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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: 03355)

Annual Report 2007

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Corporate Information

DIRECTORS

Executive Directors

Mr. LU Hsueh Cheng
Ms. CHENG Jianyu

Non-executive Directors

Mr. RUAN Yanhua *(Chairman)*
Mr. Petrus Antonius Maria VAN BOMMEL *(Vice Chairman)*
Mr. ZHU Peiyi *(Vice Chairman)*
Mr. ZHU Jian
Mr. XIAO Yongji
Dr. Hendricus Cornelis Maria VAN DER ZEEUW

Independent Non-executive Directors

Mr. James Arthur WATKINS
Mr. Thaddeus Thomas BECZAK
Dr. SHEN Weijia

BOARD COMMITTEES

Audit Committee

Mr. James Arthur WATKINS *(Chairman)*
Mr. Thaddeus Thomas BECZAK
Dr. SHEN Weijia
Mr. Petrus Antonius Maria VAN BOMMEL
Mr. ZHU Peiyi

Remuneration Committee

Mr. RUAN Yanhua *(Chairman)*
Mr. James Arthur WATKINS
Dr. SHEN Weijia

SUPERVISORS

Mr. YEH Yi Liang *(Chairman)*
Mr. SHEN Qitang
Mr. YANG Yanhui
Ms. CHEN Yan
Mr. GUO Yiwu
Mr. MANG Waikin
Mr. PAN Guojin

JOINT COMPANY SECRETARIES

Mr. LU Qiuhan
Mr. NGAI Wai Fung

AUTHORIZED REPRESENTATIVES

Ms. CHENG Jianyu
Mr. LU Qiuhan

EXTERNAL AUDITORS

Ernst & Young

REGISTERED OFFICE

Place of Business in the PRC

385 Hong Cao Road
Shanghai 200233
PRC

Place of Business in Hong Kong

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road
Central, Hong Kong

SHAREHOLDERS' ENQUIRIES

Contact Information

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Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

SHARE INFORMATION

Listing Place

Main Board of the Stock Exchange of Hong Kong Limited (the "HKEx")

Listing Date

7 April 2006

HKEx Stock Code

03355

Number of H-shares Issued

1,131,333, 472 H-shares

Year-end Date

31 December

Results Announcements

Interim Results for 2007:
published on 16 August 2007
Annual Results for 2007:
published on 31 March 2008

Annual General Meeting

11.00 a.m. on Thursday, 22 May 2008

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to you the annual report of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") for the year ended 31 December 2007.

The year of 2007 was a year of challenge to the Company. Its operations and financial performance were adversely affected by continuing inventory reductions throughout the industry, as well as by increasing competition, declining selling prices for its products and the loss of customer orders. The Company was badly hit towards the end of the year by the unexpected power outage in the part of Shanghai where the Company's manufacturing facilities are located, resulting in a loss of production and damage to its plant and equipment. As a result, the Company's revenue for the year ended 31 December 2007 decreased 12.7% to RMB1,183.1 million, compared to RMB1,355.2 million for the year ended 31 December 2006. However, despite these setbacks, its production output of 8-inch equivalent wafers increased from 451,156 pieces in the preceding year to 474,686 pieces in the year ended 31 December 2007. The wafer shipment was 467,754 pieces of 8-inch equivalent wafers in the year to 31 December 2007, an increase of 3.2% from 453,214 pieces in the previous year.

In 2007, the Company was also faced with the increased cost of raw materials and higher staff costs and these, coupled with the factors described above, resulted in the Company realising a loss of RMB148.3 million from operating activities, compared with a profit from operating activities of RMB24 million in 2006. In addition, as a result of its weaker than expected trading performance, the Company was forced to recognise an impairment charge of RMB651.3 million against its 8-inch fabrication facilities, resulting in a net loss of RMB840.2 million for the year 2007, compared with a net profit of RMB3.9 million for the year ended 31 December 2006. Earnings per share were negative RMB0.55 for 2007 compared with RMB0.28 cents for 2006.

The Board of Directors has resolved not to recommend the payment of a final dividend for the year ended 31 December 2007 (2006:Nil).

In 2007, the Company took steps to strengthen its management team by the appointment of Hsueh Cheng Lu as the new President and Chief Executive Officer, effective 16 August 2007, followed by the appointment of David Yi-Fang Sheng as its new Chief Operating Officer. The Company suffered the loss of certain members of its management team during 2007, a number of whom have already been replaced. The Company intends to use the opportunity to continue to improve its management team to face the challenges of the future.

The Company has embarked on a major overhaul of its operations and its business strategy, as described in greater detail under "Prospects and Future Plans". The Board of Directors believes that 2008 will present opportunities for the Company to develop its business as a result of a number of positive influences affecting its business sector, including China's growing IC market, the 2008 Beijing Olympic Games, the continuing adoption of Windows Vista and the increasing demand for foundry products. On the other hand, the Company will face challenges from continued increasing competition and the expected slow-down in the global economy. Nevertheless, the implementation of the Company's strategic plans, coupled with the positive factors which I have mentioned above, should create real opportunities for the improvement of its trading performance and financial results.

In closing, on behalf of the Board of Directors, I should like to extend my thanks to the Company's customers, business partners and shareholders for their continued support and to our employees and management team for their dedication and hard work in what has proved to be a difficult year. To all of them, I offer my sincere appreciation.

Ruan Yanhua
Chairman

31 March 2008

Management Discussion and Analysis

The first half of 2007 saw soft market conditions due to continued inventory reductions, while the second half of the year saw slightly better market conditions.There has been an over-supply situation in the semiconductor industry, which has led to lower prices. In addition, the Company suffered a serious interruption to its business operations in October because of a two-hour power halt affecting a large part of the Shanghai municipality, causing damage to the Company's manufacturing plant and a loss of production. The Company additionally faced the loss of customer orders and increasing raw materials and staff costs. At the end of the year, the Company was obliged to recognise a significant impairment charge against its 8-inch fab plant. The combination of these factors contributed to a serious adverse impact on the Company's business operations and financial results in 2007.

Nevertheless, the Company took steps in 2007 to strengthen its management team by the appointment of Mr Hsueh Cheng Lu as the Company's President and Chief Executive Officer and Dr David Yi-Fang Sheng as its Chief Operating Officer. In addition the Company has embarked on a major strategic review of its operations, as described in more detail below. These developments, coupled with a likely improvement in the demand for its products, give the Company some optimism for an improvement in its trading and financial performance in 2008.

COMPARISON BETWEEN 2006 AND 2007 ENDING 31 DECEMBER

Sales

The sales of the Company decreased by 12.7% from RMB1,355.2 million in 2006 to RMB1,183.1 million in 2007, resulting in a lower overall utilization rate reduced from 70% in 2006 to 66% in 2007. However, the Company's throughput of 8-inch equivalent wafers increased by 5.2%, from 451,156 pieces for the year ended 31 December 2006 to 474,686 pieces for the year ended 31 December 2007 and correspondingly the Company's wafer shipments of 8-inch equivalent wafer increased by 3.2%, from 453,214 pieces to 467,754 pieces.

Cost of sales and gross profit

The cost of sales decreased slightly by 1.0% from RMB1,214.3 million in 2006 to RMB1,201.7 million in 2007. The gross profit was negative RMB18.6 million in 2007 compared to RMB140.9 million in 2006, while the Company's gross margin in 2007 was negative 1.6% compared to 10.4% in 2006. The decrease in gross profit and margin was mainly attributable to the substantial decline in sales of 5-inch wafer resulting from the loss of one major customer and a less favorable product mix in the 8-inch wafer and to a lesser extent in the 6-inch wafer.

Operating expenses and operating income

Selling and marketing expenses decreased by 11.1% from RMB9.0 million in 2006 to RMB8.0 million in 2007, mainly due to the decline of commission rate.

General and administrative expenses slightly increased by 6.5% from RMB75.9 million for the year ended 31 December 2006 to RMB80.8 million for the year ended 31 December 2007. Such increase was primarily attributable to the increase in transportation fee related to shuttle car service, and human resources cost.

Research and development costs were RMB40.8 million in 2007, up 27.5% from RMB32.0 million in 2006. This was primarily attributable to the increase in development activities associated with the improvement of the existing products.

In summary, the Company's operating expenses increased by 10.9% from RMB116.9 million in 2006 to RMB129.6 million in 2007.

Other income and finance Cost

The other income was RMB25.5 million in 2007, compared to RMB37.1 million in 2006. In 2007, the Company's other income mainly comprised interest income, scrap sales and exchange gain from Renminbi appreciation. In 2006, the Company's other income mainly was contributed by interest income, exchange gain from Renminbi appreciation, scrap sales and compensation from a supplier.

The Company's finance costs decreased by 39.2% from RMB57.9 million in 2006 to RMB35.2 million in 2007. The substantial decrease in finance cost was attributable to lower interest expense as a result of a continued decrease in the Company's bank loan balance after the repayment of long-term bank loan.

Other Expenses

The other expenses amounted to RMB674.2 million in 2007, compared to RMB0.2 million in 2006, primarily due to the significant impairment charge against the Company's 8-inch fabrication facilities, the property damage loss resulting from power outage incident and the fair value loss on the interest rate swap. In 2006, the Company's other expenses derived only from the fair value loss on the interest rate swap.

