

BUSINESS REVIEW OF THE YEAR

Overview

In 2006, the Group has recovered from the down cycling of the global semiconductor market and has benefited from the prior capacity expansion and process technology mix evolution. The Group's consolidated revenue increased by 46.4% to US\$114.30 million in 2006 from US\$78.10 million in 2005. EBITDA increased by 98.8% to US\$34.28 million in 2006 from US\$17.24 million in 2005. The Group recorded a net profit of US\$6.37 million in 2006 compared with a net loss of US\$6.84 million in 2005. In 2006, the average capacity utilization rate of the Group was up to 86% as well as the average selling price (the "ASP") has increased to US\$175 per wafer from US\$168 per wafer in 2005.

業務回顧

概覽

二零零六年，本集團從全球半導體市場低迷周期中恢復過來，並受益於之前的產能擴展和工藝技術組合改良。本集團的綜合收入增加46.4%，從二零零五年的7,810萬美元上升至11,430萬美元。EBITDA增加98.8%，從二零零五年1,724萬美元上升至二零零六年3,428萬美元。本集團在二零零六年的純利是637萬美元，而二零零五年則為淨虧損684萬美元。在二零零六年，本集團的平均產能使用率達86%，平均售價（「ASP」）也從二零零五年的每片晶圓168美元上升至175美元。

BUSINESS REVIEW OF THE YEAR (Cont'd)

Expansion of Business

The Group's business in the PRC contributed 67.7% to the consolidated revenue of the Group in 2006. The revenue from the PRC increased by 46.1% to US\$77.41 million in 2006 from US\$52.98 million in 2005. The Group's business from overseas market increased by 46.9% to US\$36.89 million in 2006 from US\$25.12 million in 2005, as a result of market recovery from the down cycling of the industry.

The following table shows the geographical breakdown of the Group's revenue for the five years ended 31 December 2006.

		2006		2005		2004		2003		2002	
		(US\$ '000)	%	(US\$ '000)	%	(US\$ '000)	%	(US\$ '000)	%	(US\$ '000)	%
		(千美元)		(千美元)		(千美元)		(千美元)		(千美元)	
The PRC	中國	77,413	67.7	52,982	67.8	46,854	58.6	32,289	76.7	31,905	77.9
Asia, other than the PRC	中國以外的亞洲地區	21,989	19.2	15,194	19.5	20,900	26.2	7,596	18.1	6,888	16.8
United States	美國	10,852	9.5	5,637	7.2	5,571	7.0	2,192	5.2	2,184	5.3
Europe	歐洲	4,048	3.6	4,286	5.5	6,535	8.2	—	—	—	—
Total	總計	114,302	100.0	78,099	100.0	79,860	100.0	42,077	100.0	40,977	100.0

The Group adopted a strategy to diversify its customer base to avoid over-reliance on any single customer. The Group's top five customers' contribution to the revenue decreased to 42.3% in 2006 from 68.0% in 2005.

Production Capacity and Capacity Utilization Rate

By the end of 2006, the Group's production capacity reached 67,200 wpm. Average capacity utilization achieved 86% in 2006 compared to 63% in 2005.

業務回顧 (續)

拓展業務

二零零六年，本集團於中國的業務佔本集團綜合收入的67.7%。中國業務的收入上升46.1%，從二零零五年的5,298萬美元上升至二零零六年的7,741萬美元。本集團的海外業務收入也上升46.9%，從二零零五年2,512萬美元上升至二零零六年3,689萬美元。上升原因是受益於全球半導體復蘇。

下表呈列按地區分析本集團截至二零零六年十二月三十一日止五個年度的收入：

本集團採納策略使其客戶群多元化，避免過分依賴任何單一客戶。本集團的五大客戶的收入貢獻由二零零五年的68.0%下降至二零零六年的42.3%。

產能及產能使用率

截至二零零六年底，本集團的產能是每月67,200片晶圓。二零零六年平均產能使用率是86%，而二零零五年則為63%。

BUSINESS REVIEW OF THE YEAR (Cont'd)

Technology Migration

One of the Group's ASP enhancement strategies is to continue to enhance its core offering to more advanced process technology mix. Revenue contributions from 0.6 micron and more advanced process technologies increased to 42.5% in 2006 from 41.2% in 2005 and 34.1% in 2004. The Group is also working towards expanding its process technology offering to include 0.35 to 0.18 micron with technology partner for Fab 2 when those process technologies come on stream. The table below shows the Group's revenue by process technologies:

		2006		2005		2004		2003		2002	
		(US\$ '000)	%	(US\$ '000)	%	(US\$ '000)	%	(US\$ '000)	%	(US\$ '000)	%
		(千美元)		(千美元)		(千美元)		(千美元)		(千美元)	
5-inch	5英寸	—	—	—	—	—	—	—	—	962	2.3
6-inch	6英寸										
>=1.0 micron	>=1.0 微米	28,594	25.0	21,310	27.3	20,350	25.4	18,234	43.3	20,731	50.6
0.6 - 0.8 micron	0.6 - 0.8 微米	26,925	23.6	17,967	23.0	28,922	36.2	14,217	33.8	16,836	41.1
0.5 - 0.6 micron	0.5 - 0.6 微米	35,904	31.4	20,917	26.8	8,840	11.1	1,496	3.6	83	0.2
0.35-0.5 micron	0.35 - 0.5 微米	12,650	11.1	11,270	14.4	18,347	23.0	6,682	15.9	2,315	5.7
Subtotal	小計	104,073	91.1	71,464	91.5	76,459	95.7	40,629	96.6	39,965	97.6
DMOS	DMOS	3,451	3.0	2,256	2.9	61	0.1	—	—	—	
Others	其他	6,778	5.9	4,379	5.6	3,340	4.2	1,448	3.4	50	0.1
Total	總計	114,302	100.0	78,099	100.0	79,860	100.0	42,077	100.0	40,977	100.0

The Group is transforming to be a leading analog foundry in China to provide manufacturing services with high voltage, mixed-signal and DMOS technologies which are widely used for applications of power management IC and power discrete. Revenue contributions from analog ICs increased to 33.1% in 2006 from 28.2% in 2005 and 16.4% in 2004.

