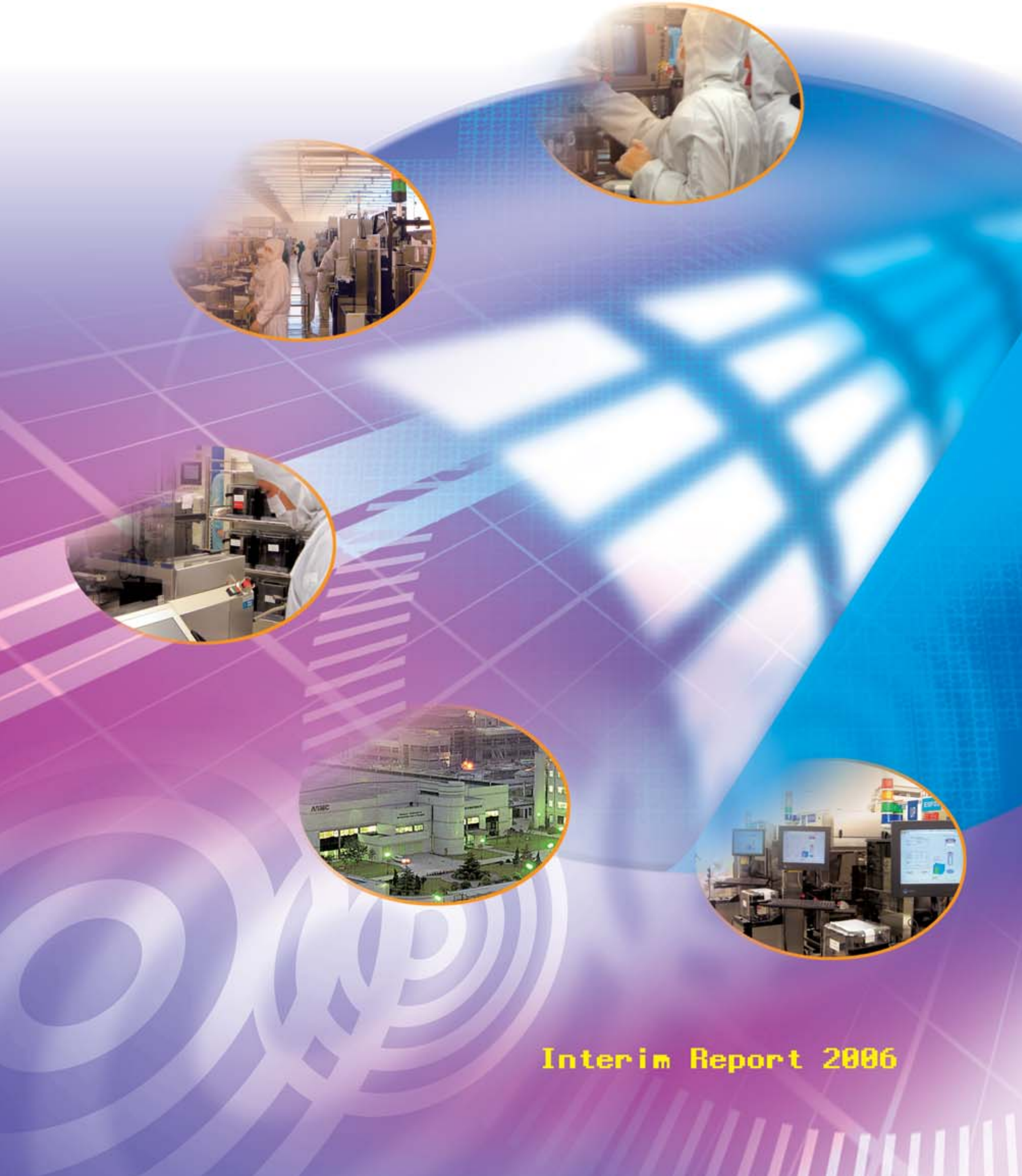
Advanced Semiconductor Manufacturing Corporation Limited

(a foreign invested joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3355)



Interim Report 2006

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REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the Board of Directors
Advanced Semiconductor Manufacturing Corporation Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying balance sheet of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") as of 30 June 2006 and the income statement, statement of changes in equity and cash flow statement for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 30 June 2006 and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion above, we draw attention to the fact that the financial statements of the Company for the six months ended 30 June 2005 and the income statements for the three months ended 30 June 2005 and 30 June 2006, which form the basis for the comparative amounts presented in the current period's financial statements of the Company were not audited.

Ernst & Young
Certified Public Accountants

Hong Kong
10 August 2006

INCOME STATEMENT

for the six months ended 30 June 2006

	Notes	3 months ended 30 June 2006 (Unaudited) RMB'000	6 months ended 30 June 2006 (Audited) RMB'000	3 months ended 30 June 2005 (Unaudited) RMB'000	6 months ended 30 June 2005 (Unaudited) RMB'000
Revenue	4	334,983	653,825	226,716	430,712
Cost of sales		(276,627)	(547,301)	(221,592)	(401,181)
Gross profit		58,356	106,524	5,124	29,531
Selling and marketing expenses		(1,968)	(4,161)	(1,870)	(4,373)
General and administrative expenses		(19,121)	(36,953)	(17,719)	(36,153)
Research and development costs		(12,005)	(20,016)	(13,927)	(37,381)
Profit/(loss) from operating activities		25,262	45,394	(28,392)	(48,376)
Other income	4	3,084	11,014	4,704	12,784
Finance costs	5	(17,425)	(32,398)	(6,666)	(10,895)
Profit/(loss) before income tax	5	10,921	24,010	(30,354)	(46,487)
Income tax (expense)/credit, net	8	(897)	(1,879)	7,219	7,108
Net profit/(loss)		10,024	22,131	(23,135)	(39,379)
Dividends	9	—	—	—	—
Earnings/(loss) per share attributable to ordinary equity holders of the Company (RMB) – Basic	10	0.01	0.02	(0.02)	(0.04)

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

BALANCE SHEET

30 June 2006

	Notes	30 June 2006 RMB'000	31 December 2005 RMB'000
Non-current assets			
Property, plant and equipment	11	**2,118,878**	1,964,885
Construction in progress	12	**23,093**	175,937
Land lease prepayments	13	**36,238**	36,623
Deferred tax assets	14	**4,942**	6,821
Total non-current assets		**2,183,151**	2,184,266
Current assets			
Cash and cash equivalents	15	**400,786**	105,886
Accounts and notes receivables	16	**135,891**	124,264
Inventories	17	**225,781**	171,799
Prepayments, deposits and other receivables	18	**21,099**	23,743
Due from related companies	19	**53,551**	31,945
Total current assets		**837,108**	457,637
Total assets		**3,020,259**	2,641,903
Current liabilities			
Interest-bearing borrowings	20	**175,022**	1,186,319
Accounts payable	21	**259,452**	196,200
Accrued liabilities and other payables		**149,333**	64,745
Due to related companies	19	**10,985**	14,330
Total current liabilities		**594,792**	1,461,594
Net current assets/(liabilities)		**242,316**	(1,003,957)
Non-current liabilities			
Interest-bearing borrowings	20	**592,556**	—
Net assets		**1,832,911**	1,180,309
Capital and reserves			
Registered and paid-up capital	22	**1,534,227**	1,109,080
Reserves	23	**298,684**	71,229
Shareholders' equity		**1,832,911**	1,180,309

Tony Liu Yuhai
Director

Cheng Jianyu
Director

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

STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 (Audited) RMB'000	2005 (Unaudited) RMB'000
Registered and paid-up capital	22		
At beginning of period		**1,109,080**	1,109,080
Global offering of shares		**467,660**	—
Domestic shares converted to H shares		**(42,513)**	—
At end of period		**1,534,227**	1,109,080
Capital reserve	23(i)		
At beginning of period		**39**	39
Global offering of shares		**287,930**	—
Share issue expenses		**(82,606)**	—
At end of period		**205,363**	39
Statutory surplus reserve	23(ii)		
At beginning and end of period		**12,902**	12,902
Statutory public welfare fund	23(iii)		
At beginning and end of period		**6,451**	6,451
Retained earnings	23(iv)		
At beginning of period		**51,837**	126,867
Net profit for the period		**22,131**	—
Net loss for the period (unaudited)		**—**	(39,379)
At end of period		**73,968**	87,488
Reserves		**298,684**	106,880
Shareholders' equity		**1,832,911**	1,215,960

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

CASH FLOW STATEMENT

for the six months ended 30 June 2006

	For the six months ended 30 June	
	2006	2005
	(Audited)	*(Unaudited)*
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit/(loss) before income tax	**24,010**	(46,487)
Adjustments for:		
Depreciation	**186,406**	134,062
Amortisation of land lease prepayments	**385**	385
Loss on disposal of property, plant and equipment	**1,545**	—
Reversal of impairment loss on construction in progress	**(1,299)**	—
Provision for inventories	**9,389**	28,208
Fair value gain on interest rate swap	**(2,083)**	—
Interest expenses	**32,398**	10,895
Operating profit before working capital changes	**250,751**	127,063
Increase in accounts and notes receivables	**(11,627)**	(76,167)
Increase in inventories	**(62,072)**	(50,655)
Decrease/(increase) in prepayments, deposits and other receivables	**5,644**	(4,072)
(Increase)/decrease in balances with related companies	**(24,951)**	1,976
Increase in accounts payable	**63,252**	95,827
Increase/(decrease) in accrued liabilities and other payables	**10,250**	(9,617)
Cash flows from operations	**231,247**	84,355
Interest paid	**(32,398)**	(10,895)
Net cash inflow from operating activities	**198,849**	73,460

Continued/...