In accordance with International Accounting Standards ("IAS"), in preparing its final accounts for the year ended 31 December 2007, the Company reviewed the carrying value of its 8-inch wafer production facilities ('the Assets") in order to determine whether there had been any impairment of value. The review was based on the Company's projections of forecast future cash flow generated by the Assets and its cash flow estimates were based on the historical results of the Assets adjusted to reflect the Company's best estimate of the future market and the effective operating conditions. The result of the Company's determinations was that the net book value of the Assets exceeded the fair value of the Assets, as so determined, by a figure of RMB651.3 million. Accordingly, the Company has been obliged to recognise an impairment charge of that amount against the Assets, which has significantly decreased the Company's net income in 2007. Management believes that the new value more accurately reflects the current status and fair value of the Assets, which will enable management to create a more competitive business model and improve the Company's competitiveness and profitability for the future.

Net income

As a result of the foregoing factors, the Company had a net loss of RMB840.2 million for the year ended 31 December 2007, compared to a net income of RMB3.9 million for the year ended 31 December 2006.

Liquidity and capital resources

The Company's cash and cash equivalents were RMB 207.0 million as at 31 December 2007, compared to RMB397.0 million as at 31 December 2006. The Company's net cash inflow from operating activities showed a decrease of 29.9% from RMB322.8 million for the year ended 31 December 2006 to RMB226.3 million for the year ended 31 December 2007.

The Company's net cash outflow from investing activities was primarily attributable to the continuing investment in property, plant and equipment, and construction in progress. These expenditures amounted to RMB27.9 million for the year ended 31 December 2007, compared to RMB209.2 million for the year ended 31 December 2006. The capital expenditure incurred in 2007 was mostly allocated to the production facilities and equipment associated with both 6-inch and 8-inch wafers.

The Company's net cash outflow from financing activities amounted to RMB392.2 million in 2007, compared to net cash inflow of RMB186.7 million in 2006. The net cash outflow of RMB392.2 million represented the net effect of RMB646.6 million for the repayment of bank loans and the new bank loans of RMB255.1 million in 2007. The Company financed its business activities by both bank loans and fund raising from its IPO transaction in 2006. During the 2007, its activities were only financed by bank loans.

As at 31 December 2007, the Company's short-term interest-bearing borrowings were RMB350.3 million, in which, the outstanding loan under the US$100 million club term loan facility was approximately RMB186.3 million, which is payable in installments, and will be fully repaid by 30 September 2008 based on the supplement loan agreement ("the Agreement") entered into between the Company and a group of banks ("Lenders") in June 2007. The outstanding amounts under the US$100 million club term loan facility dated 31 March 2005 are secured by a pledge on the Company's property, plant and equipment, construction in progress and land lease prepayments. As part of the Agreement, Net Debt to Tangible Net Worth ratio remains as a financial covenant, and is applicable until 30 September 2008, while the Agreement was amended to exclude both the Net Debt to EBITDA and Debt Service Coverage from financial covenants. In addition, the Company's capital expenditure may not exceed US$5.6 million and US$10.0 million in 2007 and 2008 respectively. During the period under the reporting, the Company was in compliance with the financial covenants stipulated in the terms of the US$ 100 million club term loan facility.

As at 31 December 2007, the Company's current ratio was 0.99 when compared to 1.45 as at 31 December 2006. The Company's debt to equity ratio improved from 19.0% as at 31 December 2006 to 14.7% as at 31 December 2007.

Employees

As at 31 December 2007, the Company had 1,847 employees; remuneration and employment benefits were provided for and paid in accordance with PRC law and regulations.

Interest rate risk

The Company's interest-bearing loans and borrowings are subject to the interest rate fluctuation of LIBOR plus a margin. As the majority of the Company's debts are denominated in US Dollar LIBOR, its profitability is exposed to interest rate risk arising from the fluctuations of LIBOR. Of the US$25.5 million under the US$100 million club term-loan facility, the Company has adopted an interest rate swap for the interest payable on the principal amount of US$17.5 million to hedge interest rate fluctuation.

Renminbi fluctuation risks

As Renminbi is the legal currency in PRC, in which the Company conducts its business operation, therefore, Renminbi is adopted as the Company's financial and reporting currency. In the event that the Company's Renminbi revenue is not sufficient to meet its Renminbi expenditure, the Company will be required to meet the difference by conversion of its foreign currency deposit to Renminbi, which might results in exchange loss, ultimately leading to a negative impact on its cash flow. No derivative instruments and hedging activities against Renminbi appreciation currently are adopted by the Company.

Capital commitment

As at 31 December 2007, the Company had capital commitments for property, plant and equipment amounting to RMB24.8 million, of which RMB3.8 million was contracted but not provided for, while the remaining balance of RMB21.0 million was authorized but not contracted for.

OPERATING RESULTS FOR THE THREE MONTHS ENDED 31 DECEMBER 2007

Sales for the three months ended 31 December 2007 was RMB270.2 million, down 19.0% from RMB333.4 million for the three months ended 30 September 2007, due mainly to lower sales of the 6-inch wafer arising from the unexpected serious power outage incident and, to a lesser extent, of the 8-inch wafer, combined with normal weak seasonal demand.

Gross profit decreased from RMB8.1 million for the three months ended 30 September 2007 to negative RMB 3.0 million for the three months ended 31 December 2007. Gross margin for the three months ended 31 December 2007 was negative 1.1%, compared to 2.4% for the three months ended 30 September 2007. The decline in gross margin was attributable to the lower level of capacity utilization rate.

Operating expenses were recorded at RMB39.4 million for the three months ended 31 December 2007, an increase of 34.0%, compared to RMB29.4 million for the third quarter of 2007. The increase in operating expenses was mainly attributable to the increase in research and development cost and general and administrative expenses, partially offset by the decrease in selling and distribution expenses.

The other income and finance costs for the three months ended 31 December 2007 were RMB2.3 million, compared to negative RMB3.9 million for the three months ended 30 September 2007. This was mainly due to lower finance cost. The other income for the three months ended 31 December 2007 was RMB6.4 million, compared to RMB3.1 million for the third quarter. The other income for the fourth quarter was mainly generated from larger foreign exchange gain from RMB appreciation, mask sales, while the other income in the third quarter was mainly driven by higher interest income and net foreign exchange gain from RMB appreciation. The finance costs decreased by 41.4%, from RMB7.0 million for the three months ended 30 September 2007 to RMB4.1 million for the three months ended 31 December 2007, which was mainly attributable to lower interest expense as a result of the Company's repayment of term loan.

The other expenses for the three months ended 31 December 2007 amounted to RMB674.2 million, primarily due to the significant impairment charges against the Company's 8-inch fabrication facilities and the property damage loss resulting from power outage incident.

Collectively, the Company recorded a net loss of RMB744.3 million for the three months ended 31 December 2007, compared to net loss of RMB22.9 million for the three months ended 30 September 2007.

1. **Revenue Analysis**

By Application

For the three months ended 31 December 2007, sales from communications, computer and consumer products were basically in line with the prior quarter.

	4Q07	3Q07	4Q06
Communications	32%	33%	32%
Computer	34%	33%	33%
Consumer	34%	34%	35%

By Geography

For the three months ended 31 December 2007, sales to the USA, Europe and Asia Pacific accounted for 56%, 28% and 16% of total revenue respectively, compared to 55%, 30% and 15% in the previous quarter.

	4Q07	3Q07	4Q06
USA	56%	55%	43%
Europe	28%	30%	27%
Asia Pacific	16%	15%	30%

By Customer Type

For the three months ended 31 December 2007, sales to IDM and fabless customers accounted for 36% and 64% of total revenue respectively.

	4Q07	3Q07	4Q06
IDM	36%	38%	37%
Fabless	64%	62%	63%

By Product

For the three months ended 31 December 2007, sales as a percentage of total revenue from 5-inch, 6-inch and 8-inch wafer were 19%, 49% and 31% respectively, compared to 16%, 51% and 32% in the previous quarter

	4Q07	3Q07	4Q06
5″ wafers	19%	16%	19%
6″ wafers	49%	51%	42%
8″ wafers	31%	32%	38%
Others[1]	1%	1%	1%
Total	100%	100%	100%

Note: 1. Consist of probing services and provision of masks

2. Utilization and Capacity (8" equivalent)

2-1 Utilization

Overall capacity utilization decreased by sixteen percentage points from 76% in the previous quarter to 60% for the three months ended 31 December 2007.

Fab	4Q07	3Q07	4Q06
Fab 1/2			
5-inch wafers	67%	72%	96%
6-inch wafers	67%	87%	74%
Fab 3			
8-inch wafers	49%	65%	71%
Overall Capacity Utilization Rate	60%	76%	77%

Note: The capacity utilization rate represents the percentage of the actual number of processing steps (measured by the number of masks used) for the number of semiconductor wafers shipped in the reporting period divided by the total number of processing steps a fab is capable of producing during the corresponding period.

2-2 Capacity (8" Equivalent)

The capacity for the three months ended 31 December 2007 was 154,000 8-inch equivalent wafers, which was the same as that of both the previous quarter and that of the fourth quarter of 2006.