業務回顧(續)

技術轉移

本集團持續將其核心服務提升至更先進工藝技術組合，作為提高平均售價策略之一。由0.6微米及更先進工藝技術帶來的收入由二零零四年的34.1%及二零零五年的41.2%上升至二零零六年的42.5%。本集團亦正就二廠尋求與技術夥伴合作，在工藝技術可使用時加入0.35至0.18微米，此類製程技術將成為市場主流。下表呈列按工藝技術分析本集團的收入：

本集團正轉型成為中國模擬晶圓專工之領航者，提供於電源管理積體電路和分立器件方面獲廣泛採用的高壓技術、數模混合信號及DMOS的生產服務。來自模擬晶圓代工業務的收入貢獻由二零零四年的16.4%及二零零五年的28.2%增加至二零零六年的33.1%。

BUSINESS REVIEW OF THE YEAR (Cont'd)

Technology Migration (Cont'd)

The table below shows the Group's revenue by process mix:

		2006		2005		2004		2003		2002	
		(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%
		(千美元)		(千美元)		(千美元)		(千美元)		(千美元)	
Logic	邏輯	65,306	57.2	49,629	63.5	60,700	76.0	38,097	90.5	38,186	93.2
Mixed-signal	數模混合信號	34,462	30.1	19,739	25.3	13,021	16.3	2,506	6.0	2,741	6.7
NVM&EEPROM	NVM&EEPROM	4,305	3.8	2,096	2.7	2,738	3.4	26	0.1	—	—
DMOS	DMOS	3,451	3.0	2,256	2.9	61	0.1	—	—	—	—
Others	其他	6,778	5.9	4,379	5.6	3,340	4.2	1,448	3.4	50	0.1
Total	總計	114,302	100.0	78,099	100.0	79,860	100.0	42,077	100.0	40,977	100.0

Employees

The management believes that the Group's employees are its greatest asset. The Group had 1,820 employees as at 31 December 2006, an increase of 384 employees compared with 1,436 at the end of 2005. The Group has maintained a good working relationship with its employees over the year.

In the highly competitive foundry business, strong human resources are essential for continuous growth. The management successfully leverage on the strengths of both local Chinese employees and international expertise. The Group also prides itself for its track record of recruiting and developing local managerial, technical, and operating personnel. Currently about 98% of the Group's staff are citizens of the PRC, including the majority of its managers. As at 31 December 2006, about 50% of the Group's employees hold college or graduate degrees.

業務回顧 (續)

技術轉移 (續)

下表呈列按制程組合分析本集團的收入：

僱員

管理層相信，本集團的僱員為最重要的資產。截至二零零六年十二月三十一日，本集團有僱員1,820名，較二零零五年底的1,436名僱員增加384人。過往一年，本集團與僱員維持良好關係。

晶圓代工業務的競爭非常激烈，強大的人力資源是持續增長所必需的。管理層成功地利用中國本地僱員及國際專才的優勢。本集團亦對其招聘及發展本地的管理、技術及營運員工的記錄感到自豪。本集團現時98%員工為中國內地人才，包括大部分的經理。於二零零六年十二月三十一日，本集團約50%的僱員擁有大學或以上的學歷。

BUSINESS REVIEW OF THE YEAR (Cont'd)

Employees (Cont'd)

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Employer's pension cost charged to the consolidated income statement was US\$1.31 million for 2006, compared with US\$1.13 million for 2005.

業務回顧(續)

僱員(續)

本集團就強制性、合約性或自願性的公眾或私人管理退休金保證計劃作出供款。二零零六年，於綜合收益表中扣除的僱主退休金成本為131萬美元，而二零零五年則為113萬美元。

OPERATING RESULTS

Financial Results

For the year ended 31 December 2006, the Group recorded revenue of US\$114.30 million, an increase of 46.4% from US\$78.10 million in 2005. EBITDA for the year ended 31 December 2006 was US\$34.28 million, an increase of 98.8% from US\$17.24 million in 2005. The increase of both revenue and EBITDA was primarily due to the continuous improvement in capacity utilization rate and ASP.

Net profit for the year ended 31 December 2006 was US\$6.37 million comparing with a net loss of US\$6.84 million in 2005.

Basic earning per share for the year ended 31 December 2006 was US\$0.24 cent, compared to a basic loss per share of US\$0.26 cent for the preceding year. Diluted earning per share for the year ended 31 December 2006 was US\$0.23 cent.

The following table shows certain information relating to the Group's results of operations for each of the two years ended 31 December 2006 and 2005, extracted from the audited consolidated financial statements of the same period:

經營業績

財務業績

於截至二零零六年十二月三十一日止年度，本集團錄得收入11,430萬美元，較二零零五年的7,810萬美元增加46.4%。截至二零零六年十二月三十一日止年度的EBITDA為3,428萬美元，較二零零五年1,724萬美元增加98.8%。收入及EBITDA的增加均主要由於產能使用率的不斷提高及平均售價持續改進。

與二零零五年淨虧損684萬美元比較，截至二零零六年十二月三十一日止年度的純利為637萬美元。

與上年度每股基本虧損0.26美仙比較，截至二零零六年十二月三十一日止年度的每股基本盈利為0.24美仙。截至二零零六年十二月三十一日止年度的每股攤薄盈利為0.23美仙。