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

CASH FLOW STATEMENT (Continued)

for the six months ended 30 June 2006

	Note	For the six months ended 30 June	
		2006	2005
		(Audited)	*(Unaudited)*
		RMB'000	*RMB'000*
Cash flows from investing activities			
Acquisition of property, plant and equipment and construction in progress		**(189,786)**	(642,626)
Interest capitalised attributable to construction of qualifying assets		**(231)**	(561)
Total additions of property, plant and equipment and construction in progress		**(190,017)**	(643,187)
Net cash outflow from investing activities		**(190,017)**	(643,187)
Cash flows from financing activities			
Proceeds from issue of new shares	22	**775,776**	—
Share issue expenses	22	**(70,967)**	—
New bank loans		**159,912**	815,827
Repayment of bank loans		**(578,653)**	(269,953)
Net cash inflow from financing activities		**286,068**	545,874
Net increase/(decrease) in cash and cash equivalents		**294,900**	(23,853)
Cash and cash equivalents at beginning of period		**105,886**	45,936
Cash and cash equivalents at end of period		**400,786**	22,083
Analysis of balances of cash and cash equivalents			
Cash and bank balances	15	**74,265**	22,083
Non-pledged time deposits	15	**326,521**	—
		400,786	22,083

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

NOTES TO FINANCIAL STATEMENTS

As at 30 June 2006

1. CORPORATE INFORMATION

Advanced Semiconductor Manufacturing Corporation Limited (the "Company") was initially established in the People's Republic of China (the "PRC") on 4 October 1988 as a Sino-foreign joint venture company with limited liability under the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment with a tenure of operation of 30 years from 4 October 1988 to 3 October 2019.

On 2 March 2004, the Company was re-registered as a foreign invested joint stock company with limited liability by the issuance of 1,109,080,000 fully paid shares with a nominal value of RMB1 each to the then shareholders. The tenure of operation of the Company was revised to infinite. On 7 April 2006, the Company's H shares were successfully listed on the Hong Kong Stock Exchange.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Interpretations of the Standing Interpretation Committee approved by the International Accounting Standards Committee that remain in effect, and under the historical cost convention.

The unaudited comparative financial information of the Company for the six months ended 30 June 2005 was prepared in accordance with IFRSs. The Directors of the Company considered that the adoption of the new and revised IFRSs which are effective for the accounting periods beginning on or after 1 January 2005, have no material impact on the results of operation of the Company for the six months ended 30 June 2005.

Except for those mentioned below, the accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in the 2005 financial statements.

In 2006, the Company adopted the following amended and newly released IFRSs which are generally effective for accounting periods beginning on or after 1 January 2006 that are relevant to its operations.

IAS 39	Financial Instruments: Recognition and Measurement (amended in 2005)
IFRIC-Int 4	Determining whether an arrangement contains a lease (issued in 2005)

The adoption of the above standards has no material impact on the results and financial position of the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impact of issued but not yet effective IFRSs

The Company has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements. The following IFRSs are effective for annual periods beginning on or after 1 January 2007:

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures

The IAS 1 Amendment will affect the disclosures about qualitative information about the Company's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of IAS 32.

Except as stated above, the Company expects that the adoption of the pronouncements listed above will not have any significant impact on Company's financial statements in the period of initial application.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the assets' recoverable amount is estimated. The recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of the property, plant and equipment are as follows:

Buildings	30 years
Plant and machinery	5~10 years
Office equipment	5 years
Motor vehicles	5 years
Computer software	2~10 years

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress ("CIP")

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

Land lease prepayments

Land lease prepayments are stated at cost less accumulated amortisation and impairment losses. Land lease prepayments are amortised using the straight-line basis over the unexpired period of the rights.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling price less all further costs expected to be incurred to completion and disposal.

Accounts and other receivables

Accounts receivable are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts for accounts and other receivables is made when collection of the full amount is no longer probable. Bad debts are written off to the income statement in the period in which it is identified.

Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance date and recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement plan administered by local government agencies are charged to the income statement as incurred.

Accommodation benefits

Contributions to an accommodation fund administered by the Provident Fund Management Center are charged to the income statement as incurred.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currency transactions

The functional and presentation currency of the Company is Renminbi ("RMB").

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Operating leases

A lease is an agreement whereby the lessor conveys rights to use the asset for an agreed period of time in return for a payment or a series of payments. An arrangement conveys the right to use the asset if the arrangement conveys to the lessee the right to control the use of the underlying asset. Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and are not restricted as to use.

For the purpose of the cash flow statement and the balance sheet, cash and cash equivalents consist of cash on hand and deposits in banks.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services have been rendered; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Derivative financial instruments

The Company uses derivative financial instruments including interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair values of derivative financial instruments are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Realised and unrealised gains and losses are recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses reported in the income statement.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Impairment of assets

In determining if an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing (i) whether an event has occurred that may affect asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

(b) Income tax

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

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

(c) Provision for obsolete and slow-moving inventories

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

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below:

(a) Impairment test of assets

Management determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(b) Income tax

The carrying amount of deferred tax assets and related financial models and budgets are reviewed by management at each balance sheet date. To the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow the utilisation of the tax losses carried forward, the asset balance will be reduced and charged to the income statement.

(c) Provision for slow-moving inventories

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

(d) Provision for doubtful debts

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

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

3. SEGMENT INFORMATION

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

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

The Company's revenue is attributed to geographical areas based on the location of customers. Revenue regarding geographical segments based on the location of customers is presented as follows:

	3 months ended 30 June 2006 *(Unaudited)* *RMB'000*	**6 months ended 30 June 2006 *(Audited)* *RMB'000***	3 months ended 30 June 2005 *(Unaudited)* *RMB'000*	6 months ended 30 June 2005 *(Unaudited)* *RMB'000*
United States of America	**178,351**	**373,985**	146,745	279,875
Europe	**77,327**	**155,227**	27,458	59,884
Asia	**79,305**	**124,613**	52,513	90,953
	334,983	**653,825**	226,716	430,712

4. REVENUE AND OTHER INCOME

	3 months ended 30 June 2006 *(Unaudited)* *RMB'000*	**6 months ended 30 June 2006 *(Audited)* *RMB'000***	3 months ended 30 June 2005 *(Unaudited)* *RMB'000*	6 months ended 30 June 2005 *(Unaudited)* *RMB'000*
Revenue				
Sales of goods	**334,843**	**653,655**	225,832	428,997
Others	**140**	**170**	884	1,715
	334,983	**653,825**	226,716	430,712
Other income				
Interest income	**2,600**	**2,824**	72	115
Government subsidies:				
Refund of value-added tax ("VAT")	**—**	**—**	—	7,314
Technology service income	**—**	**266**	3,597	4,146
Net foreign exchange (loss)/gain and others	**(1,599)**	**5,841**	1,035	1,209
Fair value gain on interest rate swap	**2,083**	**2,083**	—	—
	3,084	**11,014**	4,704	12,784
	338,067	**664,839**	231,420	443,496