Fab (wafers in thousand)	4Q07	3Q07	4Q06
Fab 1/2			
5-inch wafers	33	33	33
6-inch wafers	85	85	85
Fab 3			
8-inch wafers	36	36	36
Total Capacity	154	154	154

Note: 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 and 6-inch wafers were converted to 8-inch equivalent wafers by dividing their wafer numbers using 2.56 and 1.78 respectively.

3. Receivable/Inventory Turnover

Receivable turnover for the three months ended 31 December 2007 was 42 days as compared to 45 days in the third quarter of 2007.

Inventory turnover increased from 63 days for three months ended 30 September 2007 to 75 days for the three months ended 31 December 2007.

	4Q07	3Q07	4Q06
Trade & Notes Receivables Turnover (days)	42	45	44
Inventory Turnover (days)	75	63	67

4. Capital Expenditure

The amount of capital expenditure for the three months ended 31 December 2007 was RMB4.2 million, which was mainly associated with the improvement of overall operational and managerial efficiency, flexibility and related technology reform.

	4Q07	3Q07	4Q06
(Amount: RMB'000)			
Capex	4,183	20,407	11,107

SHARE TRANSFER

Pursuant to an approval of the PRC Ministry of Commerce dated 19 July 2007, the total amount of 408,806,888 H shares or 26.65% of the Company's total issued share capital originally held by Royal Philips through Philips Electronics China B.V. was approved to be transferred to NXP B.V. Such transfer was completed and became effective on 4 September 2007.

PROSPECTS AND FUTURE PLANS

The semiconductor industry is expected to grow at a moderate pace in 2008 as a result of a number of positive influences, including China's growing IC market, the 2008 Beijing Olympic Games, the continuing adoption of Windows Vista and the emerging 3G markets. It is expected that the growth in the analog market will likely continue to outpace the rest of the industry, with increasing demand for foundry products. On the other hand, the Company will face challenges from continued increasing competition and the expected slow-down in the global economy.

In order to address the issue of declining utilisation of its fabrication facilities, the Company has embarked on the implementation of a customer-focused strategic plan, emphasising the following components:

- customer support
- improved customer relationships
- organisational stability
- maintenance of high quality and reliability standards
- cost reductions
- enhanced product technology, and
- improved product mix.

In addition, the Company will seek to develop its existing markets for its products and will actively seek out new markets. In this context, the Company has been encouraged by a significant new order of 6-inch wafer products from one of its substantial shareholders, NXP, under the terms of the trading arrangements existing between them.

The Company is optimistic that, under the leadership of its new management team, the implementation of its strategic plan, coupled with the positive trading factors that 2008 is expected to provide, should contribute to an improvement in the Company's trading and financial performance in the current year.

Profiles of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. LU Hsueh Cheng

Mr. LU Hsueh Cheng, age 59, is an executive Director of the second session of the Company's Board of Directors. Mr. LU has been the president and chief executive officer of the Company since 16 August 2007, and has been an executive Director of the Company's Board of Directors from 30 October 2007. Mr. LU was the chief executive officer for Taiwan and general manager of back-end manufacturing of NXP Semiconductors, formerly the semiconductors division ("Philips Semiconductors") of the Philips Group prior to his joining the Company. Mr. LU joined Philips Semiconductors Taiwan as a product engineer in 1972. From 1972 to 1996, he served a number of technical and managerial positions within Philips Semiconductors Taiwan. In 1997, he was transferred to Philips Semiconductors Singapore to establish a new plant in the Philippines and was subsequently appointed as vice president and general manager of Philips Semiconductors Philippines in June 1999. In 2001, Mr. LU returned to Taiwan as vice president and general manager of Philips Semiconductors Taiwan. In July 2005, he was appointed as vice president and general manager of back-end manufacturing of Philips Semiconductors. Mr. LU received a bachelor of science degree in mechanical engineering from National Cheng Kung University of Taiwan in 1971.

Ms. CHENG Jianyu

Ms. Cheng Jianyu, age 50, is an executive Director of the second session of the Company's Board of Directors. Ms Cheng has been the Company's Vice President and Chief Financial Officer since 1995, and has been an executive Director of the first session of the Company's Board of Directors since 1 February 2005. She has been a PRC qualified accountant since 1991. Ms Cheng was the manager of the finance department of Shanghai No.19 Radio Factory from 1983 to 1988 and she was the financial controller at Philips Semiconductor Corporation of Shanghai from 1988 to 1994. She received an executive master of business administration degree from China Europe International Business School in 1998.

NON-EXECUTIVE DIRECTORS

Mr. RUAN Yanhua

Mr. Ruan Yanhua, age 61, is a non-executive Director of the second session of the Company's Board of Directors. He has been a non-executive Director and Chairman of the Company's Board of Directors since 2 March 2004. Mr. Ruan is a senior engineer. He was a deputy director of Shanghai Pudong New Area Administrative Commission from 1992 to 2000 and he was also the chairman of the board and general manager of Shanghai Waigaoqiao Free Trade Zone United Development Co. Ltd. from 1993 to 1998. In addition, he was the executive vice chairman of Shanghai Waigaoqiao Free Trade Zone Administrative Commission from 1998 to 2000. Mr. Ruan has served as deputy director of the general office of Shanghai Chemical Industry Park Steering Group since 2000. He also served as the vice chairman of China Development Zone Association since 1994 and the chairman of Shanghai Industrial Development Zone Association since 2002.

Mr. ZHU Jian

Mr. Zhu Jian, age 33, is a non-executive Director of the second session of the Company's Board of Directors. He has been a non-executive Director of the Company's Board of Directors since 2 March 2004. Mr. Zhu has previously worked at Shanghai Waigaoqiao Free Trade Zone United Development Co. Ltd. Mr. Zhu has also previously served as secretary to the chairman at the Shanghai Waigaoqiao Free Trade Zone Administrative Commission and as secretary to the president at the Shanghai Chemical Industry Park Development Company Limited. He has served as the deputy general manager of Shanghai Chemical Industrial Park Investment Enterprise Company Limtied ("SCIPI") since 2001 and has served as director and general manager of SCIP (HK) since 2002. Mr. Zhu has also served as secretary of the board of directors of Shanghai Chemical Industry Park Development Company Limited since 2003. Mr. Zhu has been a director and general manager of SCIPI since 2005. Mr. Zhu has been Mr. Zhu graduated from the accounting department of Shanghai University of Finance and Economics in 1996. He received a master of business administration degree from China Europe International Business School in 2007.

Mr. Petrus Antonius Maria VAN BOMMEL

Mr. Petrus Antonius Maria van Bommel, age 51, is a non-executive Director of the second session of the Company's Board of Directors. Mr. van Bommel has been a non-executive Director of the Company's Board of Directors since 15 March 2006 and a Vice Chairman of the Company's Board of Directors since 29 January 2007.

Mr. van Bommel started his career in the Philips Group in 1979, initially serving a number of finance and control positions within the Machine Factories, Home Information Systems and Components divisions of Koninklijke Philips Electronics N.V. ("Royal Philips") for 13 years. Between 1992 and 1995, he served as head of financial planning in Philips Hongkong and China Ltd., with primary responsibilities for overseeing the financial planning and accounting functions of various Philips manufacturing entities in Hong Kong. He was chief financial officer of the Passive Components and Advanced Components business within the Components division, and of the Consumer business within the Semiconductors division ("Philips Semiconductors") of Royal Philips from 1995 to 2002. Mr. van Bommel then returned to Hong Kong in 2002 to serve as the chief financial officer of LG.Philips Displays group of companies (the "LPD Group"), a joint venture between Royal Philips and LG Electronics, and was appointed deputy chief executive officer of the LPD Group in 2004. On 1 September 2005, he was appointed as the chief financial officer and a member of the executive management team of Philips Semiconductors, with primary responsibilities for its finance and accounting, information technology and purchasing decisions around the world.

Mr. van Bommel is currently executive vice president, chief financial officer and a member of the Board of Management as well as the Executive Management Team of the NXP Group, the independent semiconductors group founded by Royal Philips. In this role he leads and manages the financial operations for the NXP Group, overseeing the finance and accounting and information technology on a global scale.

Mr. van Bommel has been a director of Systems on Silicon Manufacturing Company Pte Ltd since 12 June 2006. He received a master degree in Business Administration at Erasmus University in Rotterdam, The Netherlands in 1988.

Mr. ZHU Peiyi

Mr. Zhu Peiyi, age 43, is a non-executive Director of the second session of the Company's Board of Directors. He has been a non-executive Director and a Vice Chairman of the Company's Board of Directors since 2 March 2004. Mr. Zhu worked for the Bank of China for 13 years from 1987 and was the manager of the trust and advisory department of Bank of China, Shanghai Branch from 1999 to 2000. He has worked for China Orient Asset Management Corporation Shanghai Office from 2000 and was appointed as the manager of second asset management department in 2004. Mr. Zhu graduated with a bachelor of economics degree from Fudan University in 1987. He received a master of business administration degree from Macau University of Science and Technology in 2004.