下表呈列有關本集團截至二零零六年及二零零五年十二月三十一日止兩個年度的經營業績的若干資料。該等資料是摘錄自同期經審核綜合財務報表。

OPERATING RESULTS (Cont'd)
Consolidated income statements
經營業績 (續)
綜合收益表
For the year ended 31 December

截至十二月三十一日止年度

		2006		2005	
		(US\$'000)	%	(US\$'000)	%
		(千美元)		(千美元)	
Revenue	收入	114,302	100.0	78,099	100.0
Cost of goods sold	銷貨成本	(87,368)	(76.4)	(71,502)	(91.6)
Gross profit	毛利	26,934	23.6	6,597	8.4
Operating expenses:	營運支出：				
Selling and marketing costs	銷售及市場推廣開支	(3,162)	(2.8)	(2,528)	(3.2)
Administrative expenses	行政費用	(14,108)	(12.3)	(8,755)	(11.2)
Research and development expenses	研究及發展費用	(3,100)	(2.7)	(2,264)	(2.9)
Other gains – net	其他收益淨額	4,115	3.6	1,186	1.5
Operating profit (loss)	經營溢利 (虧損)	10,679	9.4	(5,764)	(7.4)
Finance costs – net	淨融資成本	(3,192)	(2.8)	(1,444)	(1.9)
Profit (loss) before income tax	除稅前溢利 (虧損)	7,487	6.6	(7,208)	(9.3)
Income tax (expenses) recovery	所得稅 (開支) 退回	(1,121)	(1.0)	366	0.5
Net profit (loss) for the year	年內純利 (淨虧損)	6,366	5.6	(6,842)	(8.8)
Dividends	股息	—		1,705	
Earnings (losses) per share	每股盈利 (虧損)				
– Basic (US cent)	– 基本 (美仙)	0.24		(0.26)	
– Diluted (US cent)	– 攤薄 (美仙)	0.23		N/A	
Operating Data	經營數據				
Depreciation and amortization	折舊及攤銷	23,263		22,836	
Capital expenditure	資本開支	32,406		40,862	
Wafer sales (units)	晶圓銷售數量 (以片計)	615,100		439,500	
ASP (US\$)	平均售價 (美元)				
(Wafer sales / quantity of wafer sold)	(晶圓銷售額 / 已售晶圓數量)	175		168	

OPERATING RESULTS (Cont'd)

Revenue

The Group's revenue was mainly from wafer fabrication. The Group's consolidated revenue for year ended 31 December 2006 amounted to US\$114.30 million, representing an increase of 46.4% compared to US\$78.10 million in 2005. This increase in the Group's revenue was mainly due to the increase in sales volume of wafers shipped by 40.0% to 615,100 wafers in 2006 from 439,500 wafers in 2005, as well as the increase in ASP by 4.2% to US\$175 in 2006 from US\$168 in 2005.

Cost of goods sold

Cost of goods sold consists principally of:

- depreciation;
- direct materials, mainly raw wafers, and indirect materials such as test wafers, photo masks, chemicals and photo resist;
- manufacturing overhead, including utilities, spare parts, repair and maintenance, rental, and indirect labor; and
- direct labor, including salaries for employees directly involved in manufacturing activities.

Cost of goods sold increased by 22.2% to US\$87.37 million in 2006 from US\$71.50 million in 2005. The increase in cost of goods sold in the year was primarily due to the increased consumption in material and utility costs that in line with the increase in the volume of wafers sold.

經營業績 (續)

收入

本集團收入主要來自製造晶圓。本集團截止二零零六年十二月三十一日止年度的綜合收入為11,430萬美元，相比二零零五年的7,810萬美元增長46.4%。本集團收入增加主要原因是晶圓付運量由二零零五年的439,500片增加了40%至二零零六年的615,100片，平均售價亦由二零零五年的168美元增加了4.2%至二零零六年的175美元。

銷貨成本

銷貨成本主要包括：

- 折舊；
- 直接物料，主要為未經加工晶圓，及間接物料，如測試晶圓、光罩、化學品及光致抗蝕劑；
- 製造間接費用，包括公用事業費用、零備件維修及保養，租金及間接勞工；及
- 直接勞工，包括直接參與製造活動的僱員薪金

銷貨成本由二零零五年的7,150萬美元增加22.2%至二零零六年的8,737萬美元，本年銷貨成本增加主要原因是隨著晶圓銷售數量增加，原料消耗及公用事業成本同時上升。

OPERATING RESULTS (Cont'd)

Gross profit

Gross profit increased by 308.3% to US\$26.93 million in 2006 from US\$6.60 million in 2005. Gross margin increased to 23.6% in 2006 from 8.4% in 2005. The increase in gross margin was mainly due to the growth in production capacity utilization to 86% in 2006 from 63% in 2005, with the production capacity expanded to 67,200 wpm by the end of 2006. The increase in ASP by 4.2% also resulted in an increase in gross profit and gross margin.

Selling and marketing costs

Selling and marketing costs increased by 25.1% to US\$3.16 million in 2006 from US\$2.53 million in 2005, which mainly due to the increase of experienced sales executives and is in line with the increase in revenue and sales volume.

Administrative expenses

Administrative expenses increased by 61.1% to US\$14.11 million in 2006 from US\$8.76 million in 2005. The increase in amount is mainly due to the administrative expenses of approximately US\$3.62 million of its new fab in Beijing, which commence its operation in 2006. The charge of impairment allowance for equipments of US\$1.82 million was also resulted in the increase of the administrative expenses.

Research and development expenses

Research and development expenses increased by 36.9% to US\$3.10 million in 2006 from US\$2.26 million in 2005. Research and development expenses consisted primarily of salaries and related personnel costs for process technology development, technology license fees, and maintenance of the equipment used in technology development. The increase in research and development expenses in 2006 was primarily because of the investment spent in technology process development on analog ICs including DMOS, CDMOS and high voltage, etc.

經營業績(續)

毛利

毛利由二零零五年的660萬美元增加308.3%至二零零六年的2,693萬美元，邊際毛利由二零零五年的8.4%增加至二零零六年的23.6%，邊際毛利增加主要原因為產能使用率由二零零五年的63%增加至二零零六年的86%，同時產能增加至二零零六年末每月晶圓產量67,200片，平均售價增加4.2%亦令毛利及邊際毛利增加。

銷售及市場推廣成本

銷售及市場推廣成本由二零零五年的253萬美元增加了25.1%至二零零六年的316萬美元，主要原因為隨收入及銷售數量增加，並增加有經驗的銷售人員。

行政費用

行政支出由二零零五年的876萬美元增加了61.1%至二零零六年的1,411萬美元。金額增加主要原因為在北京的晶圓代工廠由二零零六年開始營運增加行政費用約362萬美元，計提設備減值準備182萬美元，亦增加了行政費用。

研究及發展費用

研究及發展費用由二零零五年的226萬美元增加了36.9%至二零零六年的310萬美元。研究及發展支出主要包括科技研發人員的薪金及相關人事成本及技術許可費、及用於科技研發的設備維修支出。二零零六年研究及開發費用增加的主要原因為在模擬集成電路包括DMOS、CDMOS、高壓等的制程技術發展的投資。

OPERATING RESULTS (Cont'd)

Other gains - net

Other gains consist principally of:

- subsidy income consisting mainly of the government incentive for re-investment in a subsidiary in the PRC and a subsidy granted for an environment protection project from a local Chinese government;
- gain on disposal of property, plant and equipments; and
- net foreign exchange gains arising from the appreciation of Rmb

Subsidy income	補貼收入	
Gain (loss) on disposal of property, plant and equipments	出售物業、廠房及設備收益	
Net foreign exchange gain	淨外匯收益	
Other, net	其他淨收益	

Other gains increased by 247.0% to US\$4.12 million in 2006 from US\$1.19 million in 2005 primarily due to the increase of subsidy income to US\$2.23 million in 2006 from US\$749,000 in 2005. The subsidy income for 2006 mainly represents a government incentive for re-investment in a subsidiary in the PRC and a subsidy granted for an environmental protection project amounting to US\$2,145,000 and US\$82,000 respectively. The subsidy income of US\$749,000 in the prior year represented refund of Value-Added Tax for Fab 1 for being a qualified manufacturer of micro-electronics products. In addition, the Group disposed certain equipments and recorded a net gain of US\$529,000 in 2006, which also results the increase of other gains.

經營業績 (續)

其他收益淨額

其他收益主要包括：

- 補貼收入，主要包括政府對於集團於中國以利潤再投資於附屬公司的獎勵，及地方政府向集團一項環境保護項目授出之補助金；
- 出售物業、廠房及設備；及
- 人民幣升值而獲得外匯收益

2006	2005
US\$'000	US\$'000
千美元	千美元
2,227	749
529	(22)
1,011	762
348	(303)
4,115	1,186

其他收益由二零零五年的119萬美元增加了247.0%至二零零六年412萬美元，主要原因為補貼收入由二零零五年74.9萬美元增加至二零零六年223萬美元，二零零六年補貼收益主要是政府對集團於中國以利潤再投資附屬公司的獎勵及一項環保項目補助金，分別為215萬美元及8.2萬美元。上年度的補貼收入74.9萬美元是來自本集團的一廠作為合格微電子產品製造商所得的增值稅退稅。此外本集團於二零零六年內出售若干設備，獲得淨收益52.9萬美元，亦令其他收益增加。

OPERATING RESULTS (Cont'd)

Taxation

(a) Income Tax

The Company is incorporated under the Companies Law (2003 Revision) of Cayman Islands and is not subject to taxation in Cayman Islands.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong.

The Company's subsidiaries registered in the PRC are subject to Enterprise Income Tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with the relevant PRC income tax laws. The general applicable EIT rate for Fab 1, Fab 2 and Fab 3 is 33%. However, being located in the "Coastal Open Economic Zone", Fab 1 and Fab 2 are entitled to a preferential EIT rate of 24%. Furthermore, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", Fab 1 is also entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. Moreover, since Fab 1 also qualifies as an "advanced-technology enterprise", it is further entitled to a 50% reduction in EIT for an additional three years. The first profitable year of Fab 1 was 1999.

經營業績 (續)

稅項

(a) 所得稅

本公司根據開曼公司法(2003年修訂版)註冊成立，並無須繳交開曼群島稅項。

由於並無自香港賺取或產生應課稅溢利，故並無為香港利得稅作出撥備。

本公司於中國註冊的附屬公司，須就他們的中國法定賬目所呈報的應課稅收入(根據有關中國所得稅法作出調整)繳付企業所得稅(「企業所得稅」)。適用於一廠、二廠及三廠的企業所得稅率為33%。然而，由於一廠及二廠位於沿海經濟開放區，故就企業所得稅享有24%的優惠稅率。再者，根據中國《外商投資企業所得稅法》，一廠亦可從其抵銷過往五年結轉的所得稅項虧損的首個獲利年度起的首兩年，有權獲享全數豁免繳付首兩年企業所得稅，及於隨後三年減免50%企業所得稅。此外，由於一廠亦符合「高新技術企業」資格，因而可再享三年50%企業所得稅減免。一廠首個獲利年度為一九九九年。

OPERATING RESULTS (Cont'd)

Taxation (Cont'd)

(a) *Income Tax*

In April 2005, Fab 1 received approval from the PRC National Administration of Taxation to be classified as an encouraged technology intensive foreign investment enterprise with foreign investment in excess of US\$30 million. As a result, from 1 January 2004 onwards, Fab 1 enjoys a preferential EIT rate of 15%. However, according to the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", the minimum EIT rate applicable to a foreign investment enterprise is 10%, and therefore although Fab 1 could enjoy 50% reduction in EIT for the years ended 31 December 2004 to 2006, Fab 1 was still subject to 10% EIT rate.

No EIT has been provided for Fab 2 and Fab 3 as there was no taxable income as reported in their PRC statutory accounts adjusted in accordance with the relevant PRC income tax laws.

The details of taxation charged (credited) to the consolidated income statement for the two years ended 31 December 2006 are as follows:

Current income tax	現行所得稅
– PRC EIT	– 中國企業所得稅
– Reversal of over-accrued EIT	– 撥回多計的企業所得稅
Deferred income tax	遞延所得稅

經營業績 (續)

稅項 (續)

(a) *所得稅*

於二零零五年四月，一廠收到中國國家稅務局總局的批准，被認為投資超過3,000萬美元的受鼓勵技術密集型外商投資企業。因此，自二零零四年一月一日起，一廠就企業所得稅享有15%的優惠稅率。然而，根據中國《外商投資企業所得稅法》，外商投資企業的企業所得稅稅率最低為10%，所以，雖然一廠就截至二零零四年至二零零六年十二月三十一日止年度的企業所得稅獲50%減免，一廠仍須按10%的企業所得稅稅率繳納稅項。

由於根據有關中國所得稅法調整後，二廠及三廠所呈報的中國法定賬目中並無應課稅收入，故二廠及三廠並未計提企業所得稅撥備。

自截至二零零六年十二月三十一日止年度的綜合收益表扣除(計入)的稅項金額細列如下：

2006	2005
US\$'000	US\$'000
千美元	千美元
1,459	—
—	(279)
(338)	(87)
1,121	(366)

OPERATING RESULTS (Cont'd)

Taxation (Cont'd)

(b) VAT

The Company's subsidiaries established in the PRC are subject to VAT, which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT on sales to determine the net VAT payable.

Net profit (loss) for the year

As a result of the foregoing, the Group recorded a net profit of US\$6.37 million in 2006, compared with net loss of US\$6.84 million in 2005.

Dividends

The directors do not recommend the payment of a dividend for financial year ended 31 December 2006.

經營業績 (續)

稅項 (續)

(b) 增值稅

本公司於中國註冊的附屬公司須繳付增值稅，以售價按一般稅率17%徵收。先前用於購買原材料或半製成品所支付的進項增值稅可先行記賬，並可沖銷銷售時須支付的銷項增值稅，以確定應繳付的增值稅淨額。

年內純利／(淨虧損)

由於上述各項，本集團於二零零六年錄得純利637萬美元，而二零零五年則錄得淨虧損684萬美元。

股息

董事不建議派付截至二零零六年十二月三十一日止財政年度的股息。

OPERATING RESULTS (Cont'd)

Earnings per share

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

Profit (loss) attributable to shareholders for the purposes of calculating basic and diluted earnings (loss) per share	就計算每股基本及攤薄盈利(虧損)而言之股東應佔溢利(虧損)
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Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	就計算每股基本盈利而言之加權平均普通股數目
---	-----------------------

Effect of dilutive potential ordinary shares:	攤薄潛在普通股之影響
– Equity incentive plan	– 股份獎勵計劃
– Share Option Scheme	– 購股權計劃

Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	就計算每股攤薄盈利而言之加權平均普通股數目
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No diluted earnings per share for 2005 has been presented as the potential ordinary shares resulting from the Equity Incentive Plan were anti-dilutive.

經營業績(續)

每股盈利(虧損)

每股基本及攤薄盈利(虧損)是根據下列數據計算：

2006	2005
(US\$'000)	(US\$'000)
千美元	千美元
6,366	(6,842)

Number of ordinary shares 普通股數目

2006	2005
2,701,158,258	2,646,935,175
36,454,218	N/A 不適用
1,098,520	N/A 不適用
2,738,710,996	N/A 不適用

由於因股份獎勵計劃產生的潛在普通股具反攤薄作用，故並無呈列二零零五年的每股攤薄盈利。

OPERATING RESULTS (Cont'd)

Liquidity and Capital Resources

For the year ended 31 December 2006, the Group's sources of liquidity mainly derived operating activities amounting to US\$28.44 million. The Group's cash has principally been applied to fund capital expenditures related to the purchase of machinery and equipment for Fab 1 amounting to US\$7.35 million, construction of Fab 2 amounting to US\$4.94 million, and fab construction and purchase of equipment and intangible assets for Fab 3 amounting to US\$20.12 million.

The table below sets forth the cashflow of the Group for the two years ended 31 December 2006, as well as the cash and cash equivalents at the end of each of the two years:

經營業績(續)

流動資金及資本來源

截止二零零六年十二月三十一日止年度，本集團的流動資金來源主要來自於經營活動產生的淨現金計2,844萬美元。本集團現金主要用於資本開支包括購買一廠的機器設備計735萬美元、二廠建設計494萬美元及三廠建設與購置的設備及無形資產計2,012萬美元。

下表列出本集團截至二零零六年十二月三十一日止兩個年度的現金流量及該兩個年度末的現金及現金等價物：

		2006	2005
		(US\$'000)	(US\$'000)
		千美元	千美元
Net cash generated	經營活動產生的現金流入淨額	28,438	18,032
from operating activities			
Net cash used	投資活動動用的現金淨額	(31,384)	(40,661)
in investing activities			
Net cash (used in) generated	融資活動(動用)產生的現金淨額	(64)	22,909
from financing activities			
Net (decrease) increase in cash	現金及現金等價物(減少)增加淨額	(3,010)	280
and cash equivalents			
Exchange (loss) gain on cash and	滙兌(虧損)收益於現金及現金等價物	(667)	35
cash equivalents			
Cash and cash equivalents	年初現金及現金等價物	24,778	24,463
at beginning of year			
Cash and cash equivalents	年終現金及現金等價物	21,101	24,778
at end of year			

OPERATING RESULTS (Cont'd)

Liquidity and Capital Resources (Cont'd)

Net cash generated from operating activities increased to US\$28.44 million in 2006 from US\$18.03 million in 2005. The increase was primarily due to growth in revenue.

Net cash used in investing activities was US\$31.38 million and US\$40.66 million in 2006 and 2005, respectively. In 2006, US\$7.35 million was spent on the purchase of machinery and equipment of Fab 1, US\$4.94 million was spent on construction of Fab 2, and US\$20.12 million was spent on equipment and intangible assets purchase and fab construction of Fab 3.

Net cash used in financing activities in 2006 amounted to US\$64,000, compared to US\$22.91 million cash generated from financing activities in 2005. The amount in 2006 reflects the net of US\$120,000 drawdown of borrowings from various banks, and US\$184,000 spent on repurchase of shares of the Company. The amount in 2005 mainly reflected the US\$24.90 million from the net bank borrowings from various banks.

經營業績 (續)

流動資金及資本來源 (續)

經營活動產生的淨現金由二零零五年的1,803萬美元增至2,844萬美元。增加主要由銷售量增加所致。

用於投資活動的淨現金於二零零五年及二零零六年分別為4,066萬美元及3,138萬美元。於二零零六年，735萬美元用於一廠購置機器及設備、494萬美元用於建設二廠及2,012萬美元用於三廠購置設備及無形資產和廠房建設。

二零零六年用於融資活動的淨現金為6.4萬美元，而二零零五年融資活動產生現金為2,291萬美元。二零零六年的金額反映從不同銀行借款淨增加額12萬美元，及用於購回本公司股份花費18.4萬美元。二零零五年的金額則主要反映從不同銀行得到的借貸淨增加額2,490萬美元。

OPERATING RESULTS (Cont'd)

Indebtedness

The borrowings of the Group as at 31 December 2006 and 2005 were as follows:

Current	短期
– Secured bank borrowings	– 有抵押銀行借貸
– Unsecured bank borrowings	– 無抵押銀行借貸
Non-current	長期
– Secured bank borrowings	– 有抵押銀行借貸
Total borrowings	借貸總額

The secured portion of US\$15.31 million was secured by certain of the Group's equipments and land use right with the net book value of approximately US\$25.65 million.

The Group receives payments in currencies including Renminbi ("Rmb"), US dollars and Hong Kong dollars, and it incurs costs and expenses in currencies including US dollars, Rmb, Japanese Yen, Hong Kong dollars and Euros. The management believes that, considering the working capital position of the Group, the Group will have sufficient foreign exchange fundings to meet its foreign exchange liabilities as they become due.

經營業績(續)

債務

本集團截至二零零六年及二零零五年十二月三十一日的借貸如下：

2006	2005
(US\$'000)	(US\$'000)
千美元	千美元
8,306	3,000
27,479	29,922
7,000	9,230
42,785	42,152

有抵押部份計1,531萬美元由本集團若干機器及土地使用權(賬面淨值約2,565萬美元)作抵押。

本集團收取的款項以人民幣、美元及港元為單位，其成本及費用則以美元、人民幣、日圓、港元及歐元為單位。管理層相信，考慮到本集團的營運資金狀況，本集團將有充足外匯支付到期的外匯負債。

OPERATING RESULTS (Cont'd)

Capital Expenditures

The Group requires capital to build, expand, upgrade and maintain its production facilities and equipment. The Group incurred capital expenditure of US\$32.41 million in 2006, of which US\$7.35 million was spent on the purchase of machinery and equipment Fab 1, US\$4.94 million was spent on construction of Fab 2, and US\$20.12 million was spent on the equipment and intangible assets purchase and fab construction of Fab 3.

The Group is cultivating business opportunities with certain technology partners and endeavors to form strategic partnerships for Fab 2. The construction of Fab 2 shell and other supporting facilities are still in progress at the end of 2006.

The management estimates the cost of the construction of the Fab 2 building and facilities to be US\$115.76 million. Of this amount, US\$45.84 million was spent till 2006. Both the capital expenditure described above have been or will be funded from the proceeds of share issuances, bank loans and internally generated cash inflow from operations. The Group will continue to implement its prudent capital management policy and optimize the allocation of its capital resources.

Repurchase of Shares

During the year ended 31 December 2006, the Company repurchased 3,655,000 shares of the Company at prices ranging from HK\$0.34 to HK\$0.40 per share with a total consideration of US\$184,000. These shares have been duly cancelled.

經營業績 (續)

資本開支

本集團需要資金以建設、擴充、提升及維修生產設施及設備。於二零零六年，本集團的資本開支為3,241萬美元，其中735萬美元用於購買一廠購置機器設備，494萬美元用於二廠建設，2,012萬美元用於購買三廠的設備及無形資產及興建廠房。

本集團有意與若干技術夥伴發展業務機會，並努力為二廠建立策略夥伴關係。於二零零六年底，二廠廠房建設工程及其他支援設施仍在施工。

管理層預期二廠的廠房及設施建設成本為11,576萬美元。就此金額而言，4,584萬美元已於二零零六年之前撥付。上述的資本開支已經或將會由發行股份所得款項、銀行貸款及內部產生經營性現金流入額撥支。本集團將繼續執行謹慎的資本開支政策，並進一步善用分配資本開支。

購回股份

截至二零零六年十二月三十一日止年度，本公司購回3,655,000股本公司的股份，每股作價介乎0.34港元至0.40港元，總代價為18.4萬美元。該批股份已正式註銷。

OPERATING RESULTS (Cont'd)

Commitments and Contingent Liabilities

a) Capital commitments

As at 31 December 2006 and 2005, the Group had the following significant capital commitments:

Contracted but not provided for	已訂約但未撥備
– Acquisition of property, plant and equipment	– 購置物業、廠房及機器
– Acquisition of information technology system	– 購置資訊技術系統
Authorized but not contracted for	已授權但未定約
– Acquisition of property, plant and machinery	– 購置物業、廠房及機器
– Acquisition of information technology system	– 購置資訊技術系統
Total	總計

b) Operating lease commitments

The Group leases various offices, factory premises and machinery under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

As at 31 December 2006 and 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Office and factory premises and machinery	辦公室、廠房物業及機器
– No later than 1 year	– 一年內
– Later than 1 year but no later than 5 years	– 一年後但不遲於五年
– Later than 5 years	– 五年後

經營業績 (續)

承擔及或然負債

a) 資本承擔

於二零零六年及二零零五年十二月三十一日，本集團的重大資本承擔如下：

2006 (US\$'000) 千美元	2005 (US\$'000) 千美元
49,216	4,588
498	929
50,463	211,597
1,372	3,235
<u>101,549</u>	<u>220,349</u>

b) 經營租賃負債承擔

本集團以不可撤銷經營租賃協議租賃多間辦公室、廠房物業及機器。這些租約有不同年期及續約權。

於二零零六年及二零零五年十二月三十一日，本集團的不可撤銷經營租賃的日後最低租金付款額如下：

2006 (US\$'000) 千美元	2005 (US\$'000) 千美元
1,997	1,519
7,359	4,732
1,323	—
<u>10,679</u>	<u>6,251</u>

OPERATING RESULTS (Cont'd)

Commitments and Contingent Liabilities (Cont'd)

c) *Contingent liabilities*

As at 31 December 2006, Fab 1 has a staff retention program which requires Fab 1 to provide corporate guarantee to a third party bank for the down payment of loans of its key employees amounting to approximately US\$515,000 (2005: US\$340,000).

Save as disclosed above, the Group does not have any other commitments or contingent liabilities.

Legal Liabilities

For the year ended 31 December 2006, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company as far as the Company is aware of.

Basis of Preparation and Changes in Accounting Policies

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The accounting policies and methods of computation used in the preparation of this consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005 except the following new standards, amendments to standards and interpretations are mandatory for financial year ended 31 December 2006.

The adoption of HKAS 39 and HKFRS 4 Amendment, 'Financial guarantee contracts' is relevant for the Group's operations. The Group has assessed the impact of this amendment on the corporate guarantees to a third party bank given as security for the loans of its employees and concluded that the impact is not significant.

經營業績 (續)

承擔及或然負債 (續)

c) *或然負債*

於二零零六年十二月三十一日，一廠設立挽留員工計劃，一廠因此為其關鍵員工的貸款金額合計約51.5萬美元(二零零五年：34萬美元)向第三方銀行提供公司擔保。

除上文披露者外，本集團並無任何其他承擔或或然負債。

法律責任

截至二零零六年十二月三十一日止年度，本公司並無涉及任何重大訴訟或仲裁，且就本公司所知，亦無任何未了結或針對本公司的重大訴訟或申索。

編製基準及會計政策改變

本集團的綜合財務報表已按照香港財務報告準則而編製。編製這些綜合財務報表的會計政策及計算方法與截至二零零五年十二月三十一日止年度的年度財務報表一致，惟下列須於截至二零零六年十二月三十一日止財政年度內適用的新準則、準則修訂及詮釋除外。

香港會計準則39號及香港財務報告準則4號修訂－「財務擔保合約」的採納與本集團的經營相關。本集團已評估過此項修訂對集團向第三方銀行授出的企業擔保以作為其僱員按揭貸款抵押事項的影響，並認為影響不重大。

OPERATING RESULTS (Cont'd)

Basis of Preparation and Changes in Accounting Policies (Cont'd)

Other standards, amendments and interpretations effective on or after 1 January 2006 are not relevant for the Group's operations or have not been early adopted by the Group.

The Group has changed estimated useful lives for machinery and equipments. In previous years, mechanical based semiconductor equipment was depreciated over their estimated useful lives of 5 years. With effective from 1 July 2006, mechanical based semiconductor equipment is to be depreciated over estimated useful lives of 8 years. The changes reflect the current best estimates based on the Group's previous experience of these semiconductor equipments after taking into account of commercial and technological obsolescence as well as normal wear and tear to better reflect the estimated period during which such assets remained in service. The changes have been applied prospectively. As a result of these changes in accounting estimates, the depreciation expenses for the year decreased by approximately US\$5.3 million.

Foreign Exchange Risk Management

The Group's operational cash flow was primarily denominated in Rmb and US dollars. The Group's borrowings were also denominated in Rmb and US dollars. The Group does not expect significant exposure to foreign exchange fluctuations in this regard, considering the working capital position of the Group. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Gearing Ratio

As at 31 December 2006, the gearing ratio, calculated based on total liabilities divided by total shareholder's equity was 48.0%, compared with 42.8% as at 31 December 2005.

經營業績 (續)

編製基準及會計政策改變 (續)

於二零零六年一月一日或之後生效的其他準則、修訂及詮釋與本集團的經營無關或本集團並無提早採納。

本集團已更改機器及設備的估計可使用年期。於過往年度，機械半導體設備按估計可使用年期以五年進行折舊。由二零零六年七月一日起，機械半導體設備按估計可使用年期以八年進行折舊。該等變更反映基於本集團過往就該等半導體設備的經驗的現時最佳估計並已計及商業及科技過時以及一般磨損，以反映仍在運作資產的估計最佳可使用年期。由於該等會計估計的變更，本年度折舊開支減少約530萬美元。

外匯風險管理

本集團的營運現金流量主要為人民幣及美元為單位。本集團的借貸亦以人民幣及美元為單位。考慮到本集團的營運資金狀況後，本集團並不預期會就此經歷重大外匯風險。本集團的政策是不會就投機目的而訂立任何衍生交易。

負債比率

截至二零零六年十二月三十一日的負債比率（按總負債除以總股東權益計算）為48.0%，而二零零五年十二月三十一日則為42.8%。

OPERATING RESULTS (Cont'd)

Other Significant Matter

On 12 May 2006, CSMC and CR Logic jointly announced that a voluntary conditional offer was made by CR Logic for all CSMC shares with cash consideration and/or new CR Logic shares. On 28 June 2006, the offer became unconditional in all respects. Upon close of the offer on 12 July 2006, CR Logic received valid acceptances in respect of 1,293,530,058 CSMC shares, representing approximately 47.5% of the entire issued share capital of CSMC and voting rights normally exercisable at general meetings of CSMC. Taking into account the valid acceptances received, CR Logic and parties acting in concert with it together own 1,984,967,848 CSMC shares, representing approximately 73% of the entire issued share capital of CSMC as at the date hereof.

經營業績 (續)

其他重大事項

於二零零六年五月十二日，華潤上華與華潤勵致聯合公布，華潤勵致提出自願有條件收購建議，以現金代價及／或華潤勵致新股份收購所有華潤上華股份。於二零零六年六月二十八日，該建議全面成為無條件。於二零零六年七月十二日收購建議截止後，華潤勵致收到華潤上華股份1,293,530,058股的有效接納，約佔華潤上華全部已發行股本及一般可於華潤上華的股東周年大會上行使投票權的47.5%。計及所收到的有效接納，華潤勵致及與其一致行動人士合共擁有華潤上華1,984,967,848股股份，佔華潤上華於該日期全部已發行股本約73%。

PROSPECTS FOR THE YEAR 2007

The Chinese analog semiconductor market is forecasted to become the second largest worldwide semiconductor market for both domestic consumption and offshore exports. Addressing the growing needs of the Chinese analog semiconductor market, CSMC will transform its technology roadmap and foundry strategy towards becoming a leading analog foundry in China. Our strategy is clear, maintaining continued partnerships with Chinese fabless design houses, enhancing present business levels with overseas analog customers and developing new strategic relationships for our future 8" wafer capacity.

According to CCID Consulting Co. Ltd., a professional market research and management consultancy services provider in China, the Chinese analog semiconductor market, in terms of sales, is projected to grow at a compound annual growth rate of 25% between 2007 and 2010, yet less than 20% of the Chinese analog semiconductor market demand is serviced by local companies. We expect that Chinese fabless design houses will exhibit double digit growth rates for next five years, and will gain higher market share in the Chinese semiconductor market. During the last two years, the market share of Chinese semiconductor companies has increased due to significant improvements in design capabilities and the rising number of local design houses. To capture growing demand, CSMC's operational capacity of 67,200 wafers per month in 2006 will expand to 79,200 wafers per month by the end of 2007 to strengthen our leading position as the largest 6 inch foundry in China.

二零零七年前景

中國模擬半導體市場預計會因國內消費及出口的拉動而成為全球第二大的半導體市場。為滿足中國模擬半導體市場日益增長的需要，華潤上華將調整其技術路線圖及代工策略，向中國模擬晶圓專工之領航者進發。本集團的策略明確，維持與中國無生產線設計公司的持續夥伴關係，提高與海外模擬半導體客戶的現有業務水平及就本集團的未來8吋晶圓產能發展新的戰略關係。

據中國一家專業市場調查及管理顧問服務公司CCID Consulting Co., Ltd.指出，中國模擬半導體市場以銷售額計，預計會由二零零七年至二零一零年以25%的複合年增長率成長，但本土公司僅能滿足低於20%的中國模擬半導體市場之需求。本集團預期中國無生產線設計公司於未來五年將以雙位數字的增長率成長，並會在中國半導體市場佔有更大市場佔有率。於過去兩年，中國半導體公司的市場佔有率因設計能力大幅提升及本土設計公司數量增加而提高。為把握不斷上升的需求，華潤上華的產能將由二零零六年每月67,200片提升至二零零七年底每月79,200片，以鞏固本集團作為中國最大的6吋晶圓代工領先地位。

PROSPECTS FOR THE YEAR 2007 (Cont'd)

Furthermore, CSMC is cultivating business opportunities with certain technology partners and endeavors to form strategic partnerships for our 8 inch foundry (Fab 2) in the New District of Wuxi, China. Fab 2 will focus on submicron analog and digital process technologies in anticipation of the continuing migration to 8 inch manufacturing technology platform for demands of mainstream Chinese semiconductor customers and selected overseas partners.

We are optimistic for the continuing long-term growth trend of the global semiconductor market and, in particular the robust growth of the China semiconductor market. We believe that our transformation to an analog foundry and our strategies to offer better quality and cost effective services, will deliver greater values to our customers and shareholders.

二零零七年前景(續)

此外，華潤上華正開拓與技術伙伴的合作機會，致力為位於中國無錫新區的8吋晶圓廠(二廠)建立戰略夥伴關係。二廠將專注於亞微米模擬及數碼工藝技術，從而滿足主流中國半導體客戶及特選海外夥伴的技術要求逐漸轉移至8吋生產技術平台的需求。

本集團對全球半導體市場的持續增長趨勢，特別是中國半導體市場蓬勃的增長非常樂觀。我們相信，本集團向模擬晶圓代工的轉型，以及提供更高質量和具有成本效益的服務的策略，將為客戶和股東帶來更大價值。