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

5. PROFIT/(LOSS) BEFORE INCOME TAX

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

	3 months ended 30 June 2006 *(Unaudited)* *RMB'000*	**6 months ended 30 June 2006 *(Audited)* *RMB'000***	3 months ended 30 June 2005 *(Unaudited)* *RMB'000*	6 months ended 30 June 2005 *(Unaudited)* *RMB'000*
Staff costs (including Directors', supervisors' and senior executives' emoluments as set out in note 6):				
Retirement benefits *(note 7)*				
- Defined contribution fund	**2,868**	**5,467**	2,389	4,540
Accommodation benefits *(note 7)*				
- Defined contribution fund	**881**	**1,744**	720	1,422
Salaries and other staff costs	**37,044**	**72,364**	31,427	67,033
	40,793	**79,575**	34,536	72,995
Interest on bank loans	**17,425**	**32,629**	7,227	11,456
Less: Interest capitalised	**—**	**(231)**	(561)	(561)
Finance costs	**17,425**	**32,398**	6,666	10,895
Average interest capitalisation rate	***4.93%***	***4.93%***	*4.74%*	*4.74%*
Depreciation	**96,199**	**186,406**	69,055	134,062
Amortisation of land lease prepayments	**192**	**385**	192	385
Provision for inventories	**8,738**	**9,389**	28,208	28,208
Reversal of impairment loss on construction in progress	**(1,299)**	**(1,299)**	—	—
Loss on disposal of property, plant and equipment	**1,752**	**1,545**	—	—

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

6. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of Directors' and supervisors' emoluments are as follows:

	For the six months ended 30 June	
	2006	2005
	(Audited)	*(Unaudited)*
	RMB'000	*RMB'000*
Fees:		
- Non-executive directors	**960**	929
- Supervisors	**618**	624
	1,578	1,553
Other emoluments for executive directors and supervisors:		
- Basic salaries and other benefits	**2,406**	2,376
- Non-discretionary bonuses paid and payable	**368**	342
- Retirement contributions	**18**	16
	2,792	2,734
	4,370	4,287

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

6. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

The remuneration of each Director and supervisor is as follows:

	For the six months ended 30 June	
	2006	2005
	(Audited)	*(Unaudited)*
	RMB'000	*RMB'000*
Directors:		
Tony Yuhai Liu	**1,667**	1,642
Cheng Jianyu	**819**	819
Ruan Yanhua	**103**	104
Zhu Jian	**103**	104
Anthony Lear	**103**	104
Mang Wai Kin	**—**	104
Zhu Peiyi	**103**	104
Ma Mai	**—**	35
Zhou Weiping	**103**	50
Petrus Antonius Maria Van Bommel	**64**	—
James Arthur Watkins	**127**	108
Thaddeus Thomas Beczak	**127**	108
Shen Weijia	**127**	108
	3,446	3,390
Supervisors:		
Shen Qitang	**103**	104
Yang Yanhui	**103**	104
Zhang Yueh (alias Chang David Yueh)	**103**	104
Ajit Manocha	**103**	104
Wang Xiangqun	**103**	104
Huang Jihua	**103**	104
Xu Songneng	**306**	273
	924	897
	4,370	4,287

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

6. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

The number of directors and supervisors, whose remuneration fell within the following bands, is as follows:

	For the six months ended 30 June	
	2006	2005
	(Audited)	*(Unaudited)*
Nil - HK$1,000,000	**17**	18
HK$1,500,001 - HK$2,000,000	**1**	1
	18	19

The five highest paid individuals of the Company included two executive directors for the six months ended 30 June 2005 and 2006, details of whose emoluments have been disclosed above.

The details of the emoluments of the remaining highest paid individuals are as follows:

	For the six months ended 30 June	
	2006	2005
	(Audited)	*(Unaudited)*
	RMB'000	*RMB'000*
Basic salaries and other benefits	**1,795**	1,846
Non-discretionary bonuses paid and payable	**361**	321
Retirement contributions	**27**	25
	2,183	2,192

The number of non-executive director, highest paid employees, whose remuneration fell within the following bands, is as follows:

	For the six months ended 30 June	
	2006	2005
	(Audited)	*(Unaudited)*
Nil - HK$1,000,000	**3**	3

During the six months ended 30 June 2005 and 2006, no emoluments were paid by the Company to any of the Directors or the five highest paid individuals as an inducement to join, or upon joining the Company, or as compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

7. Retirement benefits and accommodation benefits

Retirement benefits

As stipulated by the PRC law and regulations, the Company participates in a defined contribution retirement plan. All local Chinese employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company is required to make contributions to the Labour and Social Security Bureau of the Shanghai Government at a rate of 22.5% of the employees' salaries and wages of the previous year, limited to a ceiling amount of three times of the previous year's average basic salaries within the geographical area where the local Chinese employees are under employment with the Company. The Company has no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Shanghai Government as set out above. The retirement benefits do not apply to expatriate employees.

Accommodation benefits

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

8. 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 six months ended 30 June 2006 and 2005.

The Company is located at Caohejing High-Tech Park of Shanghai, the PRC, and its applicable corporate income tax rate is 15%. In accordance with the prevailing tax laws in the PRC, the Company is entitled to full exemption from corporate income tax for the first and second profitable years (after offsetting accumulated tax losses, which can be carried forward for utilisation for a maximum period of five years), and a further 50% exemption for the succeeding three years.

As an integrated circuits manufacturer capable of manufacturing wafers with line widths equal to or below 0.25 micron, and pursuant to an approval document of the relevant tax authorities dated 17 June 2004, the Company is entitled to a 50% reduction in corporate income tax for an additional five years from 2004 to 2008. Accordingly, the Company was subject to PRC corporate income tax at an applicable income tax rate of 7.5% for the six months ended 30 June 2006 and 2005.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

8. INCOME TAX (Continued)

Major components of income tax expense/(credit) are as follows:

	3 months ended 30 June 2006 *(Unaudited)* *RMB'000*	**6 months ended 30 June 2006 *(Audited)* *RMB'000***	3 months ended 30 June 2005 *(Unaudited)* *RMB'000*	6 months ended 30 June 2005 *(Unaudited)* *RMB'000*
Provision for income tax in respect of profit for the period:				
- Current	**—**	**—**	—	—
- Overprovision in prior years	**—**	**—**	(4,936)	(4,936)
	—	**—**	(4,936)	(4,936)
Deferred tax expense/(credit)	**897**	**1,879**	(2,283)	(2,172)
Income tax expense/(credit)	**897**	**1,879**	(7,219)	(7,108)

A numerical reconciliation between net income tax credit, and the profit/(loss) before income tax multiplied by the applicable tax rate is as follows:

	3 months ended 30 June 2006 *(Unaudited)* *RMB'000*	**6 months ended 30 June 2006 *(Audited)* *RMB'000***	3 months ended 30 June 2005 *(Unaudited)* *RMB'000*	6 months ended 30 June 2005 *(Unaudited)* *RMB'000*
Profit/(loss) before income tax	**10,921**	**24,010**	(30,354)	(46,487)
Tax at applicable tax rate of 7.5%	**819**	**1,801**	(2,277)	(3,487)
Tax effect of:				
– Expenses not deductible for tax purpose	**78**	**78**	—	—
– Temporary differences not previously recognised	**—**	**—**	—	1,603
– Others	**—**	**—**	(6)	(288)
Overprovision in prior years	**—**	**—**	(4,936)	(4,936)
Income tax expense/(credit)	**897**	**1,879**	(7,219)	(7,108)

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

9. DIVIDENDS

The Board of Directors does not recommend the payment of dividend to the ordinary equity holders of the Company for the six months ended 30 June 2006 (30 June 2005: Nil).

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the periods.

	3 months ended 30 June 2006 *(Unaudited)*	**6 months ended 30 June 2006** *(Audited)*	3 months ended 30 June 2005 *(Unaudited)*	6 months ended 30 June 2005 *(Unaudited)*
Profit/(loss) attributable to ordinary equity holders of the Company (RMB'000)	**10,024**	**22,131**	(23,135)	(39,379)
Weighted average number of ordinary shares in issue ('000)	**1,503,758**	**1,307,509**	1,109,080	1,109,080

Diluted earnings/(loss) per share has not been disclosed as there were no dilutive options and other potential dilutive ordinary shares in issue during the periods.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	**Plant and machinery** *RMB'000*	**Office equipment** *RMB'000*	**Motor vehicles** *RMB'000*	**Computer software** *RMB'000*	**Total** *RMB'000*
Cost:						
At 1 January 2005	101,823	2,536,873	43,384	3,379	—	2,685,459
Additions	—	36,997	1,042	16	—	38,055
Transferred from CIP	262	190,804	7	—	—	191,073
Disposals	—	(4)	(83)	—	—	(87)
At 30 June 2005	102,085	2,764,670	44,350	3,395	—	2,914,500
At 1 July 2005	102,085	2,764,670	44,350	3,395	—	2,914,500
Additions	—	21,954	2,282	19	18,569	42,824
Transferred from CIP	2,137	544,072	4,967	—	—	551,176
Disposals	—	(12,243)	(1,166)	(23)	—	(13,432)
At 31 December 2005	104,222	3,318,453	50,433	3,391	18,569	3,495,068

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation:						
At 1 January 2005	20,726	1,208,324	24,854	2,519	—	1,256,423
Charge for the period	1,699	129,346	2,867	150	—	134,062
Disposals	—	(4)	(81)	—	—	(85)
At 30 June 2005	22,425	1,337,666	27,640	2,669	—	1,390,400
At 1 July 2005	22,425	1,337,666	27,640	2,669	—	1,390,400
Charge for the period	1,715	146,196	2,804	111	—	150,826
Disposals	—	(9,856)	(1,164)	(23)	—	(11,043)
At 31 December 2005	24,140	1,474,006	29,280	2,757	—	1,530,183
Net book value:						
At 31 December 2005	80,082	1,844,447	21,153	634	18,569	1,964,885
Cost:						
At 1 January 2006	104,222	3,318,453	50,433	3,391	18,569	3,495,068
Additions	—	17,207	5,125	309	—	22,641
Transferred from CIP	50,741	267,651	1,828	—	—	320,220
Disposals	(1,953)	(1,731)	(433)	(124)	(134)	(4,375)
At 30 June 2006	153,010	3,601,580	56,953	3,576	18,435	3,833,554
Accumulated depreciation:						
At 1 January 2006	24,140	1,474,006	29,280	2,757	—	1,530,183
Charge for the period	2,309	178,845	3,427	107	1,718	186,406
Disposals	(416)	(940)	(433)	(124)	—	(1,913)
At 30 June 2006	26,033	1,651,911	32,274	2,740	1,718	1,714,676
Net book value:						
At 30 June 2006	126,977	1,949,669	24,679	836	16,717	2,118,878

The Company's buildings, plant and machinery with a net book value of RMB2,076,646,000 at 30 June 2006 (31 December 2005: RMB1,924,529,000) were pledged to banks as security for the bank loans amounting to US$92 million (equivalent to approximately RMB735,595,000) at 30 June 2006 (31 December 2005: RMB742,458,000).

The sales proceeds from the disposal of property, plant and equipment of a RMB917,000 receivable at 30 June 2006 were included in sundry debtors as disclosed in note 18 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

12. CONSTRUCTION IN PROGRESS

	30 June 2006 *(Audited)* *RMB'000*	31 December 2005 *(Audited)* *RMB'000*
Net book value:		
At beginning of period/year	**175,937**	207,704
Additions	**167,376**	712,819
Transferred to property, plant and equipment	**(320,220)**	(742,249)
Transferred to inventory	**(1,299)**	—
Impairment loss reversed/(provided)	**1,299**	(2,337)
At end of period/year	**23,093**	175,937
Cost	**24,131**	178,274
Accumulated impairment loss	**(1,038)**	(2,337)
Net book value at end of period/year	**23,093**	175,937

The Company's construction in progress with a net book value of RMB23,093,000 at 30 June 2006 (31 December 2005: RMB175,937,000) was pledged to banks as security for the bank loans amounting to US$92 million (equivalent to approximately RMB735,595,000) at 30 June 2006 (31 December 2005: RMB742,458,000).

During the six months ended 30 June 2006, an impairment loss of RMB1,299,000 in respect of the equipment for the 6-inch production line was reversed as the equipment was dismantled and used as spare parts for other production lines.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

13. LAND LEASE PREPAYMENTS

	30 June 2006 *(Audited)* *RMB'000*	31 December 2005 *(Audited)* *RMB'000*
Carrying amount:		
At beginning of period/year	**37,392**	38,161
Amortisation for the period/year	**(385)**	(769)
At end of period/year	**37,007**	37,392
Current portion included in prepayments, deposits and other receivables	**(769)**	(769)
Non-current portion	**36,238**	36,623

The Company's land lease prepayments with a net book value of RMB37,007,000 at 30 June 2006 (31 December 2005: RMB37,392,000) were pledged to banks to secure the bank loans amounting to US$92 million (equivalent to approximately RMB735,595,000) at 30 June 2006 (31 December 2005: RMB742,458,000).

14. DEFERRED TAX ASSETS

	30 June 2006 *(Audited)* *RMB'000*	31 December 2005 *(Audited)* *RMB'000*
Deferred tax assets/(liabilities) in respect of		
- Depreciation charges	**(669)**	(782)
- Fair value gain on interest rate swap	**(369)**	(213)
- Unutilised tax losses	**3,849**	5,684
- Provisions	**2,131**	2,132
	4,942	6,821

Under the relevant tax laws of the PRC, the Company is able to carry forward the unutilised tax losses for five years. Subject to the agreement by the Tax Bureau, the Company has recognised the temporary difference on unutilised tax losses amounting to approximately RMB51,324,000 (31 December 2005: RMB75,786,000) as a deferred tax asset at 30 June 2006 as the Directors are confident that the Company is able to generate sufficient taxable profits to utilise the tax losses before the expiry of the five years period.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

15. CASH AND CASH EQUIVALENTS

	30 June 2006 (Audited) RMB'000	31 December 2005 (Audited) RMB'000
Cash and bank balances	74,265	105,886
Time deposits	326,521	—
	400,786	105,886

16. ACCOUNTS AND NOTES RECEIVABLES

	30 June 2006 (Audited) RMB'000	31 December 2005 (Audited) RMB'000
Accounts receivable	129,210	117,645
Notes receivable	6,681	6,619
	135,891	124,264

Credit terms granted by the Company to its customers generally range from 30 days to 60 days.

An ageing analysis of the accounts receivable as at 30 June 2006 is as follows:

	30 June 2006 (Audited) RMB'000	31 December 2005 (Audited) RMB'000
Within 30 days	100,707	68,840
Between 31 days and 90 days	28,009	47,997
Between 91 days and 180 days	516	113
Between 181 days and 365 days	—	717
	129,232	117,667
Less: Provision for bad and doubtful debts	(22)	(22)
	129,210	117,645

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

17. INVENTORIES

	30 June 2006	31 December 2005
	(Audited)	*(Audited)*
	RMB'000	*RMB'000*
Raw materials	**60,440**	43,726
Spare parts and consumables	**53,634**	54,508
Work in progress	**127,234**	79,071
Finished goods	**12,884**	22,918
	254,192	200,223
Less: Provision for inventories	**(28,411)**	(28,424)
	225,781	171,799
Represented by:		
Inventories carried at cost	**145,235**	129,654
Inventories carried at net realisable value	**80,546**	42,145
	225,781	171,799
Analysis of provision for inventories:		
At beginning of period/year	**28,424**	21,368
Provided for the period/year	**9,389**	15,028
Utilised for the period/year	**(9,402)**	(7,972)
At end of period/year	**28,411**	28,424

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2006 (Audited) RMB'000	31 December 2005 (Audited) RMB'000
Prepayments	6,167	7,639
Deposits	315	295
VAT refundable	2,261	2,261
Financial asset	4,923	2,840
Sundry debtors		
-Proceeds from disposal of property, plant and equipment	917	—
-Others	6,516	10,708
	21,099	23,743

19. BALANCES WITH RELATED COMPANIES

The Company was under the significant influence of Koninklijke Philips Electronics N.V. ("Royal Philips") through its wholly-owned subsidiary, Philips Electronics China B.V. (formerly Philips Electronics South-East Asia Holding B.V.), which held more than 26.6% of the equity interest of the Company throughout the period ended 30 June 2006. The companies controlled by or under the significant influence of Royal Philips are considered to be the Company's related parties.

The amounts due from/to related companies, which are subsidiaries or associates of Royal Philips, are unsecured, interest-free and on normal commercial terms. All the balances with related companies arose from trade transactions in the ordinary course of business of the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

20. INTEREST-BEARING BORROWINGS

	30 June 2006 (Audited) RMB'000	31 December 2005 (Audited) RMB'000
Bank loans:		
- Unsecured	**31,983**	443,861
- Secured	**735,595**	742,458
	767,578	1,186,319
Bank loans repayable:		
- Within one year	**175,022**	1,186,319
- In the second year	**253,412**	—
- Between the third and fifth years	**339,144**	—
	767,578	1,186,319
Bank loans:		
- Current portion	**175,022**	1,186,319
- Non-current portion	**592,556**	—
	767,578	1,186,319

The bank loans bear interest at rates from 5.42% to 6.91% per annum (31 December 2005: 4.43% to 5.36% per annum).

On 9 February 2006, the Company obtained a final unconditional waiver letter from the syndicate of banks (the "Lenders") for the US$100 million credit facility term loan agreement (the "Term Loan Agreement") in respect of the breach of certain financial covenants on testing days as at 30 June 2005 and 30 September 2005 as stipulated in the Term Loan Agreement. Accordingly, the secured bank loan of US$74,110,000 (equivalent to approximately RMB592,556,000) under the Term Loan Agreement, that was classified as short term loan as at 31 December 2005 because of the breach of the financial covenants, was reclassified as long-term loan at 30 June 2006. The Company signed a supplementary agreement with the Lenders on 8 May 2006 to finalise the terms of the final unconditional waiver letter.

On 30 June 2006, the Company complied with the revised financial covenants set out in the supplementary agreement dated 8 May 2006.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

20. INTEREST-BEARING BORROWINGS (Continued)

The principal debt covenants of the Term Loan Agreement are set out below:

(a) The Company shall comply with certain financial covenants on every testing date of every quarter end for the period from 30 June 2005 to 31 December 2009.

(b) The Company shall not engage in any business beyond its business scope as indicated in its business license.

(c) The Company shall not merge or consolidate with other entities, or take any step with a view toward dissolution, liquidation or winding-up.

(d) The Company shall not guarantee, provide security (other than to the Lenders), sell, transfer, lend, lease (as a lessor), or otherwise dispose of any whole or substantial part of its property, assets, or cash flows, whether by a single transaction or a series of transactions, and whether is a related party transaction or not (other than any guarantee, security, sale, transfer, lending or lease entered into by the Company in the normal course of business).

(e) The Company shall not incur any additional indebtedness (except clean facility, subordinated loan and trade facilities) without the Lender's prior consent.

(f) The Company shall maintain the status of all insurance policies that have been assigned to the Lenders.

(g) No dividend or other distribution shall be made by the Company prior to its listing on any stock exchange. After the Company is listed, up to (and including) 25% of its net profit after tax for any financial year may be declared, made or distributed as dividend by the Company.

(h) No decrease or reduction shall be made to the Company's registered capital without prior written consent of the Lenders.

(i) The Company shall mortgage in favour of the Lenders all its land lease prepayments, buildings, machinery and equipment. For any of such land lease prepayments, buildings, machinery or equipment that the Company acquires after the first drawdown under the Term Loan Agreement, the Company shall undertake to perfect or register the mortgage once a year after the first drawdown date, over such property or assets that the Company has acquired during the immediate past year.

The Company's buildings, plant and machinery, construction in progress, and land lease prepayments with a net book value of RMB2,076,646,000, RMB23,093,000 and RMB37,007,000, respectively, at 30 June 2006 were pledged to banks as security for the bank loans amounting to US$92 million (equivalent to approximately RMB735,595,000)

As at 30 June 2006, the Company had unutilised banking facilities of approximately US$72,220,000 (equivalent to approximately RMB577,443,000), which will expire on 30 November 2006, 6 December 2006 and 31 March 2010 in respect of US$28,220,000 (equivalent to RMB225,636,000), US$36,000,000 (equivalent to RMB287,842,000) and US$8,000,000 (equivalent to RMB63,965,000), respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

21. ACCOUNTS PAYABLE

	30 June 2006 (Audited) RMB'000	31 December 2005 (Audited) RMB'000
Outstanding balances with ageing:		
Within 30 days	**131,638**	108,714
Between 31 days and 90 days	**28,983**	46,737
Between 91 days and 180 days	**60,073**	10,679
Between 181 days and 365 days	**21,120**	15,140
Over 365 days	**17,638**	14,930
	259,452	196,200

22. REGISTERED AND PAID-UP CAPITAL

		30 June 2006 Number of shares '000	31 December 2005 Number of shares '000	30 June 2006 RMB'000 (Audited)	31 December 2005 RMB'000 (Audited)
Registered		**1,109,080**	1,109,080	**1,109,080**	1,109,080
Issued and fully paid:					
Non-listed foreign shares	(a)	**33,272**	696,946	**33,272**	696,946
Domestic Shares	(b)	**369,621**	412,134	**369,621**	412,134
H Shares	(c)	**467,660**	—	**467,660**	—
Converted H Shares	(c)	**663,674**	—	**663,674**	—
Total		**1,534,227**	1,109,080	**1,534,227**	1,109,080

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

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

22. REGISTERED AND PAID-UP CAPITAL (Continued)

(a) Non-listed Foreign Shares

Although there is at present no applicable PRC laws or regulations governing the rights of such Non-Listed Foreign Shares, nor do the Company's Articles of Association contain express provisions as to whether such Non-Listed Foreign Shares constitute a different class of shares from the H Shares, Jingtian & Gongcheng, the Company's legal advisor as to the PRC law, have confirmed that the subsistence of Non-Listed Foreign Shares do not contravene any PRC laws or regulations, and until new laws or regulations are introduced, the holders of Non-Listed Foreign Shares shall be treated as being in the same class as the holders of Domestic Shares. The holders of the Non-Listed Foreign Shares enjoy the same rights as the holders of Domestic Shares. Besides, they also enjoy the following rights:

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

(b) Domestic Shares

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

(c) H Shares and Converted H Shares

H Shares may only be subscribed for in Hong Kong dollars by, and traded between, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the Mainland China. H Shares and Converted H Shares belong to the same class of shares in the Company's share capital. Holders of H Shares and Converted H Shares have identical rights, save that the Converted H Shares may not be transferred (a) until the expiry of the Lock Up Period, being shortly after the one-year period pursuant to the PRC Company Law commencing from the date on which the Company is listed on the Hong Kong Stock Exchange upon completion of the Global Offering and (b) except with approval from the Ministry of Commerce. The Foreign Investment Joint Stock Company Provisional Regulations stipulate that the PRC laws and regulations which regulate foreign invested enterprises also apply to foreign invested joint stock limited companies, such as the Company. The trading of such Converted H shares on the Hong Kong Stock Exchange upon the expiry of the Lock Up Period will require prior approval from the Ministry of Commerce.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

22. REGISTERED AND PAID-UP CAPITAL (Continued)

The nominal value of 467,660,000 H shares, less 42,513,000 Sale H Shares, issued pursuant to the Global Offering has not been registered as the registered capital of the Company as the capital verification was not completed at 30 June 2006.

Pursuant to the "Provisional Administrative Measures for the Reduction of State-owned Shares in Raising the Social Security Fund", 42,513,000 Domestic Shares of the Company were converted into 42,513,000 Sale H Shares, the sales proceeds of which should be remitted to the National Social Security Fund (the "NSSF").

467,660,000 H Shares of the Company, which represent 369,693,000 New H Shares and 36,969,000 Sale H Shares, were listed on the Main Board of the Hong Kong Stock Exchange on 7 April 2006 and 55,454,000 additional New H Shares and 5,544,000 Sale H Shares, issued upon exercise of an over-allotment option, were listed on the Main Board of the Hong Kong Stock Exchange on 11 April 2006. These H Shares with a nominal value of RMB1 each were issued to the public by way of Global Offering at an offer price of HK$1.60 per share. After deducting net proceeds of approximately RMB62,699,000 from the sale of the 42,513,000 Sale H Shares, which will be remitted to the NSSF as explained above, and the share issue expenses of approximately RMB82,606,000, the net proceeds from the Global Offering of approximately RMB630,471,000 were credited to the paid-up capital and capital reserve as RMB425,147,000 and RMB205,324,000, respectively. Share issue expenses payable amounting to RMB11,639,000 at 30 June 2006 were included in accrued liabilities and other payables of RMB149,333,000.

23. RESERVES

(i) Capital reserve

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

(ii) Statutory surplus reserve

Following the re-registration of the Company as a foreign invested joint stock limited company, and in accordance with the Company Law of the PRC and the Articles of Association of the Company, the Company is required to allocate 10% of its profit after tax to the statutory surplus reserve until such reserve reaches 50% of the registered share capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC, part of this reserve may be converted to increase the share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered share capital.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

23. RESERVES (Continued)

(iii) Statutory public welfare fund

Following the re-registration of the Company as a foreign invested joint stock limited company, and in accordance with the Company Law of the PRC and the Articles of Association of the Company, the Company was required to transfer 5% to 10% of its profit after tax to the statutory public welfare fund which is a non-distributable reserve other than in the event of liquidation of the Company. The fund must be used for capital expenditure on staff welfare facilities. Although such facilities are for staff use, they are owned by the Company.

When the fund is utilised, an amount equal to the lower of the cost of the assets and the balance of the fund is transferred from the fund to the general surplus reserve. This reserve is non-distributable other than in the event of liquidation of the Company. On disposal of the relevant assets, the original transfers from the fund are reversed.

According to the revised Company Law of the PRC effective from 1 January 2006, the Company is no longer required to make any transfer of profit after tax to the statutory public welfare fund.

(iv) Retained earnings

The amount which the Company can legally distribute by way of a dividend is determined based on the lower of the Company's profits determined under PRC GAAP and IFRSs.

24. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main financial risks faced by the Company are interest rate risk, foreign currency risk and credit risk. The Company does not hold or issue derivative financial instruments either for hedging or for trading purposes, other than interest rate swaps disclosed in interest rate risk below.

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to its interest-bearing borrowings.

The Company uses interest rate swaps to hedge its interest rate risk. The interest rate swap contracts that the Company has entered into entitle it to receive interest at floating rates on notional principal amounts and obliges it to pay interest at fixed rates on the same amounts. Under the interest rate swaps, the Company agrees with other parties to exchange, at semi-annual intervals, the differences between the fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The floating rates of the Company's interest rate swap contracts are linked to the US$-LIBOR-BBAM. The weighted average interest rate of the Company's floating rate borrowings at the balance sheet date was 6.52% per annum. After the interest rate swap, the Company's weighted average interest rate at the balance sheet date was 5.41% per annum.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

24. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk (Continued)

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts of the Company at the balance sheet date, which are denominated in US Dollars ("US$"), were as follows:

	30 June 2006 ***(Audited)*** ***RMB'000***	31 December 2005 *(Audited)* *RMB'000*
Later than one year and not later than five years	**199,890**	201,750

The fair value gain of the interest rate swap contracts at 30 June 2006 of RMB4,923,000 has been recorded in the financial statements.

Foreign currency risk

The Company has transactional currency exposures. Such exposures arise from the sales, purchases and borrowings of the Company in currencies other than the RMB. The Company does not use derivative financial instruments to hedge its exchange rate risk.

The foreign currency profile of the financial assets and liabilities denominated in currencies other than the functional currency of the Company is as follows:

	30 June 2006 ***(Audited)*** ***RMB'000***	31 December 2005 *(Audited)* *RMB'000*
Financial assets		
Cash and cash equivalents:		
- US$	**310,150**	50,781
- Others	**72,680**	—
	382,830	50,781
Accounts and notes receivables:		
- US$	**106,340**	84,087
- Others	**—**	—
	106,340	84,087

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

24. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk (Continued)

	30 June 2006 *(Audited)* *RMB'000*	31 December 2005 *(Audited)* *RMB'000*
Due from related companies:		
- US$	53,338	31,866
- Others	—	—
	53,338	31,866
Financial liabilities		
Interest-bearing borrowings:		
- US$	767,578	1,186,319
- Others	—	—
	767,578	1,186,319
Accounts payable:		
- US$	126,208	120,419
- Others	39,026	8,182
	165,234	128,601
Accrued liabilities and other payables:		
- US$	8,305	1,493
- Others	1,475	3,124
	9,780	4,617
Due to related companies:		
- US$	794	1,830
- Others	710	1,249
	1,504	3,079

Credit risk

Credit risk arising from the inability of a counterparty to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company. Financial assets of the Company that are potentially subject to significant concentration of credit risk consist principally of cash and cash equivalents, accounts, notes and other receivables and amounts due from related companies. The Company's maximum exposure to credit risk in relation to each class of the recognised financial assets is the carrying amount of these assets. There is no significant concentration of credit risk for the Company's financial assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

24. FINANCIAL INSTRUMENTS (Continued)

Fair value

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

The carrying amounts of the financial assets and liabilities of the Company at balance sheet date approximated to their fair values, other than the non-current portion of the interest-bearing borrowings with its fair value of RMB483,249,000 at 30 June 2006.

25. RELATED PARTY TRANSACTIONS

As set out in note 19 to the financial statements, the companies controlled by or under the significant influence of Royal Philips are considered to be related to the Company.

The Company had the following material transactions with the companies controlled by or under the significant influence of Royal Philips during the six months ended 30 June 2006:

		For the six months ended 30 June	
		2006	2005
		(Audited)	*(Unaudited)*
		RMB'000	*RMB'000*
Sales	(i)	**113,469**	62,651
Purchases	(i)	**979**	343
Technology transfer fees	(ii)	**7,925**	2,667
Information technology ("IT") related service fees	(iii)	**3,069**	1,004

Notes:

(i) Sales to and purchases from the related companies were carried out based on normal commercial terms and at market prices.

(ii) Royalties in the form of technology transfer fees and identification licensing fees paid/payable to a related company were determined at 3% or 10% of the net sales of certain specified products sold by agreement of the parties.

(iii) IT related service fees were charged by the related companies based on agreements signed by the parties.

In the opinion of the Directors, all transactions above were carried out in the ordinary course of business of the Company. Such transactions were conducted on an arm's length basis and on normal commercial terms, and will continue in the future.

NOTES TO FINANCIAL STATEMENTS (Continued)

As at 30 June 2006

26. COMMITMENTS

The Company had the following capital commitments as at 30 June 2006:

	30 June 2006 *(Audited)* *RMB'000*	31 December 2005 *(Audited)* *RMB'000*
Capital commitments in respect of property, plant and equipment:		
- Contracted, but not provided for	**12,645**	163,177
- Authorised, but not contracted for	**54,825**	91,038
	67,470	254,215

27. CONTINGENT LIABILITIES

On 8 March 2005, the Company received summons issued by the United States District Court, Northern District of California regarding the case known as Monolithic Power Systems, Inc. v. O2 Micro International Limited, in which the Company was identified as one of the counter-defendants and was alleged, by virtue of manufacture and sale of wafers to Monolithic Power Systems, Inc. ("MPS"), without the permission or license from O2 Micro International Limited ("O2 Micro"), to induce infringement and/or contribute to the infringement of the United States Patent No. 6396722 (the "722 patent").

The Company filed a motion to dismiss for lack of personal jurisdiction in this case on 6 June 2005. On 21 December 2005, the court in California denied the motion of the Company to dismiss for lack of personal jurisdiction.

On 20 April 2005, the Company received summons issued by the United States District Court, Eastern District of Texas regarding the case known as O2 Micro International Limited v. Monolithic Power Systems, Inc., in which the Company was identified as one of the defendants and was alleged by virtue of its manufacture and sale of wafers to MPS, without permission or license from O2 Micro, to induce infringement and/or contribute to the infringement of US Patent No. 6804129 (the "129 Patent"). The case has recently been transferred to the United States District Court, Northern District of California.

In both cases, O2 Micro has sought compensatory and enhanced damages, injunctions and other related relief, but thus far has not yet claimed any specific monetary damages against the Company. The Company has denied that it infringes and has claimed that the 722 and 129 patents are invalid and unenforceable. The Company has also joined a motion for summary judgement seeking to have the 722 patent declared invalid.

The court has not yet formally decided to combine these two cases, but according to the latest scheduling order, a hearing on claim construction and summary judgement motions and initial case management conference will be held on 13 October 2006. It is expected that during the 13 October 2006 case management conference, the court will set a trial date.

The Directors are of the opinion that this will not have a material adverse effect on the financial position or operational results of the Company. The revenue derived from the wafers that used the allegedly infringed patents accounted for less than 1% of the total revenue of the Company for the six months ended 30 June 2006. The Directors believe that the Company can, if necessary, replace its foundry capacity and/or orders related to the allegedly infringed products from MPS with similar technology and order levels from its other customers (including MPS).

28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 10 August 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Sales

Sales increased by 51.8% from RMB430.7 million for the six months ended 30 June 2005 to RMB653.8 million for the six months ended 30 June 2006. The strong growth in revenue was mainly attributable to the increased production capacity for 8-inch wafers and higher wafer shipment. The Company's production capacity of 8-inch equivalent wafer increased from 266,000 pieces for the six months ended 30 June 2005 to 308,000 pieces for the six months ended 30 June 2006. The wafer shipment increased by 49.5% from 149,774 pieces of 8-inch equivalent wafers for the six months ended 30 June 2005 to 223,982 pieces of 8-inch equivalent wafers for the six months ended 30 June 2006.

Cost of Sales and Gross Profit

The Company had a gross profit of RMB106.5 million for the six months ended 30 June 2006 compared to RMB29.5 million for the six months ended 30 June 2005. Gross margin increased to 16.3% for the six months ended 30 June 2006 compared to 6.9% for the same period last year. This was mainly attributable to the increase in production volume which eventually led to lower absorption of fixed overhead costs per unit as well as increase in line yield of 8-inch wafers.

Operating Expenses and Operating Income

Selling and marketing expenses decreased from RMB4.4 million for the six months ended 30 June 2005 to RMB4.2 million for the six months ended 30 June 2006, mainly because of the reduction of commission rate agreed in 2006.

General and administrative expenses increased by 2.2% from RMB36.2 million for the six months ended 30 June 2005 to RMB37.0 million for the six months ended 30 June 2006, primarily due to the increase in human resources cost during the period.

Research and development costs for the six months ended 30 June 2006 reduced by 46.5% from RMB37.4 million for the six months ended 30 June 2005 to RMB20 million for the six months ended 30 June 2006, primarily due to the stabilization of the Company's 8-inch production technology during the period.

As a result, the Company achieved an operating income of RMB45.4 million for the six months ended 30 June 2006 compared to the operating loss of RMB48.4 million for the six months ended 30 June 2005. The Company's operating margin also improved to 6.9% for the six months ended 30 June 2006 compared to the negative 11.2% for the six months ended 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Other Income and Finance Cost

The Company's other income for the six months ended 30 June 2006 recorded an amount of RMB11.0 million, a decrease of 13.9% from RMB12.8 million for the same period last year. The other income of the current period was mainly comprised of interest income, foreign exchange gain resulting from RMB appreciation and the fair value gain on interest rate swap. The other income of the corresponding period last year was mainly comprised of technology service income, the refund of value-added tax, and foreign exchange gain.

As a result of the drawdown of US$92 million under the US$100 million club term loan facility starting from June 2005 and higher LIBOR and interest margin, finance costs increased by 197.2% from RMB10.9 million for the six months ended 30 June 2005 to RMB32.4 million for the six months ended 30 June 2006.

Net Income

Collectively, the Company recorded a net income of RMB22.1 million for the six months ended 30 June 2006 compared to a net loss of RMB39.4 million for the six months ended 30 June 2005.

Liquidity and Capital Resources

The Company had cash and cash equivalents of RMB400.8 million as at 30 June 2006 compared to RMB105.9 million as at 31 December 2005. The Company's net cash inflow from operating activities increased by 170.5%, from RMB73.5 million for the six months ended 30 June 2005 to RMB198.8 million for the six months ended 30 June 2006. The reconciliation between the profit before income tax of RMB24.0 million and the net cash inflow from operating activities for the six months ended 30 June 2006 showed that the difference was mainly attributed to non-cash depreciation of RMB186.4 million and the net increase in working capital.

The Company's net cash outflow from investing activities, which was primarily allocated to the continuing investment on property, plant and equipment and construction in progress, was RMB190.0 million for the six months ended 30 June 2006 compared to RMB643.2 million for the six months ended 30 June 2005. Most of the spending in the current period was allocated to the continuing investment of 8-inch production line.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Liquidity and Capital Resources (Continued)

The Company's net cash inflow from financing activities was RMB286.1 million for the six months ended 30 June 2006 compared to RMB545.9 million for the six months ended 30 June 2005. The net cash inflow of RMB286.1 million represented the net effect of RMB704.8 million being the proceeds from the initial public offering in April 2006, the new bank loans of RMB159.9 million and the repayment of the bank loans of RMB 578.6 million.

As at 30 June 2006, the Company had interest-bearing borrowings of RMB175 million, which was categorized as current liabilities. The Company's long-term liabilities of RMB592.6 million under the US$100 million club term loan facility, are repayable in installments commencing in March 2007. The US$100 million club term loan facility dated 31 March 2005 was pledged with the Company's property, plant and equipment, construction in progress and land lease prepayments.

On 9 February 2006, the Company obtained a final unconditional waiver from the syndicate of banks under the US$100 million club term loan facility agreement (the "Term Loan Agreement") in respect of its breach of certain financial covenants on the test days of 30 June 2005 and 30 September 2005 stipulated in the Term Loan Agreement. Accordingly, the secured bank loan of US$92 million (equivalent to approximately RMB735.6 million as at 30 June 2006) under the Term Loan Agreement that was classified as short term loan as at 31 December 2005 because of the breach of those financial covenants, was reclassified as long-term loan as at 30 June 2006 in the amount of US$74.1 million (equivalent to approximately RMB592.6 million). Since 2006, the Company has not breached any financial covenant stipulated in the Term Loan Agreement.

The Company is also obliged to make prepayment of the club term loan facility on mandatory prepayment date falls due on 31 March each year starting from 31 March, 2007. The amount of the prepayment shall be fifteen percent of the annual operating cash flow of the preceding fiscal year of the mandatory prepayment date. The operating cash flow is defined as EBITDA after changes in working capital and the scheduled payments of principal and interest during the corresponding fiscal year, excluding capital expenditure, dividends and other financial expenditure.

As at 30 June 2006, the Company's current ratio was 1.41 compared to 0.31 as at 30 June 2005. The Company's debt to equity ratio improved from 100% as at 31 December 2005 to 41.9% as at 30 June 2006.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Interest rate risks

The Company's interest-bearing loans and borrowings are subject to interest rate fluctuation of LIBOR plus margin. As majority of the Company's debt is long-term borrowing, the operating profits will be reduced in the event of higher LIBOR. Out of the US$92 million the Company drew down under the US$100 million club term loan facility, the Company entered into an interest rate swap for the interest payable on the principal of US$25 million.

Foreign exchange rate fluctuation risks

Renminbi is the Company's functional currency for financial reporting because it is the legal tender of the PRC being the primary economic environment in which it operates. In the event that the Company's Renminbi revenue is not sufficient to meet its Renminbi expenditure, the Company's foreign currencies deposit shall be converted into Renminbi to meet the difference; therefore appreciation in Renminbi may bring about unfavorable impact on the Company's operating profits and cashflow.

Capital Commitment

As at 30 June 2006, the Company had capital commitments of property, plant and equipment amounting to RMB67.5 million, of which RMB12.6 million was contracted but not provided for while RMB54.8 million was authorized but not contracted for.

Operating results for the three months ended 30 June 2006

Sales for the three months ended 30 June 2006 increased by 5% when compared to that of the first quarter of the year.

Gross profit for the three months ended 30 June 2006 increased by 21% from the previous quarter. Gross margin for the three months ended 30 June 2006 improved by one per cent sequentially to 16%, mainly due to the higher level of capacity utilization.

Operating expenses for the three months ended 30 June 2006 increased by 18% when compared to that of the first quarter of the year as there were 1% decrease in selling and administrative expenses, 7.2% increase in general and administrative expenses, and 49.9% increase in research and development costs.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Operating Results for the three months ended 30 June 2006 (Continued)

Non-operating expenses for the three months ended 30 June 2006 increased by 103.6% as compared to that for the three months ended 31 March 2006. The increase was mainly attributable to lower other income and higher finance cost. Other income of the second quarter was less than the first quarter's because exchange gain attributable to RMB appreciation was less than that of the first quarter. Finance costs increased due to higher interest expense and bank charges for the three months ended 30 June 2006.

As a result, the net income for the three months ended 30 June 2006 recorded an amount of RMB10.0 million, a decrease in net income when compared to RMB12.1 million for the three months ended 31 March 2006.

1. REVENUE ANALYSIS

By Application	**2Q06**	**1Q06**	**2Q05**
Communication	32%	33%	26%
Computer	34%	33%	38%
Consumer	34%	34%	36%

For the three months ended 30 June 2006, sales from communication, computer and consumer products accounted for 32%, 34% and 34% of total revenue respectively, which were mostly in line with last quarter's.

By Geography	**2Q06**	**1Q06**	**2Q05**
N. America	53%	62%	65%
Europe	23%	24%	12%
Asia Pacific	24%	14%	23%

For the three months ended 30 June 2006, sales to North America accounted for 53% of total revenue, when compared to 62% in the previous quarter. The percentage of sales to Asia Pacific increased from 14% in the previous quarter to 24% in the current quarter mainly because of the fact that sales from a major customer in Asia increased by approximately 132%.

By Customer Type	**2Q06**	**1Q06**	**2Q05**
IDM	42%	41%	30%
Fabless	58%	59%	70%

For the three months ended 30 June 2006, sales from IDM and fabless customers accounted for 42% and 58% of the total revenue respectively. The proportion remains similar to that of the previous quarter.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Operating Results for the three months ended 30 June 2006 (Continued)

2. UTILIZATION AND CAPACITY (8" EQUIVALENT)

	2Q06	1Q06	2Q05
Utilization	69%	62%	59%
Capacity (wafers in thousand)	154	154	133

Note:

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 to produce during the corresponding period.
2. The Company estimated the capacities of its 5-inch, 6-inch and 8-inch on the basis of 9, 10 and 22 mask steps per wafer respectively and 5-inch, 6-inch wafers were converted to 8-inch equivalent wafers by dividing their wafer number using 2.56 and 1.78 respectively.

Overall capacity utilization improved by 7 percentage points from the previous quarter's to 69% for the three months ended 30 June 2006.

The capacity for the three months ended 30 June 2006 was 154,000 8-inch equivalent wafers, which was the same as that of the previous quarter and increased by 16% when compared to that of the second quarter of 2005.

3. RECEIVABLE/INVENTORY TURNOVER

	2Q06	1Q06	2Q05
Trade & Notes Receivables Turnover (days)	46	49	40
Inventory Turnover (days)	69	61	70

Receivable turnover for the three months ended 30 June 2006 was 46 days, which showed a slight improvement when compared to the last quarter's.

Inventory turnover increased from 61 days in the first quarter of 2006 to 69 days in the second quarter of 2006 due to the increase in WIP of 8-inch production.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Operating Results for the three months ended 30 June 2006 (Continued)

4. Capital Expenditure

	2Q06 (RMB'000)	1Q06 (RMB'000)	2Q05 (RMB'000)
Capex	32,951	157,066	190,700

The amount of capital expenditure for the three months ended 30 June 2006 was RMB32.9 million, a substantial decrease from that of the first quarter of 2006.

Acquisition of Philips Semiconductors

On 3 August 2006, Koninklijke Philips Electronics N.V. ("Royal Philips") announced that it had signed an agreement with Kohlberg Kravis Roberts & Co., Silver Lake Partners and AlpInvest Partners N.V. (the "Consortium") whereby the Consortium will acquire an 80.1% stake in Philips' Semiconductors business, with Royal Philips retaining a 19.9% stake in this business. The shares in the Company currently held by Royal Philips through Philips Electronics China B.V. will be ultimately held by the stand-alone Philips Semiconductors company. However, such shares may not be transferred until the expiry of the existing shareholder's lock up period, i.e., one year after 7 April 2006 when the Company's shares were listed on the Hong Kong Stock Exchange and except with approval from the PRC Ministry of Commerce.

Prospects and Future Plans

The ramp up of 8-inch fab of the Company has been going smoothly and as a result the Company was ready to benefit from the most recently rebound of industry and experienced a healthy start in the first half of 2006.

The Company will keep improving the utilization and quality management of 8-inch fab and maintain a strong customer base by rendering high quality, reliable, flexible and cost-effective manufacturing solution to the Company's customers.

The Company will continue to capitalize on its presence in the PRC and address the growing domestic demand for analog semiconductors.

In summary, the Company will continue to strengthen its strategic capabilities as a leading analog foundry and grow in line with the promising prospect of analog semiconductor industry overseas and in China.

PURCHASE, SALE OR REPEMPTION OF THE COMPANY's SECURITIES

During the six months ended 30 June 2006, there was no purchase, sale or redemption by the Company of its listed securities except its initial public offering of 425,147,000 new shares (taking into account the exercise of the over-allotment option in full) as disclosed in the Company's prospectus dated 27 March 2006.

DIRECTORS', SUPERVISORS', AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 30 June 2006, none of the directors, supervisors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2006, the interests and short positions of the following persons (other than directors, supervisors or chief executive) in the shares or underlying shares of the Company were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage in the relevant class of issued share capital	Percentage in total issued share capital
Koninklijke Philips Electronics N.V.	H shares	408,806,888 (Long position) *(Note 1)*	Beneficial owner	36.13%	26.65%
Shanghai Chemical Industrial Park Development Co., Ltd	H shares	254,866,584 (Long position) *(Note 2)*	Beneficial owner	22.53%	16.61%
JPMorgan Chase & Co.	H shares	79,464,121 (Long position) 79,464,121 (Lending pool) *(Note 3)*	Custodian corporation/ approved lending agent	7.02% 7.02%	5.18% 5.18%
Fidelity International Limited	H shares	68,586,000 (Long position)	Investment manager	6.06%	4.47%
The Capital Group Companies, Inc.	H shares	57,398,000 (Long position) *(Note 4)*	Investment manager	5.07%	3.74%
China Orient Asset Management Corporation	Domestic shares	172,648,520 (Long position)	Beneficial owner	46.71%	11.25%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS (Continued)

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage in the relevant class of issued share capital	Percentage in total issued share capital
Shanghai Chemical Industrial Park Development Co., Ltd	Domestic shares	110,908,000 (Long position) *(Note 5)*	Beneficial owner	30.01%	7.23%
Shanghai Belling Co. Ltd.	Domestic shares	86,064,608 (Long position)	Beneficial owner	23.28%	5.61%

Notes:

1. All of these 408,806,888 H shares (long position) are deemed corporate interests indirectly held through Philips Electronics China B.V.

2. All of these 254,866,584 H shares (long position) are deemed corporate interests indirectly held through Shanghai Chemical Industrial Park Investment Enterprise Company Limited and SCIP (HK) Limited.

3. All of these 79,464,121 H shares (long position) are deemed corporate interests indirectly held through JPMorgan Chase Bank, N.A.

4. All of these 57,398,000 H shares (long position) are deemed corporate interests indirectly held through Capital Group International, Inc., Capital Guardian Trust Company, Capital International, Inc., Capital International Limited, and Capital International S.A.

5. All of these 110,908,000 domestic shares (long position) are deemed corporate interests indirectly held through Shanghai Chemical Industrial Park Investment Enterprise Company Limited.

SHARE OPTION SCHEME

As at 30 June 2006, the Company had no share option scheme within the meaning of Chapter 17 of the Listing Rules.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES (THE "GOVERNANCE CODE")

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Governance Code in Appendix 14 of the Listing Rules for the period commencing from 7 April 2006 (the date on which the Company's H shares were listed on the Stock Exchange) to 30 June 2006, except for the following instances:

Code provision A.1.7

The code provision A.1.7 of the Governance Code provides that, there should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense.

Currently the Company does not have such a procedure in writing. However, the directors are of the view that their right of access to independent professional advice has never been prejudiced by non-existence of such a procedure. To comply with the Governance Code, the board intends to approve such a procedure before the end of this year.

Code provision A.5.4

The code provision A.5.4 of the Governance Code provides, among other things, that the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.

The board adopted an employee code of conduct on 1 November 2005 which provides, among other things, that all employees must not deal in the securities of the Company if they are in possession of any non-public price-sensitive information with regard to the Company. To fully comply with the Governance Code, the board established further written guidelines on no less exacting terms than the Model Code for the relevant employees in respect of their dealings in the securities of the Company on 27 July 2006.

MODEL CODE

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by the directors and supervisors.

The Company, having made specific enquiry of all its directors and supervisors, confirms that its directors and supervisors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2006.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company consists of three independent non-executive directors, Mr. James Arthur Watkins (chairman), Mr. Thaddeus Thomas Beczak and Mr. Shen Weijia, and two non-executive directors, Mr. Anthony Lear and Mr. Zhu Peiyi. The interim results for the six months ended 30 June 2006 have been reviewed by the Audit Committee and audited by Ernst & Young, the Company's external auditors.

By order of the Board
ADVANCED SEMICONDUCTOR MANUFACTURING CORPORATION LIMITED
Tony Yuhai Liu
Executive Director & President

Shanghai, PRC, 10 August 2006