Mr. XIAO Yongji

Mr. Xiao Yongji, age 44, is a non-executive Director of the second session of the Company's Board of Directors. Mr. Xiao has been a non-executive Director of the Company's Board of Directors since 2 March 2007. Mr. Xiao graduated with a bachelor's degree in modern physics from University of Science and Technology of China in 1985. He received a bachelor's degree in international economy from Shanghai Institute of Foreign Trade in 1990, and received a master degree in business administration from China Europe International Business School in 1996. Mr. Xiao once was a teacher of Shanghai Light Industry College, a project manager of Shanghai Yaohua Pilkingdon Glass Co. Ltd., assistant to the general manager of Shanghai Sunshine Coating Glass Co. Ltd., executive deputy general manager of Ai Jian (Hong Kong) Co. Ltd., executive deputy general manager and general manger of Shanghai East-China Computer Co. Ltd., chairman and general manger of Shanghai Hua Chuang Information Technical Imp. & Exp. Corporation and the vice Chairman of Shanghai Newtouch Software Co. Ltd.. Mr. Xiao is currently a director and president of Shanghai Belling Co. Ltd. He also holds office as a director of Shanghai Hua Hong NEC Electronics Co. Ltd., a director of Hua Hong Semiconductor Co. Ltd., and a director of Shanghai Hongri International Electronics Co. Ltd.

Dr. Hendricus Cornelis Maria VAN DER ZEEUW

Dr. Hendricus Cornelis Maria van der Zeeuw, age 54, is a non-executive Director of the second session of the Company's Board of Directors. Dr. van der Zeeuw is currently the executive vice president and chief operations of NXP Group, the independent semiconductor group founded by Royal Philips. Dr. van der Zeeuw joined Philips Group in 1982 and held a variety of positions. He began his career with Philips Semiconductors in the field of components and IC domains. In 1995, he was appointed as director of the consumer IC business line in Nijmegen, the Netherlands. Thereafter, Dr. van der Zeeuw was promoted as senior vice president of Philips Semiconductors and held general management responsibilities for the telecommunication terminals business unit. From 1999 to 2002, Dr. van der Zeeuw served as CEO of Philips Optical Storage, a segment of Philips Group's components product division. By the end of 2002, Dr. van der Zeeuw returned to Philips Semiconductors to head the multi-market business unit as executive vice president and general manager. In January 2008, he was appointed as chief operations of NXP B.V.. Dr. van der Zeeuw received a doctor of physics degree from the University of Leiden of the Netherlands.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James Arthur WATKINS

Mr. James Arthur Watkins, age 62, is an independent non-executive Director of the second session of the Company's Board of Directors. Mr. Watkins has been an independent non-executive Director of the Company's Board of Directors since 1 February 2005. Mr. Watkins is a qualified solicitor in England and in Hong Kong. Mr. Watkins started his career in 1967 as a solicitor at Linklaters, an international law firm. He became a partner in the firm's London office in 1975 and was subsequently the senior partner of the firm's Hong Kong office from 1986 to 1994. From 1994 to 1996, Mr. Watkins was the legal director of Trafalgar House plc, London. He was group legal director at Schroders plc, London from 1996 to 1997. Mr. Watkins was general counsel and a director of the Jardine Matheson Group in Hong Kong from 1994 to 2003, during which time he served as a director of Jardine Matheson Holdings Ltd., Dairy Farm International Holdings Ltd and Mandarin Oriental International Ltd. Currently he holds office as a non-executive director of Mandarin Oriental International Ltd., Jardine Cycle & Carriage Ltd., MCL Land Ltd., Global Sources Ltd., Asia Satellite Telecommunications Holdings Ltd. and IL&FS India Realty Fund II LLC. He graduated with a bachelor of laws degree from the University of Leeds in England in 1966.

Mr. Thaddeus Thomas BECZAK

Mr. Thaddeus Thomas Beczak, age 57, is an independent non-executive Director of the second session of the Company's Board of Directors. He has been an independent non-executive Director of the Company's Board of Directors since 1 February 2005.

Mr. Beczak has over 20 years of business experience in Asia. From 1997 to 2002, Mr. Beczak was chairman of the Listing Committee of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"), and he was a member of the board of directors of the Stock Exchange from 1998 until 2001. He is currently a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong ("SFC"). As chairman of the Listing Committee of the Stock Exchange and as a member of the Advisory Committee of the SFC, Mr. Beczak has had extensive experience in, among other things, analyzing and scrutinizing financial statements of public companies in Hong Kong, and reviewing and implementing a variety of corporate governance issues. He is also a member of the international advisory committee of the China Securities Regulatory Commission.

Mr. Beczak joined J.P. Morgan Inc. in 1974. He was appointed as managing director of J.P. Morgan Inc. in 1998 and president of J.P. Morgan Securities Asia from 1990 until 1997. He worked in New York, London, Tokyo and Hong Kong. From 1992 until 1997, he was a committee member of the Hong Kong Association of Banks and a director and chairman of the audit committee of the Bank of the Philippine Islands Limited.

From 1997 until 2003, he was a director of Kerry Holdings Limited where his duties included a variety of corporate finance, management and treasury activities. In particular, he was primarily responsible for treasury and finance functions, and oversaw the activities of all the financial officers of the listed subsidiaries of the Kerry group. At various times, he also held the positions of deputy chairman of Shangri-La Asia Limited, director of Kerry Properties Limited, Kuok Philippines Properties Inc., China World Trade Center Limited and deputy chairman of SCMP Holdings Limited.

He was a senior advisor to Nomura International (Hong Kong) Limited and non-executive chairman of Nomura Asia N.V. until 31 March 2008. He is currently an independent non-executive director and member of the audit committee of Nam Tai Electronic and Electrical Products Limited and Phoenix Satellite Television Limited, companies listed on the Stock Exchange, as well as an independent non-executive director of Arnhold Holdings Limited.

Mr. Beczak is also the non-executive Chairman of ACR Capital Pte. Ltd., a Singapore based reinsurance company and Cowen Latitude Advisors Ltd. In 2007, he was appointed as the independent non-executive director of Pacific Online Limited, which is a company listed in Hong Kong.

He is a graduate of Georgetown University (B.S.F.S.) and Columbia University (M.B.A.).

Dr. SHEN Weijia

Dr. Shen Weijia, age 54, is an independent non-executive Director of the second session of the Company's Board of Directors. He has been an independent non-executive Director of the Company's Board of Directors since 1 February 2005. He commenced his career as an academic at Fudan University in 1977. From 1997 to 2000, Dr. Shen was a director of the board and general manager of Shanghai Waigaoqiao Free Trade Zone 3U Development Co. Ltd., and was a director and executive vice president of Shanghai Sunway Biotech Co. Ltd from 2000 to 2002. Dr. Shen was a director and vice president of SIIC Medical Science and Technology (Group) Ltd. until 2004 and a director of Shanghai Bright Dairy & Food Co., Ltd. and Shanghai Jahwa United Co., Ltd. until 2004. He is currently an executive director and vice president of GITI Tire China Investment Co. Ltd. He has also been a director of GITI Tire Corporation since 19 May 2005. Dr. Shen received a master of business administration degree from Leuven University, Belgium in 1987, and a doctorate degree from Fudan University, Shanghai in 2000.

SUPERVISORS

Mr. YEH Yi Liang

Mr. YEH Yi Liang, age 53, is a Supervisor of the second session of the Company's Supervisory Committee. He has been a Supervisor of the Company's Supervisory Committee since 30 October 2007, and the chairman of the second session of the Company's Supervisory Committee since 19 November 2007. Mr. Yeh is currently the country manager for Greater China (including Hong Kong and Taiwan) and global business line general manager for Analogue Video Systems of the NXP Group. Mr. Yeh commenced his career as a system analyst at Philips Taiwan in 1981. From 1981 to 1997, Mr. Yeh had served a number of technical and managerial positions within the Philips Group, and was appointed as the general manager of CICT at Philips Semiconductors Taiwan in 1993. From 1997 to 1998, Mr. Yeh served as the Vice President of Sales and Marketing at Featron Notebook PC Manufacturing Company Limited. From 1998 to 2001, Mr. Yeh served as the President of AMtek Semiconductors Company Limited. Mr. Yeh rejoined Philips Semiconductors in 2002 as the China sector manager for business line of standard TV systems and was subsequently appointed as country manager for Greater China (including Hong Kong and Taiwan) in 2007. Mr. Yeh received a master of engineering degree from the University of Virginia of the United States in 1981.

Mr. MANG Waikin

Mr. Mang Waikin, age 54, is a Supervisor of the second session of the Company's Supervisory Committee. He has been a Supervisor of the Company's Supervisory Committee since 2 March 2007. He was appointed as a non-executive Director of the first session of the Company's Board of Directors from 2 March 2004 to 18 December 2005.

Mr. Mang is currently senior vice president of the NXP Group, the independent semiconductors group founded by Koninklijke Philips Electronics N.V. ("Royal Philips"). In this role, he is responsible for all sales and marketing activities of the NXP Group in Greater China.

Mr. Mang worked for National Semiconductors (HK) Ltd. and Philips Electronics China Group before joining the semiconductors division of Royal Philips ("Philips Semiconductors") in 1991 as general manager of the marketing and sales organization for Hong Kong/China. He was subsequently appointed vice president and general manager of this organization from 1992 to 2003. He was vice president and general manager of Philips Semiconductors' business units of display solutions and connected multimedia solutions for Greater China from 2003 to December 2005. From December 2005, he took up the position of executive director and general manager of China at Maxim Integrated Products, Inc. before joining the NXP Group on 1 December 2006.

Mr. Mang graduated with a bachelor of science degree in Electronic Engineering from Texas A&M University in 1975 and received a master of business administration degree from the University of Hong Kong in 1983.

Mr. SHEN Qitang

Mr. Shen Qitang, age 56, is a Supervisor of the second session of the Company's Supervisory Committee. He has been a Supervisor the Company's Supervisory Committee since 2 March 2004. He was the deputy head of the finance department of Shanghai Chemical Industry Bureau from 1983 to 1993 and the chief accountant of Shanghai Chemical Industry Company from 1992 to 1998. Mr. Shen has been the chief accountant of Shanghai Chemical Industry Park Development Company Limited since 1997. Mr. Shen graduated with a bachelor of economics degree from the accounting department of Shanghai University of Finance and Economics in 1983. He has been a senior accountant since 1993.

Mr. YANG Yanhui

Mr. Yang Yanhui, age 44, is a Supervisor of the second session of the Company's Supervisory Committee. He has been the Company's Supervisor of the Company's Supervisory Committee since 2 March 2004. Mr. Yang was deputy head of the finance and accounting department of Sinopec Shanghai Jinshan Engineering Company from 1995 to 1998 and was promoted to become head of the department from 1999 to 2000. He was the chief accountant of Shanghai Jinshan Petrochemical Construction Company from 1998 to 1999. Mr. Yang served as the manager of the finance and accounting department of Shanghai Chemical Industry Park Development Company Limited since 2000. He majored in finance and accounting in the department of enterprise management at the Shanghai Building Material Industry College (now incorporated into Tongji University) from 1980 to 1983.

Ms. CHEN Yan

Ms. Chen Yan, age 34, is a Supervisor of the second session of the Company's Supervisory Committee. She has been a Supervisor of the Company's Supervisory Committee since 30 October 2007. Ms. Chen worked for the Bank of China Shanghai Branch from August 1994 to May 2000. She joined the Shanghai office of China Orient Asset Management Corporation ("COAMC") in May 2000 and was appointed as a manager of second asset management department of COAMC's Shanghai office in June 2005. She was appointed as the manager of the investment department of Shanghai Dongxing Investment Holding Company in December 2007. Ms. Chen graduated with a bachelor of economics degree from Shanghai Jiaotong University in 2000, and received a graduate diploma in information system from Massey University of New Zealand in 2002.

Mr. GUO Yiwu

Mr. Guo Yiwu, age 49, is a Supervisor of the second session of the Company's Supervisory Committee. He has been a Supervisor of the Company's Supervisory Committee since 2 March 2007. Mr. Guo graduated with a bachelor's degree in Economic Management from East China Normal University in 1996, and received a master degree of business administration from China Europe International Business School in 2001. Mr. Guo was once the general Party branch secretary of Huguang Instruments Factory, Principal Staff Member of Cadre Department of Shanghai Electronics Development Holding Group Company. Mr. Guo is currently the Party secretary, executive vice president of Shanghai Belling Co. Ltd. He also holds offices as a director of Hong Kong Hylink Co. Ltd., the Chairman of Hongzhou Miaxis Biometrics Co. Ltd. and a director of Shanghai Newtouch Software Company, Ltd.

Mr. PAN Guojin

Mr. Pan Guojin, age 54, is a Supervisor of the second session of the Supervisory Committee. He has been a Supervisor of the Company's Supervisory Committee since 2 March 2007. Mr. Pan graduated from Shanghai Instrument Industry Bureau CCP School in 1990 and is currently the chairman of the trade union of the Company. He worked as a shift manager in the production section of the Company from 1991 to 2005. Mr. Pan worked for Shanghai Geology Instrument Factory from 1971 to 1991.

JOINT COMPANY SECRETARIES

Mr. LU Qiuhan

Mr. Lu Qiuhan, age 34, is the joint company secretary and general counsel of the Company. Mr. Lu joined Philips Electronics China Group as an in-house legal counsel in November 2001. He was appointed as the Company's secretary and legal counsel in March 2003. Mr. Lu graduated summa cum laude from the University of Groningen of the Netherlands with a master of laws degree in 2001 and was awarded the Lawyer Qualification Certificate by the PRC Ministry of Justice in 2000. He is an associate member of the Hong Kong Institute of Chartered Secretaries ("HKICS") and the Institute of Chartered Secretaries and Administrators in the UK.

Mr. Ngai Wai Fung

Mr. Ngai Wai Fung, age 46, is the joint company secretary of the Company. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairmen of its China Affairs Committee and Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Mr. Ngai holds a Master of Corporate Finance from The Hong Kong Polytechnic University, a Master of Business Administration from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom. He is also a PhD (thesis stage) in Finance at Shanghai University of Finance and Economics.

SENIOR MANAGEMENT

Dr. David Yi-Fang Sheng

Dr. David Yi-Fang Sheng, age 55, has been appointed as the Company's Chief Operating Officer since 28 November 2007. Dr. Sheng was the senior director for market research division of Taiwan Semiconductor Manufacturing Company, North America prior to his joining the Company. In his over 25 years prior experience, Dr. Sheng had served a number of technical and/or managerial positions within several famous enterprises such as International Business Machines Corp. and Motorola, Inc., Austin, TX. Dr. Sheng holds a master degree in electrical engineering from Michigan State University and a doctor degree in electrical engineering from the University of Texas at Austin.

Mr. Gilbert CHAN

Mr. Gilbert Chan, age 49, has been appointed as the Company's qualified accountant and assistant chief financial officer since 1 July 2006. Mr. Chan has over 20 years of experience in finance and accounting. He holds a bachelor degree in economics from Sheffield University of the United Kingdom and a master degree in business administration from Hull University of the UK. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants, Hong Kong Securities Institute and the Chartered Institute of Marketing of the UK.

Report of the Directors

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2007.

Principal activities

The principal activities of the Company are the manufacture and sale of 5-inch, 6-inch and 8-inch semiconductor wafers. There were no significant changes in the nature of the Company's principal activities during the year ended 31 December 2007.

Segment Information

The Company's revenue and loss for the year ended 31 December 2007 were mainly derived from the manufacture and sale of 5-inch, 6-inch and 8-inch semiconductor 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.

Results and dividends

The Company's loss for the year ended 31 December 2007 and the state of affairs of the Company at that date are set out in the financial statements on pages 49 to 106.

The Board of Directors does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2007.

Use of proceeds from the Company's initial public offering

Details of the use of proceeds from the Company's initial public offering during the year ended 31 December 2007 are disclosed as follows:

	RMB' Million
Bank loan repayment	261.34
Equipment refinement for 8-inch fabrication facilities	4.19
Total	265.53

Summary financial information

A summary of the published results and assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements is set out on page 33. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company during the year ended 31 December 2007 are set out in note 13 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year ended 31 December 2007 are set out in note 25 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

The Company did not purchase, redeem or sell any of the Company's listed securities during the year ended 31 December 2007.

Reserves

Details of movements in the reserves of the Company during the year ended 31 December 2007 are set out in note 26 to the financial statements.

Distributable reserves

In accordance with the Company's Articles of Association, the Company is entitled to distribute dividends based on the lower of the Company's distributable reserves determined under the "Accounting Standards for Business Enterprises" issued by the Ministry of Finance of the PRC in 2006. As at 31 December 2007, the Company does not have distributable reserves available for distribution.

Charitable donation

The Company did not make any charitable donation in 2007.

Major customers and suppliers

In the year ended 31 December 2007, sales to the Company's five largest customers accounted for 63% of the total sales for the year and sales to the largest customer included therein amounted to 19%. Purchases from the Company's five largest suppliers accounted for 43% of the total purchases for the year and purchases from the largest supplier accounted for 21%.

None of the directors of the Company or any of their associates or any shareholders (except NXP B.V.) which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Company's five largest customers.

DIRECTORS

The directors of the Company during the year ended 31 December 2007 and up to the date of this annual report were:

Executive directors:

Dr. Tony Yuhai Liu (resigned on 16 August 2007)
Mr. Lu Hsueh Cheng (appointed on 30 October 2007)
Ms. Cheng Jianyu

Non-executive directors:

Mr. Ruan Yanhua
Mr. Zhu Jian
Mr. Petrus Antonius Maria Van Bommel
Mr. Ajit Manocha (appointed on 2 March 2007 and resigned on 1 January 2008)
Dr. Hendricus Cornelis Maria van der Zeeuw (appointed on 18 March 2008)
Mr. Zhu Peiyi
Mr. Zhou Weiping (retired on 1 March 2007)
Mr. Xiao Yongji (appointed on 2 March 2007)

Independent Non-executive Directors:

Mr. James Authur Watkins
Mr. Thaddeus Thomas Beczak
Dr. Shen Weijia

The Company has received annual confirmations of independence pursuant to R3.13 of the Listing Rules from Mr. James Authur Watkins, Mr. Thaddeus Thomas Beczak and Dr. Shen Weijia on 26 February 2008 and still considers them to be independent.

Changes in the board between the balance sheet date and date of report

Subsequent to the balance sheet date, Mr. Ajit Manocha resigned as a non-executive director of the Company with effect from 1 January 2008 due to his return to the US and his relinquishment of the role as chief manufacturing officer at NXP B.V.. Pursuant to the relevant provisions of the Articles of Association of the Company, the board of directors shall consist of eleven directors. Dr. Hendricus Cornelis Maria van der Zeeuw was elected as a non-executive director of the Company to fill the vacancy caused by Mr. Manocha's resignation by the Company's extraordinary general meeting held on 18 March 2008.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Company are set out on pages 15 to 23 of the annual report.

Directors' service contracts

Each of the directors of the Company has entered into a service contract with the Company with effect from the date of appointment of the respective director, for a term of no more than three years.

None of the directors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Company.

Directors' interest in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company was a party during the year.

Directors', supervisors', and chief executive's interests and short positions

As at 31 December 2007, 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 HKEx 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 HKEx (the "Listing Rules").

Substantial shareholders' interests and short positions

As at 31 December 2007, the interests and short positions of the following persons (other than directors, supervisors and the 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
NXP B.V.	H shares	408,806,888 (Long position)	Beneficial owner	36.13%	26.65%
Shanghai Chemical Industrial Park Development Co., Ltd	H shares	254,866,584 (Long position) (Note 1)	Beneficial owner	22.53%	16.61%
Fidelity International Limited	H shares	77,044,000 (Long position)	Investment manager	6.81%	5.02%
The Capital Group Companies, Inc.	H shares	67,834,000 (Long position) (Note 2)	Investment manager	6.00%	4.42%
China Orient Asset Management Corporation	Domestic shares	172,648,520 (Long position)	Beneficial owner	46.71%	11.25%
Shanghai Chemical Industrial Park Development Co., Ltd	Domestic shares	110,908,000 (Long position) (Note 3)	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 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.

2. All of these 67,834,000 H shares (long position) are deemed corporate interests indirectly held through Capital Research and Management Company.

3. 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 31 December 2007, the Company had no share option scheme within the meaning of Chapter 17 of the Listing Rules.

Directors' and Supervisors' rights to acquire H shares

Save as disclosed above, during the year ended 31 December 2007, none of the directors or supervisors or chief executive of the Company was granted options to subscribe for H Shares of the Company. During the year ended 31 December 2007, none of the directors or supervisors or chief executive nor their spouses or minor children had any right to acquire H Shares in the Company or had exercised any such right.

Continuing connected transactions

The Company had the following material transactions with the companies controlled by or under the significant influence of NXP B.V. during the year ended 31 December 2007:

		2007 Actual RMB'000	Approved caps 2007 (disclosed in the Company's prospectus) RMB'000
Sales	(i)	160,128	424,800
Technology transfer fees	(ii)	13,130	26,000
Information technology ("IT") related service fees	(iii)	2,058	4,700

Notes:

(i) Sales to 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 services rendered in accordance with the terms of 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 as such in the future.

The above related parties transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The transactions would normally be subject to the announcement, reporting and/or independent shareholders' approval requirements under R14A.34/R.14A.35 of the Listing Rules. In this regard, the HKEx has granted the company a waiver from strict compliance with the announcement, reporting and/or the independent shareholders' approval requirements in relation to the transactions. For the year ended 31 December 2007, the total amount of the connected transactions and the approved caps are stated in the table above.

The Company has complied with the requirments of the waivers granted by the HKEx or the disclosure requirements under Chapter 14A of the Listing Rules.

Directors' interests in a competing business

During the year ended 31 December 2007 and up to the date of this report, save as disclosed below, none of the directors of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company.

Mr. Ajit MANOCHA was a non-executive director of the second session of the board of directors of the Company between 2 March 2007 and 31 December 2007. Until 31 December 2007, he was executive vice president, chief manufacturing officer and a member of the Executive Management Team of the NXP Group, the independent semiconductors group founded by Koninklijke Philips Electronics N.V. He was also a director of Systems on Silicon Manufacturing Company Pte Ltd ("SSMC") during his tenor of service with the Company.

Mr. Petrus Antonius Maria VAN BOMMEL has been appointed as a non-executive director and vice chairman of the second session of the board of directors of the Company with effect from 2 March 2007. He was a non-executive director of the first session of the board of directors of the Company from 15 March 2006 to 1 March 2007. Mr. VAN BOMMEL is currently executive vice president, chief financial officer and a member of the Board of Management as well as the Executive Management Team of the NXP Group. He has been a director of SSMC since 12 June 2006.

Dr. Hendricus Cornelis Maria VAN DER ZEEUW has been appointed as a non-executive director of the second session of the board of directors of the Company with effect from 18 March 2008. He is currently executive vice president, chief operations and a member of the Board of Management as well as the Executive Management Team of the NXP Group.

The NXP Group engages in, among other things, the development, design and manufacture of semiconductor products. Fabs owned by the NXP Group, currently dedicate their foundry capacity to the needs of the NXP Group. These fabs may compete with the Company as they supply wafers to the NXP Group, which has been one of the Company's top five customers for the year ended 31 December 2007. However, since they are dedicated to serve the NXP Group, they do not currently compete with the Company's sales to other customers.

SSMC is a captive foundry, established in 1998 as a joint venture by the NXP Group, Taiwan Semiconductor Manufacturing Company Limited ("TSMC") and the Economic Development Board of Singapore (the later through its subsidiary, EDB Investment Ptd Ltd), for the purpose of constructing an IC foundry in Singapore. EDB Investments Ptd Ltd has since sold its entire shareholding to the NXP Group and TSMC in late 2006. The Company understands that TSMC and the NXP Group (and their respective subsidiaries) have committed to purchase specific percentages of its production capacity. As such, the Company does not believe SSMC directly competes with us.

Mr. XIAO Yongji has been appointed as a non-executive director of the second session of the board of directors of the Company with effect from 2 March 2007. Mr. Xiao is currently a director and president of Shanghai Belling Co. Ltd. ("Shanghai Belling"). He is also a director of Shanghai Hua Hong NEC Electronics Co. Ltd. ("Hua Hong NEC"), a director of Hua Hong Semiconductor Co. Ltd., chairman of Hong Kong Hylink Limited and a director of Shanghai Hongri International Electronics Co. Ltd.

Shanghai Belling engages in the design and manufacture of integrated circuits, discrete part chips, pertinent modules and ancillary products of multi-media information systems, design and manufacture of electronic equipment and instruments, technical services and consultancy services. Shanghai Belling primarily manufactures its own IC products and can thus be classified as an IDM. Starting in 2005, Shanghai Belling allocated a portion of its excess processing capacity to provide foundry services to third-party customers, the majority being fabless semiconductor companies in the PRC. However, Shanghai Belling primarily offers its customers process technologies of higher linewidths that differ from the technical specifications required for most of the Company's customers' end products. As such, the Company has not experienced Shanghai Belling as, and does not believe it is, a significant direct competitor of the Company.

Hua Hong NEC engages in the design, development and manufacture of semiconductor wafers, utilizing 0.35, 0.25 and 0.18 micron logic and mixed-signal processing technologies. Their products are applied in a wide range of communications, consumer electronics and computing applications, such as identification cards, LCD drivers, power MOS, DRAM, MSRAM, FLASH, etc., which to some extent, overlap and therefore may compete with those of the Company.

Hua Hong Semiconductor Co. Ltd., Hong Kong Hylink Limited and Shanghai Hongri International Electronics Co. Ltd. mainly engage in the design and trading of semiconductor products. The Company has not experienced any of these three companies as a direct competitor.

Auditors

The financial statements have been audited by Ernst & Young. A resolution for their reappointment as auditors of the Company for the year ended 31 December 2008 will be proposed at the forthcoming annual general meeting.

Public Float

On the basis of information that is publicly available to the Company and within the knowledge of the directors as at the date of this annual report, the Company has complied with the public float requirements of the Listing Rules.

BY ORDER OF THE BOARD

RUAN Yanhua
Chairman

Shanghai, the PRC
31 March 2008

Five Years Financial Summary

INCOME STATEMENT

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,183,076**	1,355,193	931,583	1,147,367	784,428
Cost of sales	**(1,201,706)**	(1,214,253)	(860,626)	(827,247)	(526,144)
Gross Profit	**(18,630)**	140,940	70,957	320,120	258,284
Selling and distribution costs	**(8,006)**	(9,016)	(7,377)	(11,128)	(10,467)
General and administrative expenses	**(80,786)**	(75,914)	(77,640)	(78,164)	(60,062)
Research and development costs	**(40,829)**	(32,001)	(74,931)	(52,041)	(49,870)
Profit/(loss) from operating activities	**(148,251)**	24,009	(88,991)	178,787	137,885
Other income	**25,470**	37,106	37,397	6,632	7,993
Other expenses	**(674,181)**	(224)	0	0	0
Finance costs	**(35,220)**	(57,922)	(33,427)	(4,934)	(748)
Profit/(loss) before income tax	**(832,182)**	2,969	(85,021)	180,485	145,130
Income tax (expenses) /credit or refund, net	**(8,017)**	974	9,991	2,165	(12,025)
Net profit/(loss) attributable to shareholders	**(840,199)**	3,943	(75,030)	182,650	133,105
Dividends	**—**	—	—	35,109	—
Earnings/(loss) per share (RMB) - Basic	**(54.76) cents**	0.28 cents	(6.77) cents	16.47 cents	12.00 cents

BALANCE SHEET

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,581,938**	2,858,819	2,641,903	1,951,902	1,503,979
Total liabilities	**607,414**	1,044,096	1,461,594	696,563	396,181
Net assets / shareholders' equity	**974,524**	1,814,723	1,180,309	1,255,339	1,107,798

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company fully acknowledges its responsibilities to act in the best interests of all shareholders and to maximise shareholders' value. The Board also attaches great importance to a continuing improvement in the Company's corporate governance policies and practices. The Company has established a range of policies and practices consistent with those required by the Code on Corporate Governance Practices (the "Governance Code") of the HKEx in relation to, amongst others, the appointment, removal and remuneration of the directors, responsibilities, composition and meetings of the Board and its committees, segregation of duties between the chairman of the Board and the president who is the head of the executive management.

In some areas, such policies and practices exceed the mandatory requirements of the Governance Code. For instance, to enhance transparency of its operation and performance, the Company has volunteered to announce its financial results on a quarterly basis since it became listed on the main board of the HKEx on 7 April 2006. Additionally, in order to regulate both corporate and individual behaviour for the purpose of ensuring achievement of corporate goals, the Board has adopted a set of general business principles and a code of conduct which are applicable to all employees of the Company and require all employees above certain grades to certify their compliance therewith annually.

The Company has fully complied with the code provisions of the Governance Code for the year ended 31 December 2007 (the "Reporting Period").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), as set forth in Appendix 10 to the Rules Governing the Listing of Securities on the HKEx (the "Listing Rules"), as its code of conduct regarding securities transactions by its directors and supervisors.

In addition, the Company has adopted an employee share dealing code to regulate securities transactions by the management and other relevant employees who, because of their office or employment, are likely to be in possession of unpublished price-sensitive information of the Company.

One month before each of the four meetings scheduled to approve the Company's results for the year ended 31 December 2006, three months ended 31 March 2007, six months ended 30 June 2007 and nine months ended 30 September 2007 respectively, the company secretary had notified the directors, supervisors, management and other relevant employees of the restricted period for securities transactions.

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 Reporting Period.

BOARD OF DIRECTORS

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each director has a duty to act in good faith and in the best interests of the Company. The directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

The Board operates mainly by way of regular meetings which are held at least four times a year and supplemented by interim meetings and circulated written resolutions as and when necessary. In the Reporting Period, the Board held four Board meetings. Details of directors' attendance at the meetings of the Board and its committees held during the Reporting Period are set out in Table 1 of this report.

The types of decisions which are to be taken by the Board include those relating to the Company's strategic direction, objectives, business plans, audited or unaudited financial statements, profit distribution proposals, proposals of appointment or reappointment of external auditors, proposals of changes to the share capital, proposals of amendments to the Articles of Association, as well as the appointment and remuneration of senior officers. The management is responsible for the implementation of the overall strategy of the Company and its daily operations and administration in accordance with the business plans approved by the Board from time and time. The Board has adopted detailed rules concerning authority delegated to the management and a list of matters reserved for its own decision.

The directors fully acknowledge their responsibility for reviewing and approving the accounts prepared by the management for each financial period which shall give a true and fair view of the state of affairs of the Company and of the results and cash flows for that period. The directors are currently not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

During the Reporting Period, the Board comprised the following directors:

Executive Directors

Dr. Tony Yuhai LIU (resigned on 16 August 2007)
Mr. LU Hsueh Cheng (appointed on 30 October 2007)
Ms. CHENG Jianyu

Non-executive Directors

Mr. RUAN Yanhua, Chairman
Mr. ZHU Jian
Mr. Petrus Antonius Maria VAN BOMMEL
Mr. Anthony LEAR (retired on 1 March 2007)
Mr. Ajit MANOCHA (appointed on 2 March 2007)
Mr. ZHU Peiyi
Mr. ZHOU Weiping (retired on 1 March 2007)
Mr. XIAO Yongji (appointed on 2 March 2007)

Independent Non-executive Directors

Mr. Thaddeus Thomas BECZAK
Mr. James Arthur WATKINS
Dr. SHEN Weijia

Dr. Tony Yuhai LIU, Ms. CHENG Jianyu, Mr. Thaddeus Thomas BECZAK, Mr. James Arthur WATKINS, Dr. SHEN Weijia, Mr. RUAN Yanhua, Mr. ZHU Jian, Mr. Petrus Antonius Maria VAN BOMMEL, Mr. Anthony LEAR, Mr. ZHU Peiyi and Mr. ZHOU Weiping retired from the Board upon expiry of the first session of the Board on 1 March 2007. Except Mr. Anthony LEAR and Mr. ZHOU Weiping, all the directors of the first session offered themselves for re-election for the second session.

Dr. Tony Yuhai LIU, Ms. CHENG Jianyu, Mr. Thaddeus Thomas BECZAK, Mr. James Arthur WATKINS, Dr. SHEN Weijia, Mr. RUAN Yanhua, Mr. ZHU Jian, Mr. Petrus Antonius Maria VAN BOMMEL, Mr. Ajit MANOCHA, Mr. ZHU Peiyi and Mr. XIAO Yongji were elected as directors of the second session (from 2 March 2007 to 1 March 2010) of the Board by the Company's extraordinary general meeting held on 29 January 2007.

Dr. Tony Yuhai LIU resigned as an executive director and president of the Company on 16 August 2007 to pursue other interests. Mr. LU Hsueh Cheng was elected as an executive director of the second session of the Board by the Company's extraordinary general meeting held on 30 October 2007.

Subsequent to the balance sheet date, Mr. Ajit MANOCHA resigned as a non-executive director of the Company with effect from 1 January 2008 due to his return to the US and his relinquishment of the role as chief manufacturing officer at NXP B.V. Dr. Hendricus Cornelis Maria VAN DER ZEEUW was elected as a non-executive director of the second session of the Company by the Company's extraordinary general meeting held on 18 March 2008.

All directors (with the exception of the executive directors) are non-executive and independent of the management, thereby promoting critical review and control of the management process. The Board includes three influential and active independent non-executive directors to whom shareholder concerns can be conveyed. The non-executive members of the Board also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Company.

Biographic details of all directors in office are given on pages 15 to 23 of the Annual Report. Relationships (including financial, business, family or other material/relevant relationships), if any, among members of the Board are also disclosed. There is no such relationship as between the chairman of the Board and the president of the Company.

During the Reporting Period, the Board at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors, and one director with appropriate professional qualifications or accounting or related financial management expertise, on the Audit Committee.

Pursuant to the requirements of the Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. The Company considers all of the independent non-executive directors to be independent.

The Board has access to the management of the Company to discuss enquiries, to the joint company secretaries on regulatory and compliance matters and to external professionals for advice when necessary. The joint company secretaries continuously advise all directors on continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance therewith.

NOMINATION AND APPOINTMENT OF DIRECTORS

Pursuant to the PRC company law and the Company's Articles of Association, directors shall be elected by the Company's general meetings each for a term of three years and upon expiry of their term, may offer themselves for re-election.

To comply strictly with this statutory requirement and safeguard the shareholders' right in this respect, during the Reporting Period, the Company convened two extraordinary general meetings on 29 January 2007 and 30 October 2007 respectively, for the purpose of election of the second session of the Board and supervisory committee and for filling the vacancy caused by the resignation of Dr. Tony Yuhai LIU. Subsequent to the balance sheet date, the Company convened another extraordinary general meeting on 18 March 2008 to fill the vacancy caused by the resignation of Mr. Ajit MANOCHA.

The Board has not established any nomination committee and nominated candidates for the second session of the Board and supervisory committee by reference to the following criteria: requirements of applicable laws and the Listing Rules concerning composition of the Board and supervisory committee; a balance of skills and experience required for promoting the success of the Company and for directing and supervising the Company's affairs; and recommendations from eligible shareholders.

CHAIRMAN AND PRESIDENT

During the Reporting Period, the posts of the chairman of the Board and the president (as head of the executive management) were held separately by Mr. RUAN Yanhua and Dr. Tony Yuhai LIU (prior to 16 August 2007) and Mr. LU Hsueh Cheng (subsequent to 16 August 2007). This segregation ensures a clear distinction between the chairman's responsibility to manage the Board and the president's responsibility to manage the Company's business. The respective responsibilities of the chairman and president are set out in the Company's Articles of Association.

NON-EXECUTIVE DIRECTORS

Each of the non-executive directors of the Company has been appointed for a term of no more than three years and is subject to re-election or removal at the Company's general meetings in accordance with the Articles of Association of the Company.

BOARD COMMITTEES

The Board has appointed two Board committees, namely, the Audit Committee and Remuneration Committee, to oversee particular aspects of the Company's affairs.

Membership of the Audit Committee

From 1 January 2007 to 1 March 2007, the Audit Committee of the first session of the Board comprised Mr. James Arthur WATKINS (chairman), Mr. Thaddeus Thomas BECZAK, Dr. SHEN Weijia, Mr. Anthony LEAR and Mr. ZHU Peiyi.

The Audit Committee of the second session (from 2 March 2007 to 1 March 2010) of the Board comprises Mr. James Arthur WATKINS (chairman), Mr. Thaddeus Thomas BECZAK, Dr. SHEN Weijia, Mr. Petrus Antonius Maria VAN BOMMEL and Mr. ZHU Peiyi.

All of its members were appointed from the independent non-executive directors and non-executive directors, with Mr. Thaddeus Thomas BECZAK and Mr. Petrus Antonius Maria VAN BOMMEL having appropriate professional qualifications and experience in financial matters.

Role and function of the Audit Committee

The terms of reference of the Audit Committee are aligned with those set out in code provision C.3.3 of the Governance Code, including monitoring of relationship with the Company's external auditors, review of financial information of the Company and oversight of the Company's financial reporting system and internal control procedures. The detailed terms of reference are disclosed on the Company website.

It is the practice of the Audit Committee to meet in person immediately preceding each of the meetings of the full Board scheduled to consider and approve financial results. Special meetings may be called at the discretion of the chairman of the Audit Committee to review significant control or financial issues. Details of member attendance at the meetings of the Audit Committee held during the Reporting Period are set out in Table 1 of this report.

Work of the Audit Committee

During the Reporting Period, the Audit Committee met on four occasions and discharged its responsibilities in its review of the Company's financial information and system of internal controls, and its other duties as set out in its terms of reference. The work performed by the Audit Committee included, amongst other things:

(1) review of the Company's financial results, respectively, for the year ended 31 December 2006, for the three months ended 31 March 2007, for the six months ended 30 June 2007 and for the nine months ended 30 September 2007, with recommendations to the Board for approval;

(2) review of presentations and management letters from the Company's external auditors concerning matters arising from their audit or review of the financial results for the respective financial periods; and

(3) review of quarterly reports from the management concerning finance matters, internal control, risk management and compliance.

Membership of the Remuneration Committee

From 1 January 2007 to 1 March 2007, the Remuneration Committee of the first session of the Board comprised Mr. RUAN Yanhua (chairman), Mr. James Arthur WATKINS and Dr. SHEN Weijia.

The chairman and members of the Remuneration Committee of the second session (from 2 March 2007 to 1 March 2010) of the Board are the same as those of the first session.

A majority of the members of the Remuneration Committee were independent non-executive directors.

Role and function of the Remuneration Committee

The terms of reference of the Remuneration Committee are aligned with those set out in code provision B.1.3 of the Governance Code, including recommendations on the Company's policy and structure for remuneration of the directors, supervisors and management, determination of specific remuneration packages of the senior officers, and review and approval of performance-based remuneration by reference to corporate goals and objectives. The detailed terms of reference are disclosed on the Company website.

It is the practice of the Remuneration Committee to hold meetings by way of correspondence to discharge its duties under its terms of reference. Details of directors' attendance at the meetings of the Remuneration Committee held during the Reporting Period are set out in Table 1 of this report.

Work of the Remuneration Committee

During the Reporting Period, the Remuneration Committee held four correspondence meetings and performed, amongst other things, the following work:

(1) review and approval of the year 2006 management bonuses for senior officers and year 2007 performance appraisal targets and management bonuses ranges for senior officers;

(2) review and approval of a performance-based incentive scheme by reference to certain corporate goals set by the Board for the new management team under the leadership of Mr. LU Hsueh Cheng; and

(3) review and approval of specific remuneration packages for newly appointed senior officers.

Table 1

	Meetings Attended / Held		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Dr. Tony Yuhai LIU	2/3		
Mr. LU Hsueh Cheng	1/1		
Ms. CHENG Jianyu	4/4		
Non-executive Directors			
Mr. RUAN Yanhua	4/4		4/4
Mr. ZHU Jian	4/4		
Mr. Petrus Antonius Maria VAN BOMMEL	4/4	4/4	
Mr. Ajit MANOCHA	3/4		
Mr. ZHU Peiyi	4/4	4/4	
Mr. XIAO Yongji	4/4		
Independent Non-executive Directors			
Mr. Thaddeus Thomas BECZAK	4/4	4/4	
Mr. James Arthur WATKINS	4/4	4/4	4/4
Dr. SHEN Weijia	4/4	3/4	4/4

EXTERNAL AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. In order to maintain their independence, the Company has set a policy that the Company may engage the external auditors for non-audit services if such services would have no adverse effect on their independence, be approved by the Audit Committee and, in terms of financial limits, be capped under 50% of the audit fees in a given year.

During the Reporting Period, an amount of RMB400,000 was paid to Ernst & Young for their non-audit services rendered for the year ended 31 December 2007. Details of the scope of such non-audit services were outlined in the Company's annual report for the year ended 31 December 2006. Total remuneration paid or payable to Ernst & Young, amounting to RMB1,550,000, was related to their audit services.

Table 2

Audit services	RMB1,550,000
Non-audit services	RMB400,000
Total	RMB1,950,000

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained, which includes a defined management structure with specified limits of authority, to achieve business objectives and safeguard assets against unauthorised use or disposition; ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and ensure compliance with the relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems, and to ensure achievement of the Company's objectives.

Internal Control Framework

The Company operates within an established framework of internal controls, which is consistent with the principles outlined in the Committee of Sponsoring Organisations of the Treadway Commission (the COSO) framework and encompasses five inter-related components that include control environment, risk assessment, control activities, information and communication, and monitoring. The internal control framework also serves as criteria for the effectiveness of the internal control system in supporting the achievement of objectives in the three separate but overlapping areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

Under our framework, the management is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board and its Audit Committee oversee the actions of the management and monitor the effectiveness of the controls that have been put in place.

General Business Principles and Code of Conduct

The Board has adopted a set of General Business Principles and a Code of Conduct for employees. The Company gives frequent orientation and refreshing trainings on the General Business Principles and Code of Conduct to all employees, and requires all employees above certain grades to certify their compliance therewith annually.

In the Code of Conduct, the Company has established procedures for handling employees' complaints and alerts of wrongdoings. Complaints may be submitted on an anonymous basis. Such complaints should normally be reported or directed to the Internal Audit Manager and, in the event of involvement of any member of senior management to the Audit Committee directly. Any employee who in good faith reports a breach (or alleged breach) by another employee of the Code of Conduct will be protected from retaliation.

The role of the Audit Committee

The Audit Committee, primarily through the agency of the internal audit department, is responsible for ensuring the existence and effectiveness of internal controls and discharges its responsibilities mainly by receiving and reviewing periodic reports from the external auditors, the financial management, internal auditors and compliance officer.

The role of the internal audit department

The internal audit department has been established in 2006. It plays an important role in monitoring the internal governance of the Company. Its tasks include:

- Access without restriction to review all aspects of the Company's activities, records, information and assets which it considers necessary to fulfil its responsibilities;
- Review the effectiveness of material internal controls on a regular basis to ensure that the internal controls are carried out appropriately and function as intended;
- Conduct special reviews of areas of concern identified by the management or the Audit Committee; and
- Provide to the Audit Committee with its findings and recommendations to improve the internal control system of the Company.

The department has also conducted special investigations in relation to the violations of the Company's General Business Principles and Code of Conduct. Any breaches identified have been appropriately disciplined together with corrective actions taken by the management, and reported to the Audit Committee.

The internal audit manager reports directly to the Audit Committee on audit matters and to the president on administrative matters. The internal audit manager has the right to consult the Audit Committee without reference to management.

Review of system of internal controls

The Internal Audit Department schedules its internal audit programmes annually (the "Annual Internal Audit Plan"), which is reviewed by the Audit Committee and is based on the three-year (2007-2009) internal audit plan by using a risk ranking methodology.

During 2007 and up to the approval date of the Company's 2007 Annual Report, the internal audit department conducted reviews of internal control systems, both at the entity level and also the various processes/transactions levels in accordance with the Annual Internal Audit Plan, and issued reports to the Audit Committee and management for the findings observed.

The Audit Committee, primarily through the agency of the internal audit department, has conducted a review of the internal controls to ensure that the controls in place are adequate and effective. Such reviews are reported to the Board at least annually.

Conclusion

The establishment of clear, practical and effective internal controls throughout the Company's business operations is a continuing process. The Board supports the actions of management, in co-operation with the internal audit department, in enhancing the Company's system of internal controls throughout its business. The Board is not aware of any material adverse effect on the Company resulting from any inadequacy of internal controls or any failure in their observance.

Report of the Supervisory Committee

During the year ended 31 December 2007, all members of the supervisory committee of the Company (the "Supervisory Committee") discharged their duties in compliance with the applicable requirements of the Company Law of the PRC, the Securities Law of the PRC, the Listing Rules, and the Articles of Association of the Company and proactively protected the interests of the Company and its shareholders.

The term of the first session of the Supervisory Committee, consisting of six shareholder representative supervisors, namely, Mr. CHANG Yueh (chairman), Mr. Ajit MANOCHA, Mr. SHEN Qitang, Mr. YANG Yanhui, Ms. WANG Xiangqun and Mr. HUANG Jihua, as well as one employee representative supervisor, Mr. XU Songneng, expired on 1 March 2007. Mr. SHEN Qitang, Mr. YANG Yanhui and Ms. WANG Xiangqun offered themselves for re-election to the second session of the Supervisory Committee.

At the Company's extraordinary general meeting held on 29 January 2007, Mr. Anthony LEAR, Mr. SHEN Qitang, Mr. YANG Yanhui, Mr. GUO Yiwu, Ms. WANG Xiangqun and Mr. MANG Waikin were elected as shareholder representative supervisors of the second session of the Supervisory Committee. Separately, