned by SIHL are maintained by the board of directors of SIHL.
- (2) 9,816,457 of such ordinary shares are held by SIIC CM Development Funds Limited which is owned as to 50% by each of SIIC CM Development Limited and Eternal Success Holdings Limited which are in turn wholly-owned by SIIC. 16,609,680 of such ordinary shares are held by SIIC Treasury (B.V.I.) Limited which is a wholly-owned subsidiary of SIIC.
- (3) All such ordinary shares are held by SIHL Treasury Limited which is a wholly-owned subsidiary of SIHL.
- (4) All such ordinary shares are held by SIIC Treasury (B.V.I.) Limited which is wholly-owned by SIIC.
- (5) The information contained herein is based on the Forms 2 filed by Credit Suisse with the Company on January 11, 2006 to report on changes in positions reported as at December 7, 2005.
- (6) Such ordinary shares are held by Credit Suisse Securities (USA) LLC (formerly known as Credit Suisse First Boston LLC) which is a wholly-owned subsidiary of Credit Suisse (USA), Inc. (formerly known as Credit Suisse First Boston (USA), Inc.), which is in turn a wholly-owned subsidiary of Credit Suisse Holdings (USA) Inc. (formerly known as Credit Suisse First Boston Inc). Credit Suisse Holdings (USA) Inc. is 57% owned by Credit Suisse and 43% owned by Credit Suisse Group. Credit Suisse is also a wholly-owned subsidiary of Credit Suisse Group.
- (7) Such ordinary shares are held by Credit Suisse International (formerly known as Credit Suisse First Boston International) which is 24%, 56% and 20% owned by Credit Suisse (International) Holding AG (formerly known as Credit Suisse First Boston (International) Holding AG), Credit Suisse and Credit Suisse Group, respectively. Credit Suisse (International) Holding AG is wholly-owned by Credit Suisse, which is in turn wholly-owned by Credit Suisse Group.
- (8) Such ordinary shares are held by Credit Suisse (Hong Kong) Limited (formerly known as Credit Suisse First Boston (Hong Kong) Limited) which is 29.8% owned by Credit Suisse First Boston International (Guernsey) Limited and 70.2% owned by Credit Suisse (International) Holding AG. Credit Suisse First Boston International (Guernsey) Limited is wholly-owned by Credit Suisse (International) Holding AG. Credit Suisse (International) Holding AG is wholly-owned by Credit Suisse, which is in turn wholly-owned by Credit Suisse Group.
- (9) Such ordinary shares are held by Credit Suisse Securities (Europe) Limited (formerly known as Credit Suisse First Boston (Europe) Limited) which is wholly-owned by Credit Suisse Investment Holdings (UK) (formerly known as Credit Suisse First Boston (UK) Investment Holdings), which is 98.07% owned by Credit Suisse Investments (UK) (formerly known as Credit Suisse First Boston (UK) Investments) and 1.93% owned by Credit Suisse First Boston Management AG. Both Credit Suisse Investments (UK) and Credit Suisse First Boston Management AG are wholly-owned by Credit Suisse (International) Holding AG. Credit Suisse (International) Holding AG is wholly-owned by Credit Suisse, which is in turn wholly-owned by Credit Suisse Group.
- (10) Such ordinary shares are held by Credit Suisse which is wholly-owned by Credit Suisse Group.
- (11) Such ordinary shares are held by Credit Suisse, New York Branch, a branch of Credit Suisse, which is in turn wholly-owned by Credit Suisse Group.

EMOLUMENTS TO THE DIRECTORS

The chart below sets forth the emoluments to each of our Directors, including Richard Ru Gin Chang, our President, Chief Executive Officer and Executive Director, in 2005, 2004 and 2003.

	Richard Ru Gin Chang (in US\$)	Tsuyoshi Kawanishi (in US\$)	Wang Yang Yuan (in US\$)	Ta-Lin Hsu (in US\$)	Lip-Bu Tan (in US\$)	Henry Shaw (in US\$)	Yen-Pong Jou (in US\$)	Lai Xing Cai (in US\$)	Total (in US\$)
2005									
Salaries and other benefits	\$190,724	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$190,724
Stock Option Benefits*	97,664	49,026	8,608	8,608	8,608	8,608	-	-	189,730
Total	\$288,388	\$49,026	\$8,608	\$8,608	\$8,608	\$8,608	\$8,608	\$-	\$380,454
2004									
Salaries and other benefits	\$190,343	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$190,343
Stock Option Benefits*	-	221,464	-	-	-	-	-	-	221,464
Total	\$190,343	\$221,464	\$-	\$-	\$-	\$-	\$-	\$-	\$411,807
2003									
Salaries and other benefits	\$191,621	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$191,621
Stock Option Benefits*	-	5,000	-	-	-	-	-	-	5,000
Total	\$191,621	\$5,000	\$-	\$-	\$-	\$-	\$-	\$-	\$196,621

* For a description of any options granted and exercised in 2005, please see the summary of grants of options as set forth under "Outstanding Share Options" in this annual report.

In 2005, the Board did not grant options to any Non-executive Director and Independent Non-executive Director as compensation for their service on the Board. On November 10, 2004,

the Board granted to each Independent Non-executive Director and Non-executive Director, an option to purchase 500,000 ordinary shares at a price per ordinary share of US\$0.22. These options were fully vested on March 19, 2005 and will expire on November 9, 2009. As of December 31, 2005, these options have not been exercised. Lai Xing Cai has declined such option.

FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Company for the years ended December 31, 2005 and 2004, included Richard Ru Gin Chang, the Company's President, Chief Executive Officer and Executive Director, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals during the year are as follows:

	2005 (in US\$)	2004 (in US\$)
Salaries, Housing Allowances, Other Allowances, and Benefits in Kind	\$513,570	\$430,144
Discretionary Bonuses	\$92,455	\$105,665
Stock option benefits*	\$325,889	\$620,060
Amounts paid to induce member to join Board	-	-

* For a description of any options exercised in 2005, please see the summary of grants of options as set forth under "Outstanding Share Options" in this annual report.

Report of the Directors

The five individuals whose emoluments were the highest in the Company for 2005 and 2004 may not be the same.

Emoluments (in HK\$)	Number of Individuals	
	2005	2004
\$1,000,000 – \$1,500,000	–	3
\$1,500,001 – \$2,000,000	3	–
\$2,000,000 – \$2,500,000	1	–
\$4,500,001 – \$5,000,000	–	1

REMUNERATION POLICY

The Company's employees are compensated using cash and a variety of additional incentives. In addition to a monthly salary, the Company's employees have the opportunity to earn additional merit-based bonuses on a quarterly basis according to the overall performance of the Company, each individual and his or her department. Furthermore, the Company's employees are eligible to participate on a quarterly basis in the Company's profit-sharing plan. Additional benefits include participation in the Company's 2004 global equity incentive compensation program, social welfare benefits for qualified Chinese employees, a global medical insurance plan for overseas employees and optional housing benefits and educational programs for employees with families.

The Directors are compensated for their services as Directors, primarily by grants of options, to purchase ordinary shares under the Stock Option Plan. The compensation committee of the Company (the "Compensation Committee") proposes, and the Board, other than interested Directors, approves, for the Directors, a remuneration package, which is consistent with the compensation received by Board members in other similar publicly-traded companies.

Pursuant to an incentive program involving the offering for sale of housing constructed by the Company to the Directors, employees and certain service providers, the Company sold one property to each of Richard Ru Gin Chang, the Company's President, Chief Executive Officer and Executive Director, and one to each of the Company's other five highest paid employees, at the same price as that at which other properties of the same type have been sold by the Company under the program.

The Company's local Chinese employees are entitled to a retirement benefit based on their basic salary upon retirement and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. We are required to make contributions to the state-managed retirement plan equivalent to 20.0%-22.5% of the monthly basic salary of current employees. Employees are required to make contributions equivalent to 8% of their basic salary. The contribution of such an arrangement is approximately US\$4.1 million, US\$2.5 million, US\$1.5 million and US\$1.0 million for the years ended December 31, 2005, 2004, 2003 and 2002, respectively. The retirement benefits do not apply to expatriate employees.

AUDITORS

The retiring auditors, Deloitte Touche Tohmatsu, have signified their willingness to continue in office. A resolution will be proposed at the AGM to reappoint them as the auditors of the Company and to authorize the audit committee of the Company (the "Audit Committee") to fix their remuneration.

CONNECTED TRANSACTIONS

Article 156 of the Company's Articles provides (amongst others) that the Company may indemnify any person who is made a party to any action, suit or proceeding by reason of the fact that the person is or was a director, officer, employee or agent of the Company, or is or was serving at the Company's request as a director, officer, employee or agent of the Company at another entity, subject to certain limitations and applicable conditions.

The Company recognizes the substantial increase in corporate litigation in general, subjecting directors, officers, employees, agents and fiduciaries to expensive litigation risks.

The Company desires to attract and retain the services of highly qualified individuals to serve the Company and, in part, in order to induce such individuals to continue to provide services to the Company, the Company wishes to provide for the indemnification and advancing of expenses of its directors as permitted by law and the Listing Rules.

Original Indemnification Agreements. On or around March 18, 2004, upon completion of the Global Offering, the Company entered into identical indemnification agreements with each director whose appointment as director took effect immediately up on the Global Offering (the “Global Offering Directors”), whereby the Company agreed to (inter alia) indemnify its Global Offering Directors in respect of liability arising from their capacity as Directors of the Company (collectively, the “Original Indemnification Agreements”).

Pursuant to the Original Indemnification Agreements, the Company was obliged to indemnify each Global Offering Director, to the fullest extent permitted by law, against all costs, charges, expenses, liabilities, losses and obligations incurred in connection with any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation which might lead to any of the foregoing (an “Applicable Claim”) by reason of or arising out of any event or occurrence relating to the fact that he is or was Director of the Company, or any of its subsidiaries, or is or was serving at the Company’s request at another corporation or enterprise, or by reason of any activity or inactivity while serving in such capacity (an “Indemnifiable Event”). The Company’s obligation to indemnify its Global Offering Directors pursuant to the Original Indemnification Agreements was subject to certain exceptions and limitations set out therein.

New Indemnification Agreements. At the annual general meeting of the Company’s shareholders on May 6, 2005 (the “2005 AGM”), the Company’s shareholders, other than the Directors, chief executive officers of the Company and their respective Associates (as defined in the Listing Rules) approved an amendment to the form of the Original Indemnification Agreements (the “New Indemnification Agreement”).

The New Indemnification Agreement reflects the new requirements under Rules 14A.35 of the Listing Rules to set a term of no longer than three years and a maximum aggregate annual value for each connected transaction (as defined under the Listing Rules). The New Indemnification Agreements superseded the Original Indemnification Agreements which the Company had previously entered into with any existing directors. The terms of the New Indemnification Agreements are the same as the Original Indemnification Agreements, except that the New Indemnification Agreements are subject to a term of three years and an annual cap (as described below).

The annual cap in relation to the New Indemnification Agreements will not exceed a maximum aggregate annual value as disclosed in the Company’s previous announcement (the “Current Limit”). In the event that the Current Limit is increased, the Company will re-comply with the Listing Rules, in particular, it will make a further announcement and seek independent shareholders’ approval of the new maximum aggregate annual value of the New Indemnification Agreements.

Report of the Directors

The New Indemnification Agreement became effective upon execution by each Director. The New Indemnification Agreements will continue in effect with respect to Applicable Claims relating to Indemnifiable Events regardless of whether the relevant Director continues to serve as a Director or to serve at any other enterprise at its request.

For the year ended December 31, 2005, no payment was made to any Director under the Original Indemnification Agreements or the New Indemnification Agreements.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's external auditors have provided a letter confirming that:

- (a) in relation to the Original Indemnification Agreements:
 - (i) the continuing connected transactions have received the approval of the Board;

- (ii) the Company has received a confirmation from its legal advisers as to Cayman Islands law, Maples and Calder, that the Original Indemnification Agreements were entered into and the Company's obligations thereunder were assumed by it, in accordance with the Articles and applicable Cayman Islands law; and

- (iii) certain members of the senior management of the Company represented to them that no payment was made by the Company to its directors under any of the Original Indemnification Agreements for the period from January 1, 2005 to May 5, 2005.

- (b) in relation to the New Indemnification Agreements:

- (i) the continuing connected transactions have received the approval of the Board;

- (ii) the continuing connected transactions were approved by the shareholders of the Company on May 6, 2005; and

- (iii) certain members of the senior management of the Company represented to them that no payment was made by the Company to its Directors under any New Identification Agreements for the period from May 6, 2005 to December 31, 2005.

EMPLOYEES

The following table sets forth, as of the dates indicated, the number of the Company's employees serving in the capacities indicated:

Function	As of December 31,			
	2002	2003	2004	2005
Managers	224	338	570	679
Professionals ⁽¹⁾	817	961	3,109	3,648
Technicians	1,837	2,746	3,389	4,127
Clerical staff	315	398	572	642
Total ⁽²⁾	3,193	4,443	7,640	9,096

Notes:

- (1) Professionals include engineers, lawyers, accountants and other personnel with specialized qualifications, excluding managers.
- (2) Includes 99, 38, 14 and 283 temporary and part-time employees in 2002, 2003, 2004 and 2005, respectively.

The following table sets forth, as of the dates indicated, a breakdown of the number of the Company's employees by geographic location:

Location of Facility	As of December 31,			
	2002	2003	2004	2005
Shanghai	3,146	4,033	5,481	6,232
Beijing	40	341	1,026	1,534
Tianjin	—	49	1,107	1,034
Chengdu	—	—	—	261
United States	5	13	16	18
Europe	—	4	5	7
Japan	2	3	3	6
Hong Kong	—	—	2	4
Total	3,193	4,443	7,640	9,096

The Company's success depends to a significant extent upon, among other factors, the Company's ability to attract, retain and motivate qualified personnel.

As of December 31, 2005, 1,084 and 144 of the Company's employees held master's degrees and doctorate degrees, respectively. As of the same date, 2,796 of the Company's employees possessed a bachelor's degree. The Company's engineers received an average of 40 hours of continuing training per person in 2005.

The Company has also entered into agreements with Shanghai University to offer a bachelor's degree program and Shanghai's Fudan University and Jiaotong University to offer graduate degree programs for its technicians. These employees can earn these degrees in either Microelectronics or solid-state circuitry. In addition, the Company employs many qualified personnel that have relocated back to China after receiving valuable industry experience overseas.

Report of the Directors

As a supplement to their salaries, the Company's employees have the opportunity to earn additional merit-based bonuses on a quarterly basis according to the overall performance of the Company, each individual and his or her department. Furthermore, the Company's employees are eligible to participate on a quarterly basis in the Company's profit-sharing plan. Additional benefits include participation in the 2004 global equity incentive compensation program, social welfare benefits for qualified Chinese employees, a global medical insurance plan for overseas employees and optional housing benefits and educational programs for employees with families.

The Company provides occupational health and hygiene management for the welfare of the Company's employees. This includes the monitoring of air quality, illumination, radiation, noise and drinking water. The Company's employees are not covered by any collective bargaining agreements.

SHARE OPTION SCHEMES

The Company's shareholders adopted the Stock Option Plan, the EIP and the Employee Stock Purchase Plan (the "ESPP", together with the Stock Option Plan and the EIP, the "Option Plans") to attract and retain its employees.

Stock Option Plan

The following is a summary of the principal terms of the Stock Option Plan conditionally adopted by the Company by way of shareholders' resolution dated February 16, 2004 and Directors' resolutions passed on January 16, 2004. Adoption of the Stock Option Plan took effect on March 18, 2004 being the first date of dealings in the ordinary shares.

Summary of the terms of the Stock Option Plan

(a) Purpose of the Stock Option Plan

The purposes of the Stock Option Plan are to attract, retain and motivate employees and Directors of, and other service providers to the Company, to provide a means of compensating them

through the grant of stock options for their contribution to the Company's, growth and profits, and to allow such employees, Directors and service providers to participate in such growth and profitability.

(b) Who may join

The Compensation Committee may, at its discretion, invite any employee, officer or other service provider of (including, but not limited to, any professional or other adviser of, or consultant or contractor to) the Company whether located in China, the United States or elsewhere to take up options to subscribe for ordinary shares at a price calculated in accordance with sub-paragraph (e) below. The Compensation Committee may also grant stock options to a Director who is not an employee of the Company ("Non-Employee Director").

(c) Stock Options

Stock options granted under the Stock Option Plan ("Stock Options") shall entitle a participant ("Participant") of the Stock Option Plan to purchase a specified number of ordinary shares or ADSs (the "Plan Shares") during a specified period at a price calculated in accordance with sub-paragraph (e) below. Three types of Stock Options may be granted under the Stock Option Plan, an Incentive Stock Option, a Non-Qualified Stock Option or a Director Option. An Incentive Stock Option is a stock option that falls within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 and may only be granted to employees of the Company and its subsidiaries. A Non-Qualified Stock Option is a stock option that is not an Incentive Stock Option. A Director Option is a Non-Qualified Stock Option granted to a Non-Employee Director.

The Company shall issue an Award Document to each Participant of the Stock Option Plan who is granted a Stock Option. The Award Document shall set out

the terms and provisions of the grant of a Stock Option to a Participant including applicable vesting dates or the attainment of specified performance goals (as determined by the Compensation Committee or the Administrator (as defined below), as the case may be) by the Participant. The Company may allow a Participant to exercise his or her Stock Options prior to vesting, provided the Participant agrees to enter into a repurchase agreement in respect of the Stock Option with the Company. The Compensation Committee may also (i) accelerate the vesting of a Stock Option, (ii) set the date on which any Stock Option may first become exercisable, or (iii) extend the period during which a Stock Option remains exercisable, except that no Stock Options may be exercised after the tenth anniversary of the date of grant.

The Stock Option Plan does not provide for any payment upon application or acceptance of an option.

(d) *Administration of the Stock Option Plan*

The Compensation Committee shall be responsible for the administration of the Stock Option Plan. Its responsibilities include granting Stock Options to eligible individuals, determining the number of Plan Shares subject to each Stock Option, and determining the terms and conditions of each Stock Option. The Compensation Committee is not obliged to grant Stock Options to Participants in uniform terms.

Accordingly, the terms and conditions which may be imposed may vary between Participants. Any determination by the Compensation Committee in relation to the carrying out and administering of the Stock Option Plan shall be final and binding. No member of the Compensation Committee shall be liable for any action or determination made in good faith, and the

members of the Compensation Committee shall be entitled to indemnification and reimbursement in the manner provided in the Articles.

The Compensation Committee may delegate some or all of its authority under the Stock Option Plan to an individual or individuals (each an "Administrator") who may either be one or more of the members of the Committee or one or more of the officers of the Company. An individual's status as an Administrator shall not affect his or her eligibility to participate in the Stock Option Plan. The Compensation Committee shall not delegate its authority to grant Stock Options to executive officers of the Company.

(e) *Exercise Price*

The exercise price per Plan Share purchasable under a Stock Option shall be fixed by the Committee at the time of grant or by a method specified by the Compensation Committee at the time of grant, but in no event shall be less than the Fair Market Value of a Plan Share on the date such Stock Option is granted.

The Fair Market Value of a Share will be the higher of (i) the closing price of the ordinary shares on the HKSE's daily quotation sheet on the applicable date of grant (which must be a business day), and (ii) the average closing price of the ordinary shares on the HKSE (as stated in the relevant daily quotation sheets of the HKSE) for the five business days immediately preceding the date of grant.

The Fair Market Value of the ADSs shall be the highest of (i) the closing price of the ADSs on the NYSE on the applicable date of grant, and (ii) the average closing price of the ADSs on the NYSE for the five business days immediately preceding the date of grant.

Report of the Directors

(f) *Limit of the Stock Option Plan*

The number of ordinary shares that may be issued under the Stock Option Plan and the Employee Stock Purchase Plan shall not exceed ten per cent. of the issued and outstanding ordinary shares immediately following the closing of the Global Offering (i.e., 1,694,186,849 ordinary shares of the Company, which represents approximately 9.2% of the total issued shares of the Company as at March 31, 2006).

The number of ordinary shares which may be issued pursuant to any outstanding Stock Options granted and yet to be exercised under the Stock Option Plan and all outstanding purchase right granted under the Employee Stock Purchase Plan or other employee stock purchase plan of the Company must not exceed in aggregate 30 per cent. of the issued and outstanding ordinary shares in issuance from time to time.

(g) *Individual Limit*

The total number of ordinary shares underlying Stock Options or other options granted by the Company to, and the total number of ordinary shares that may be purchased under one or more purchase rights granted under the Employee Stock Purchase Plan or any other employee stock purchase plan granted by the Company by, a Participant (including both exercised and outstanding Stock Options) in any twelve-month period may not exceed at any time one per cent. (1%) (or 0.1 per cent. in the case of an Independent Non-executive Director) of the then issued and outstanding ordinary shares unless otherwise allowed under the Listing Rules.

(h) *Exercise of Option*

A Stock Option shall vest, and be exercised, in accordance with the terms of the Stock Option Plan, the relevant Award Document and any rules and procedures established by the Compensation Committee for this purpose. However, the term of each Stock Option shall not exceed ten years from the date of grant.

(i) *Director Options*

Each non-employee Director may be granted Stock Options to purchase ordinary shares (or an equivalent of ADSs) on the terms set out in the relevant Award Document.

The Directors shall exercise all authority and responsibility with respect to Stock Options granted to Directors subject to the requirements of the Listing Rules.

All non-employee Directors' Stock Options shall only vest provided that the Director has remained in service as a Director through such vesting date. The unvested portion of a Stock Option granted to a Director shall be forfeited in full if the Director's service with the Board ends for any reason prior to the applicable vesting date.

Following termination of a non-employee Director's service on the Board, such non-employee Director (or his or her estate, personal representative or beneficiary, as the case may be) shall be entitled to exercise those of his or her Stock Options which have vested as of the date of such termination within 120 days following such termination.

(j) *Termination or lapse of Option*

A Stock Option shall terminate or lapse automatically on:

- (i) the expiry of ten years from the date of grant;
- (ii) the termination of a Participant's employment or service with the Company for a reason set out in sub-paragraph (l) below;
- (iii) save as to any contrary directions of the Compensation Committee, in the event of a complete liquidation or dissolution of the Company, all Stock Options outstanding at the time of the liquidation or dissolution shall terminate without further action by any person;
- (iv) the sale or other divestiture of a subsidiary, division or operating unit of the Company (where the Participant is employed by such subsidiary, division or operating unit); and
- (v) termination of the service relationship with a service provider (where the Participant is a service provider of the Company).

(k) *Rights are personal to Participant*

A Stock Option is personal to the Participant and shall be exercisable by such Participant or his Permitted Transferee (as defined below) only. An option shall not be transferred other than by will, by the laws of descent and distribution or pursuant to a domestic relations order. The Compensation Committee may also, at its discretion and subject to such terms and conditions as it shall specify, permit the transfer of a Stock Option for no consideration to a Participant's family members or to a trust or partnership established for the benefit of such family members (collectively

"Permitted Transferees"). Any Stock Option transferred to a Permitted Transferee shall be further transferable only by will or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant.

(l) *Termination of employment or service*

If a Participant's employment or service with the Company is terminated for the following reasons:

- (i) the failure or refusal of the Participant to substantially perform the duties required of him or her as an employee or officer of, or service provider to, the Company;
- (ii) any material violation by the Participant of any law or regulation applicable to any business of the Company, or the Participant's conviction of, or a plea of nolo contendere to, a felony, or any perpetration by the Participant of a common law fraud against the Company; or
- (iii) any other misconduct by the Participant that is materially injurious to the financial condition, business or reputation of the Company, then all Stock Options granted to the Participant, whether or not then vested, shall immediately lapse.

The Compensation Committee may permit any Incentive Stock Option to convert into a Non-Qualified Stock Option as of a Participant's termination of employment for purposes of providing such Participant with the benefit of any extended exercise period applicable to Non-Qualified Stock Options when the contract of employment of the holder of Incentive Stock Option terminates.

Report of the Directors

(m) *Change in control of the Company*

The Compensation Committee may specify at or after the date of grant of a Stock Option the effect that a Change in Control (as defined in the Stock Option Plan) will have on such Stock Option. The Compensation Committee may also, in contemplation of a Change in Control, accelerate the vesting, exercisability or payment of Stock Options to a date prior to the Change in Control, if the Compensation Committee determines that such action is necessary or advisable to allow the Participants to realise fully the value of their Stock Options in connection with such Change in Control.

(n) *Change in the capital structure of the Company*

In the event of an alteration in the capital structure of the Company (which includes a capitalisation issue, reduction of capital, consolidation, sub-division of Plan Shares, or rights issue to purchase Plan Shares at a price substantially below market value), the Compensation Committee may equitably adjust the number and kind of Plan Shares authorised for issuance in order to preserve the benefits or potential benefits intended to be made available under the Stock Option Plan. In addition, upon the occurrence of any of the foregoing events, the number of outstanding Stock Options and the number and kind of shares subject to any outstanding Stock Option and the purchase price per share under any outstanding Stock Option shall be equitably adjusted so as to preserve the benefits or potential benefits intended to be made available to Participants.

(o) *Period of the Stock Option Plan*

The Stock Option Plan shall remain in force for a period of ten years commencing on the date of its approval by the Company's shareholders.

(p) *Amendments and Termination*

The Stock Option Plan may be altered, amended in whole or in part, suspended and terminated by the Board at any time provided alterations or amendments of a material nature or any change to the terms of the Stock Options granted must be approved by the shareholders of the Company. Any alteration or amendment must be in accordance with the requirements of the Listing Rules or permitted by the HKSE.

If the Stock Option Plan is terminated early by the Board, no further Stock Options may be offered but unless otherwise stated in the Stock Option Plan, Stock Options granted before such termination shall continue to be valid and exercisable in accordance with the Stock Option Plan.

(q) *Voting and dividend rights*

No voting rights shall be exercisable and no dividends shall be payable in relation to Stock Options that have not been exercised.

(r) *Cancellation of Stock Options*

Stock Options granted but not exercised may not be cancelled unless an offer to cancel share options has been made pursuant to Rule 13 of the Hong Kong Code on Takeovers and Mergers and the Hong Kong Securities and Futures commission has consented to such cancellation.

(s) *Ranking of Ordinary Shares*

The ordinary shares to be allotted upon the exercise of a Stock Option will be subject to the Articles for the time being in force and will rank pari passu with the Plan Shares in issue on the date of such allotment.

Employee Stock Purchase Plan

The following is a summary of the principal terms of the ESPP conditionally adopted by the Company by way of shareholders' resolutions dated February 16, 2004 and Directors' resolutions passed on January 16, 2004.

Summary of the terms of the ESPP

(a) *Purposes of the ESPP*

The purposes of the ESPP are to attract, retain and motivate employees of the Company, to provide a means of compensating the employees for their contributions to the growth and profitability by permitting such employees to purchase the ADSs of the Company at a discount and receive favourable U.S. income tax treatment on a subsequent qualifying disposition of such ADSs.

(b) *Who may join*

Subject to any contrary directions given by the Compensation Committee, all full-time and regular part-time employees (the "Employees") of the Company as at the first business day (the "Offering Date") of a given period specified by the Committee (the "Offering Period") shall be eligible to enroll in the ESPP. To be eligible to purchase ADSs, all Employees must maintain his or her employment status, without interruption, with the Company through the last day of each Offering Period (the "Purchase Date").

(c) *Administration of the ESPP*

The Compensation Committee shall be responsible for the administration of the ESPP. Its responsibility includes determining the maximum amount that any Employee may contribute to his or her account under the ESPP during any calendar year; determining the starting and ending dates of each Offering Period; changing the Offering Periods, limiting the frequency and/or number of changes in the amount withheld during an Offering Period, permitting payroll withholding in

excess of the amounts designated by a participant ("Participant") of the ESPP in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, and ensuring that amounts applied towards the purchase of the Plan Shares for each Participant properly correspond with amounts withheld from the Participant's compensation.

Any determination by the Compensation Committee in relation to the carrying out and administering of the ESPP shall be final and binding. The Compensation Committee may delegate some or all of its authority under the ESPP to an Administrator. Any actions undertaken by the Administrator in accordance with the Compensation Committee's delegation of authority shall have the same force and effect as if undertaken directly by the Compensation Committee. No member of the Compensation Committee shall be liable for any action or determination made in good faith, and the members of the Compensation Committee shall be entitled to indemnification and reimbursement in the manner provided by the Company's by-laws as they may be amended from time to time.

(d) *Offering Period*

The ESPP shall be implemented by a series of Offering Periods. An eligible Employee of the Company may elect to participate in the ESPP for any Offering Period by completing the requisite documents. The Compensation Committee shall determine the starting and ending dates of each Offering Period but no Offering Period shall be shorter than 6 months or longer than 27 months.

(e) *Employees' Contributions under the ESPP*

All amounts that a Participant contributes ("Contributions") shall be credited to his or her account under the ESPP. Participants must elect to have payroll deductions made on each payday during the Offering Period in a dollar amount

Report of the Directors

specified in the documents submitted by him or by her. The Compensation Committee may permit Participants to make supplemental Contributions into his or her account, on such terms and subject to such limitations as the Compensation Committee may decide.

Participants may, on one occasion only during an Offering Period, decrease the rate of his or her Contributions to his or her account for the Offering Period, including a decrease to zero. The Participant may restore his or her Contributions to the original level, prior to the earlier of,

- (i) six months after the effective date of any such decrease; and
- (ii) the end of the relevant Offering Period.

In addition, a Participant who has elected such a decrease in rate of Contribution may, prior to the end of the relevant Offering Period, make one or more supplemental Contributions into his or her account. The aggregate of the supplemental Contributions shall not exceed, in the aggregate, the total Contributions the Participant would have made for that Offering Period had the original rate of Contribution remained in effect throughout the entire Offering Period and the Participant's actual Contributions.

A Participant may change his or her rate of Contribution by filing the requisite documents with the Company. The change in amount shall be effective as at the beginning of the next payroll period following the date of filing of the requisite documents, provided the Participant filed the documents at least five business days prior to the beginning of the next payroll period. Should the Participant fail to file within five business days prior to the beginning of the next payroll period, the change in amount shall be effective as of the beginning of the next succeeding payroll period.

(f) *Grant of Purchase Right*

Each eligible Employee who elects to participate in the ESPP in any given Offering Period shall be granted on the Purchase Date, a right to purchase the Plan Shares (the "Purchase Right"). The Purchase Right of a Participant shall be calculated in accordance with the following formula:

- (i) dividing (A) the product of US\$25,000 and the number of calendar years during all or part of which the Purchase Right shall be outstanding by (B) the closing price of the Plan Shares on the applicable exchange on which Plan Shares are trading (the "Fair Market Value") on the applicable exchange of the Plan Shares on the Offering Date; and
- (ii) subtracting from the quotient thereof (A) the number of Plan Shares that the Employee has purchased during the calendar year in which the Offering Date occurs under the ESPP or under any other employee stock purchase plan of the Company or any subsidiary of the Company which is intended to qualify under Section 423 of the U.S. Internal Revenue Code of 1986 plus (B) the number of Plan Shares subject on the Offering Date to any outstanding Purchase Rights granted to the Employee under any related Plan.

If application of the above formula would result in the grant of Purchase Rights covering, in the aggregate, more than the number of Plan Shares that the Compensation Committee has made available for the relevant Offering Period, then the Compensation Committee shall adjust the number of Plan Shares subject to the Purchase Right in order that, following such adjustment, the aggregate number of Plan Shares subject to the purchase Right shall remain within the applicable limit.

All Purchase Rights outstanding at the tenth anniversary of the ESPP shall remain outstanding through, and may be exercised upon the relevant Purchase Date, but no additional Purchase Right shall be granted under the ESPP.

(g) *Exercise of Purchase Right*

Unless a Participant withdraws from the ESPP, his or her Purchase Right shall become exercisable automatically, on the Purchase Date of the relevant Offering Period for the number of Plan Shares obtained by dividing the accumulated Contributions credited to the Participant's account as of the Purchase Date by the applicable Purchase Price, being an amount not less than 85 per cent. of the Fair Market Value of the Plan Shares on the Offering Date or on the Purchase Date, whichever is lower (the "Purchase Price").

The Compensation Committee may credit any Contributions that have been credited to a Participant's account under the ESPP with interest. Any interest credited to a Participant's account shall not be used to purchase ADSs and shall instead be paid to the Participant at the end of the relevant Offering Period.

If any portion of a Participant's accumulated Contributions is not used to purchase ordinary shares on a given Purchase Date, the remaining amount shall be held in the Participant's account and used for the purchase of Plan Shares under the next Offering Period, unless the Participant withdraws from the next Offering Period.

The exercise of the Purchase Right granted under the ESPP is not subject to any performance target.

(h) *Limit of the ESPP*

The number of ordinary shares that may be issued under the Stock Option Plan and the ESPP shall not exceed ten per cent. of the issued and outstanding ordinary shares immediately following the closing of the Global Offering (i.e.,

1,694,186,849 ordinary shares of the Company, which represents approximately 9.2% of the total issued shares of the Company as at March 31, 2006).

The number of ordinary shares that may be issued upon exercise of all outstanding Purchase Rights granted under the ESPP or other employee stock purchase plan of the Company or and any outstanding stock options granted under the Stock Option Plan or other stock option plan of the Company must not exceed, in the aggregate, thirty per cent. of the issued and outstanding ordinary shares in issuance from time to time.

No Employee shall be granted a Purchase Right pursuant to the terms of the ESPP if:

- (i) immediately after the grant, such Employee would own capital stock of the Company and/or hold outstanding Purchase Right to purchase stock possessing five per cent. or more of the total combined voting power or value of all classes of stock of the Company or of any of its subsidiaries;
- (ii) such Purchase Right would permit the Employees' rights to purchase ADSs under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate that exceeds US\$25,000 of the Fair Market Value of such ADSs or such lower amount as the Compensation Committee may determine for each calendar year in which such Purchase Right is outstanding at any time; and
- (iii) such Purchase Right would permit the Employee's rights to purchase ADSs under all employee purchase plans or option plans of the Company granted to him or her in any twelve-month period to exceed one per cent. of the then issued and outstanding ordinary shares unless otherwise allowed under the Listing Rules.

Report of the Directors

(i) *Purchase Rights are personal to the Participants*

During his or her lifetime, a Participant's Purchase Right shall be exercised by him or her only. Neither contributions credited to a Participant's account under the ESPP nor any rights with regard to the exercise of a Purchase Right to receive Plan Shares under the ESPP may be assigned, transferred, pledged or otherwise disposed in any way by any Participant.

(j) *Designation of Beneficiary*

A Participant may designate a beneficiary to receive any ADSs and cash, if any, from his or her account under the ESPP in the event of the Participant's death. If a Participant is married and the designated beneficiary is not the spouse, the Company may determine that spousal consent shall be required for such designation to be effective.

A Participant may change a designation of beneficiary at any time by filing the requisite notice. In the event of the death of the Participant and in the absence of a beneficiary validly designated under the ESPP who is living at the time of such Participant's death, the Company shall deliver ADSs and/or cash from the Participant's account under the ESPP to the executor or administrator of the Participant's estate, or if no such person has been appointed, the Company, in its discretion, may deliver such ADSs and/or cash to the Participant's spouse or to any one or more dependents, relatives, or such other person as the Company may designate.

(k) *Voluntary Withdrawal*

A Participant may withdraw all but not less than all the Contributions credited to his or her account under the ESPP at any time prior to a Purchase Date by submitting the requisite documents. A Participant's Purchase Right for the current period shall automatically be terminated and cancelled, and no further

Contributions for the purchase of ADSs shall be accepted from the Participant during the Offering Period. A Participant's withdrawal from an offering shall not have any effect upon his or her eligibility to participate in the ESPP for the succeeding Offering Period.

(l) *Termination of Employment*

If a Participant to the ESPP terminates his or her employment under circumstances that qualify the Participant as a Qualified Terminated Participant, (as defined in the ESPP) and the effective date of the Participant's termination of employment is less than three months prior to the next Purchase Date, then the Participant shall continue to participate in the ESPP for the Offering Period then in progress, and the Participant's Purchase Right for such Offering Period shall be exercised in accordance with subparagraph (g) above. However, the Participant's Contribution to his or her account shall cease with the Contribution made from his or her final paycheck, and the Participant shall not be permitted to make any supplemental Contributions to the ESPP save as directed otherwise by the Compensation Committee. The Participant shall not be eligible to participate in any Offering Period that starts after the effective date of his or her termination of employment.

If a Participant terminates his or her employment under circumstances which do not qualify him or her as a Qualified Terminated Participant, the Company shall pay to the Participant all contributions credited to his or her account under the ESPP and the Participant's Purchase Right shall automatically terminate and lapse.

(m) *Voting and dividend rights*

No voting rights shall be exercisable and no Participants under the ESPP shall have any claim to the dividends in the ADSs covered by his or her rights to purchase the ADSs until such rights have been exercised.

(n) *Ranking of the ADSs*

ADSs allotted upon the exercise of Purchase Right shall rank pari passu (including, but not limited to, with respect to voting, dividend transfer rights and rights arising upon liquidation of the Company) in all respects with the ADSs in issue on the date of such allotment and will be subject to all the provisions of the Articles for the time being in force.

(o) *Change in the capital structure of the Company*

In the event of an alteration in the capital structure of the Company (which includes a capitalisation issue, reduction of capital, consolidation, sub-division of Plan Shares, or rights issue to purchase Plan Shares at a price substantially below market value) the Compensation Committee shall have discretion to make the appropriate adjustments in the number and/or the kind of shares which are subject to purchase under outstanding Purchase Rights, including, if the Compensation Committee deems appropriate, the substitution of similar Purchase Rights in shares of another company so that a Participant shall be entitled to the same proportion of the equity capital of the Company as that to which he or she was previously entitled to.

(p) *Period of the ESPP*

The ESPP shall continue for a term of ten years from the date of its approval by the Company's shareholders unless terminated in accordance with subparagraph (r).

(q) *Use of Funds*

The Company may, but shall not be obligated to, segregate Contributions under the ESPP and/or arrange for Contributions to be held by a third party financial institution or trustee for the benefit of the Participants. Whether or not segregated, Contributions shall remain the property of the relevant Participants and shall be subjected to the rights of the Participants and not to the claims of the Company's creditors.

(r) *Amendments and Termination of the ESPP*

The Compensation Committee may at any time amend the ESPP in any respect or terminate the ESPP, except that, without

the approval of the Company's shareholders at a meeting duly called, no amendment shall be made in relation to:

- (i) increasing the number of ADSs approved for the ESPP; or
- (ii) decreasing the Purchase Price per ADS.

Any alterations or amendments of a material nature or any change to the terms of the Purchase Rights granted must be approved by the shareholders of the Company. Any amendment made to the ESPP must be in accordance with the requirements of the Listing Rules or permitted by the SEHK.

If the ESPP is terminated by the Board prior to the tenth anniversary of the date of Board approval, unless the Compensation Committee has also terminated any Offering Period then in progress, Purchase Rights granted before such termination shall continue to be valid and exercisable in accordance with, and subject to, the terms and conditions of the ESPP.

Rule 17.03(9) of the Listing Rules provide that the exercise price of any share option scheme operated by listed issuers may not be lower than effectively the market price of the ordinary shares. As a result of the capital intensive nature of the Company's business, we have traditionally relied on share options, rather than cash, as an important means of remunerating its employees. This is common in the industry and we wish to continue this practice. Accordingly, we have applied to and obtained from the SEHK a waiver from strict compliance with Rule 17.03(9) of the Listing Rules such that the Company is allowed to continue to grant purchase rights over its ADSs to its employees under the ESPP at an exercise price which is at a discount (up to 15 per cent. discount) to market price.

Valuation of Options Granted

Details of the valuation of the options granted during the year ended December 31, 2005, including the accounting policy adopted for the share options are set out in notes 3(v), 3(x) and 20 of the financial statements. Investors should be aware that such valuations were prepared subject to a number of assumptions and are limited by the limitations of the pricing model."

Outstanding Share Options

Details of the 2001 Stock Option Plans and the Stock Option Plan are as follows:

2001 Stock Option Plan

Name/Eligible Participants	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 1/1/05	Options Lapsed During Period	Options Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/05	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Kawanishi, Tsuyoshi	11/7/2002	7/1/2002 – 7/10/2012	500,000	\$0.05	500,000	-	-	-	-	500,000	\$-	\$0.07
Kawanishi, Tsuyoshi	15/1/2004	1/15/2004 – 1/14/2006	1,000,000	\$0.10	1,000,000	-	-	-	-	1,000,000	\$-	\$0.33
Service Providers	26/9/2002	9/26/2002 – 9/25/2012	50,000	\$0.05	50,000	-	-	-	-	50,000	\$-	\$0.03
Service Providers	15/7/2003	7/15/2003 – 7/02/2005	20,000	\$0.05	20,000	-	-	-	-	20,000	\$-	\$0.14
Service Providers	15/1/2004	1/15/2004 – 3/01/2005	4,100,000	\$0.10	100,000	-	-	-	-	100,000	\$-	\$0.14
Senior Management	24/9/2001	9/24/2001 – 9/23/2011	1,450,000	\$0.01	600,000	-	-	600,000	-	-	\$0.21	\$0.03
Senior Management	10/4/2002	4/10/2002 – 4/09/2012	1,350,000	\$0.02	1,350,000	-	-	-	-	1,350,000	\$-	\$0.05
Senior Management	24/4/2003	4/24/2003 – 4/23/2013	1,500,000	\$0.05	1,500,000	-	-	-	-	1,500,000	\$-	\$0.14
Senior Management	15/1/2004	1/15/2004 – 1/14/2014	10,700,000	\$1.00	10,450,000	6,000,000	-	2,000,000	-	2,450,000	\$0.21	\$0.14
Senior Management	16/2/2004	2/16/2004 – 2/15/2014	900,000	\$0.25	900,000	-	-	-	-	900,000	\$-	\$0.33
Others	15/1/2004	1/15/2004 – 1/14/2014	4,600,000	\$0.10	2,500,000	-	-	-	-	2,500,000	\$-	\$0.35
Others	16/2/2004	2/16/2004 – 2/15/2014	12,300,000	\$0.25	7,380,000	-	-	-	-	7,380,000	\$-	\$0.35
Employees	28/3/2001	3/28/2001 – 3/27/2011	89,385,000	\$0.01	8,096,000	145,500	2,457,334	866,500	-	7,064,000	\$0.20	\$0.03
Employees	1/4/2001	4/1/2001 – 3/31/2011	2,900,000	\$0.01	-	-	270,000	-	-	-	\$-	\$0.03
Employees	2/4/2001	4/02/2001 – 4/01/2011	2,216,000	\$0.01	416,000	18,000	-	68,000	-	330,000	\$0.20	\$0.03
Employees	16/4/2001	4/16/2001 – 4/15/2011	575,000	\$0.01	35,000	-	-	-	-	35,000	\$-	\$0.03
Employees	25/4/2001	4/25/2001 – 4/24/2011	600,000	\$0.01	-	-	90,000	-	-	-	\$-	\$0.03
Employees	28/4/2001	4/28/2001 – 4/27/2011	60,000	\$0.01	42,000	-	-	-	-	42,000	\$-	\$0.03
Employees	7/5/2001	5/7/2001 – 5/6/2011	1,650,000	\$0.01	-	-	135,000	-	-	-	\$-	\$0.03
Employees	14/5/2001	5/14/2001 – 5/13/2011	1,597,000	\$0.01	47,000	-	180,000	22,000	-	25,000	\$0.22	\$0.03
Employees	15/5/2001	5/15/2001 – 5/14/2011	95,000	\$0.01	35,000	-	-	-	-	35,000	\$-	\$0.03
Employees	24/5/2001	5/24/2001 – 5/23/2011	35,000	\$0.01	35,000	-	-	35,000	-	-	\$0.21	\$0.03
Employees	1/6/2001	6/01/2001 – 5/31/2011	80,000	\$0.01	40,000	-	-	-	-	40,000	\$-	\$0.03
Employees	1/7/2001	7/1/2001 – 6/30/2011	745,000	\$0.01	69,000	-	90,000	-	-	69,000	\$-	\$0.03
Employees	10/7/2001	7/10/2001 – 7/09/2011	20,000	\$0.01	20,000	-	-	20,000	-	-	\$0.20	\$0.03
Employees	15/7/2001	7/15/2001 – 7/14/2011	1,045,000	\$0.01	788,000	-	-	218,000	-	570,000	\$0.20	\$0.03
Employees	16/7/2001	7/16/2001 – 7/15/2011	2,220,000	\$0.01	128,000	-	-	-	-	128,000	\$-	\$0.03
Employees	20/7/2001	7/20/2001 – 7/19/2011	20,000	\$0.01	14,000	-	-	-	-	14,000	\$-	\$0.03
Employees	2/7/2001	7/2/2001 – 7/26/2011	50,000	\$0.01	50,000	-	-	-	-	50,000	\$-	\$0.03
Employees	30/7/2001	7/30/2001 – 7/29/2011	140,000	\$0.01	100,000	-	-	-	-	100,000	\$-	\$0.03
Employees	1/8/2001	8/01/2001 – 7/31/2011	195,000	\$0.01	189,000	14,000	-	81,000	-	94,000	\$0.22	\$0.03
Employees	7/8/2001	8/07/2001 – 8/06/2011	20,000	\$0.01	20,000	-	-	-	-	20,000	\$-	\$0.03

Name/Eligible Participants	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 1/1/05	Options Lapsed During Period	Options Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/05	Weighted Average Closing Price of Shares Immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Employees	15/8/2001	8/15/2001 – 8/14/2011	100,000	\$0.01	100,000	-	-	-	-	100,000	\$-	\$0.03
Employees	20/8/2001	8/20/2001 – 8/19/2011	20,000	\$0.01	20,000	-	-	-	-	20,000	\$-	\$0.03
Employees	24/9/2001	9/24/2001 – 9/23/2011	99,158,500	\$0.01	51,448,300	459,000	1,511,000	13,434,100	-	37,555,200	\$0.21	\$0.03
Employees	28/9/2001	9/28/2001 – 9/27/2011	50,000	\$0.01	50,000	-	-	-	-	50,000	\$-	\$0.03
Employees	24/1/2002	1/24/2002 – 1/23/2012	47,653,000	\$0.01	36,934,500	420,000	-	4,076,000	-	32,438,500	\$0.21	\$0.03
Employees	24/1/2002	1/24/2002 – 1/23/2012	7,684,500	\$0.02	4,996,340	750,700	55,300	582,000	-	3,663,640	\$0.21	\$0.03
Employees	10/4/2002	4/10/2002 – 4/09/2012	1,315,000	\$0.01	65,000	-	-	-	-	65,000	\$-	\$0.05
Employees	10/4/2002	4/10/2002 – 4/09/2012	47,349,000	\$0.02	32,588,500	682,000	225,000	2,345,700	-	29,560,800	\$0.20	\$0.05
Employees	11/4/2002	4/11/2002 – 4/10/2012	4,100,000	\$0.01	2,100,000	-	-	-	-	2,100,000	\$-	\$0.05
Employees	28/6/2002	6/28/2002 – 6/27/2012	930,000	\$0.01	900,000	-	-	-	-	900,000	\$-	\$0.06
Employees	28/6/2002	6/28/2002 – 6/27/2012	39,740,000	\$0.02	29,312,000	1,054,000	-	1,853,800	-	26,404,200	\$0.20	\$0.06
Employees	28/6/2002	6/28/2002 – 6/27/2012	18,944,000	\$0.05	13,471,000	604,000	-	369,000	-	12,498,000	\$0.20	\$0.06
Employees	11/7/2002	7/11/2002 – 7/10/2012	250,000	\$0.01	250,000	-	-	250,000	-	-	\$0.20	\$0.07
Employees	11/7/2002	7/11/2002 – 7/10/2012	1,700,000	\$0.02	750,000	-	-	-	-	750,000	\$-	\$0.07
Employees	11/7/2002	7/11/2002 – 7/10/2012	2,780,000	\$0.05	830,000	750,000	-	-	-	80,000	\$-	\$0.07
Employees	26/9/2002	9/26/2005 – 9/25/2012	5,770,000	\$0.02	3,642,000	-	-	56,000	-	3,586,000	\$-	\$0.08
Employees	26/9/2002	9/26/2005 – 9/25/2012	65,948,300	\$0.05	47,276,150	3,412,675	48,150	2,455,125	-	41,408,350	\$0.20	\$0.08
Employees	9/1/2003	1/09/2003 – 1/08/2013	53,831,000	\$0.05	39,225,800	1,917,000	144,000	950,100	-	36,358,700	\$0.21	\$0.10
Employees	10/1/2003	1/10/2003 – 1/09/2013	720,000	\$0.05	720,000	-	-	-	-	720,000	\$-	\$0.10
Employees	22/1/2003	1/22/2003 – 1/21/2013	1,060,000	\$0.05	1,060,000	-	-	-	-	1,060,000	\$-	\$0.10
Employees	1/4/2003	4/01/2003 – 3/31/2013	18,804,900	\$0.05	17,013,820	1,734,511	-	380,171	-	14,899,138	\$0.20	\$0.14
Employees	15/4/2003	4/15/2003 – 4/14/2013	550,000	\$0.05	550,000	-	-	-	-	550,000	\$-	\$0.14
Employees	24/4/2003	4/24/2003 – 4/23/2013	58,838,000	\$0.05	38,921,500	2,747,700	-	1,730,450	-	34,443,350	\$0.21	\$0.14
Employees	15/7/2003	7/15/2003 – 7/14/2013	59,699,900	\$0.05	39,929,900	3,008,410	-	858,490	-	36,063,000	\$0.20	\$0.17
Employees	10/10/2003	10/10/2003 – 10/09/2013	49,535,400	\$0.10	37,988,600	6,548,140	-	567,000	-	30,874,460	\$0.20	\$0.29
Employees	5/1/2004	1/05/2004 – 1/04/2014	130,901,110	\$0.10	110,218,140	10,942,215	-	3,663,559	-	95,612,366	\$0.20	\$0.33
Employees	15/1/2004	1/15/2004 – 1/14/2014	20,885,000	\$0.10	10,735,000	525,000	-	656,000	-	9,554,000	\$0.21	\$0.33
Employees	15/1/2004	1/15/2004 – 1/14/2014	300,000	\$0.25	300,000	300,000	-	-	-	-	\$-	\$0.33
Employees	16/2/2004	2/16/2004 – 2/15/2014	14,948,600	\$0.10	7,581,900	1,048,050	-	809,750	-	5,724,100	\$0.20	\$0.33
Employees	16/2/2004	2/16/2004 – 2/15/2014	76,954,880	\$0.25	67,210,690	6,536,455	-	-	-	60,674,235	\$-	\$0.33

Options to purchase ordinary shares issued to new employees generally vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date. Beginning in January 2004, options to purchase ordinary shares issued to then-existing employees generally vest at a rate of 25% upon the first, second, third and fourth anniversaries of the vesting commencement date.

The Company has not issued stock options under the 2001 Stock Option Plans since the completion of the Global Offering.

2001 Preference Share Plan

Name/Eligible Participants	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 1/1/05	Options Lapsed During Period	Options Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/05	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Service Providers	11/7/2002	7/11/2002 – 7/10/2012	462,000	\$0.11	202,000	-	-	-	-	202,000	\$-	\$0.14
Service Providers	26/9/2002	9/26/2002 – 9/25/2012	50,000	\$0.11	50,000	-	-	-	-	50,000	\$-	\$0.15
Employees	24/9/2001	9/24/2001 – 9/23/2011	254,098,700	\$0.11	32,280,300	42,000	125,000	6,372,500	-	25,865,800	\$0.21	\$0.11
Employees	28/9/2001	9/28/2001 – 9/27/2011	50,000	\$0.11	50,000	-	-	-	-	50,000	\$-	\$0.11
Employees	3/11/2001	11/03/2001 – 11/02/2011	780,000	\$0.35	680,000	62,500	-	-	-	617,500	\$-	\$0.11
Employees	24/1/2002	1/24/2002 – 1/23/2012	58,357,500	\$0.11	9,201,340	415,800	135,000	282,350	-	8,523,190	\$0.20	\$0.12
Employees	10/4/2002	4/10/2002 – 4/09/2012	51,384,000	\$0.11	7,108,000	431,000	-	382,200	-	6,294,800	\$0.20	\$0.13
Employees	28/6/2002	6/28/2002 – 6/27/2012	63,332,000	\$0.11	16,926,000	602,000	-	600,500	-	15,723,500	\$0.17	\$0.14
Employees	11/7/2002	7/11/2002 – 7/10/2012	4,530,000	\$0.11	2,615,000	750,000	-	1,060,000	-	805,000	\$0.21	\$0.14
Employees	26/9/2002	9/26/2002 – 9/25/2012	73,804,800	\$0.11	20,363,320	1,651,455	189,750	716,775	-	17,995,090	\$0.18	\$0.15
Employees	9/1/2003	1/09/2003 – 1/08/2013	12,686,000	\$0.11	2,157,000	-	-	-	-	2,157,000	\$-	\$0.17

Options to purchase preference shares issued to new employees generally vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date. Employees may early exercise their options to purchase preference shares. If an employee early exercises 100% of his or her options, the options vest at a rate of 25% upon each of the first, second, third and fourth anniversary of the vesting commencement date. Furthermore, in this case, if the employee remains employed by the Company and the Company has completed its initial public offering as of the third anniversary of the vesting commencement date, all of the options shall vest.

The options to purchase preference shares converted into options to purchase ordinary shares immediately prior to the completion of the Global Offering.

2004 Stock Option Plan

Name/Eligible Participants	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as 1/1/05	Additional Options Lapsed During Period	Options Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/05	Weighted Average Closing Price of Shares Immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares Immediately before Dates on which Options were Granted (USD)
Kawanishi, Tsuyoshi	10/11/2004	11/10/2004 – 11/09/2009	500,000	\$0.22	500,000	-	-	-	-	500,000	\$-	\$0.22
Richard Chang	7/4/2004	4/07/2004 – 4/06/2014	100,000	\$0.31	100,000	-	-	-	-	100,000	\$-	\$0.31
Richard Chang	11/5/2005	5/11/2005 – 5/10/2015	15,000,000	\$0.20	-	15,000,000	-	-	-	15,000,000	\$-	\$0.22
Ta-Lin Hsu	10/11/2004	11/10/2004 – 11/09/2009	500,000	\$0.22	500,000	-	-	-	-	500,000	\$-	\$0.22
Yen-Pon Jou	10/11/2004	11/10/2004 – 11/09/2009	500,000	\$0.22	500,000	-	-	-	-	500,000	\$-	\$0.22
Henry Shaw	10/11/2004	11/10/2004 – 11/09/2009	500,000	\$0.22	500,000	-	-	-	-	500,000	\$-	\$0.22
Lip-Bu Tan	10/11/2004	11/10/2004 – 11/09/2009	500,000	\$0.22	500,000	-	-	-	-	500,000	\$-	\$0.22
Wang Yang Yuan	10/11/2004	11/10/2004 – 11/09/2009	500,000	\$0.22	500,000	-	-	-	-	500,000	\$-	\$0.22
Senior Management	18/3/2004	3/18/2004 – 3/17/2014	150,000	\$0.35	190,000	-	40,000	-	-	150,000	\$-	\$0.35
Senior Management	11/5/2005	5/11/2005 – 5/10/2015	1,100,000	\$0.20	-	1,100,000	-	-	-	1,100,000	\$-	\$0.20
Senior Management	11/11/2005	11/11/2005 – 11/10/2015	11,640,000	\$0.15	-	11,640,000	-	-	-	11,640,000	\$-	\$0.15
Others	18/3/2004	3/18/2004 – 3/17/2014	20,000	\$0.35	20,000	-	-	-	-	20,000	\$-	\$0.35
Others	2/7/2004	7/27/2004 – 7/26/2014	200,000	\$0.20	200,000	-	-	-	-	200,000	\$-	\$0.20
Others	11/5/2005	5/11/2005 – 5/10/2015	100,000	\$0.20	-	100,000	-	-	-	100,000	\$-	\$0.20
Others	11/11/2005	11/11/2005 – 11/10/2015	3,580,000	\$0.15	-	3,580,000	-	-	-	3,580,000	\$-	\$0.15
Employees	18/3/2004	3/18/2004 – 3/17/2014	49,949,700	\$0.35	45,077,750	-	4,922,350	-	-	40,155,400	\$-	\$0.35
Employees	25/4/2004	4/25/2004 – 4/24/2014	22,591,800	\$0.28	20,836,800	-	1,696,450	-	-	19,140,350	\$-	\$0.28
Employees	2/7/2004	7/27/2004 – 7/26/2014	35,983,000	\$0.20	33,192,000	-	4,061,000	-	-	29,131,000	\$-	\$0.20
Employees	10/11/2004	11/10/2004 – 11/09/2014	52,036,140	\$0.22	51,772,730	-	10,218,920	-	-	41,553,810	\$-	\$0.22
Employees	11/5/2005	5/11/2005 – 5/10/2015	94,381,300	\$0.20	-	94,381,300	-	-	-	80,257,423	\$-	\$0.20
Employees	11/8/2005	8/11/2005 – 8/10/2015	32,279,500	\$0.22	-	32,279,500	-	-	-	31,107,500	\$-	\$0.22
Employees	11/11/2005	11/11/2005 – 11/10/2015	149,642,000	\$0.15	-	149,642,000	-	-	-	147,345,000	\$-	\$0.15

Options to purchase ordinary shares issued to new employees generally vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date. Options to purchase ordinary shares issued to then-existing employees generally vest at a rate of 25% upon the first, second, third and fourth anniversaries of the vesting commencement date.

2004 Equity Incentive Plan

Name/Eligible Participants	Date Granted	Period during which Rights Exercisable	No. of RSUs Awarded	Exercise Price Per Share (USD)	RSUs Outstanding as of 1/1/05	Additional RSUs Granted During Period	RSUs Lapsed During Period	RSUs Lapsed Ordinary Shares During Period	RSUs Repurchased of Ordinary Shares During Period*	RSUs Issued During Period	RSUs Cancelled During Period	RSUs Outstanding as of 12/31/05	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Shares Units were Vested (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Shares Units were Granted (USD)
Senior Management	27/7/2004	7/27/2005 – 7/26/2015	1,130,000	\$0.00	1,130,000	-	100,000	-	-	257,500	-	772,500	\$0.21	\$0.20
Senior Management	11/8/2005	8/11/2005 – 8/10/2015	916,830	\$0.00	-	916,830	-	-	-	-	-	916,830	\$-	\$0.22
Senior Management	11/11/2005	11/11/2005 – 11/10/2015	2,910,000	\$0.00	-	2,910,000	-	-	-	-	-	2,910,000	\$-	\$0.15
Others	11/8/2005	8/11/2005 – 8/10/2015	156,888	\$0.00	-	156,888	-	-	-	-	-	156,888	\$-	\$0.22
Others	11/11/2005	11/11/2005 – 11/10/2015	2,100,000	\$0.00	-	2,100,000	-	-	-	-	-	2,100,000	\$-	\$0.15
Employees	1/7/2004	7/01/2005 – 6/30/2015	96,856,590	\$0.00	93,649,680	-	7,661,770	-	-	22,641,784	-	63,346,126	\$0.21	\$0.22
Employees	27/7/2004	7/27/2005 – 7/26/2015	19,447,520	\$0.00	16,417,520	-	2,432,500	-	-	3,891,980	-	10,093,140	\$0.21	\$0.20
Employees	10/11/2004	11/10/2005 – 11/09/2015	756,714	\$0.00	756,714	-	150,536	-	-	50,178	-	556,000	\$0.23	\$0.22
Employees	11/5/2005	5/11/2006 – 5/10/2016	4,630,000	\$0.00	-	4,630,000	-	-	-	250,000	-	2,060,000	\$0.13	\$0.20
Employees	11/8/2005	8/11/2005 – 8/10/2015	69,430,022	\$0.00	-	69,430,022	3,642,315	-	-	-	-	65,787,707	\$-	\$0.22
Employees	11/11/2005	11/11/2005 – 11/10/2015	40,275,000	\$0.00	-	40,275,000	735,000	-	-	-	-	39,540,000	\$-	\$0.15
Richard Chang	11/5/2005	5/11/2006 – 5/10/2016	2,000,000	\$0.00	-	2,000,000	-	-	-	500,000	-	1,500,000	\$0.21	\$0.20

Awards of RSUs issued to new employees generally vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date. Awards of RSUs issued to then-existing employees generally vest at a rate of 25% upon the first, second, third and fourth anniversaries of the vesting commencement date.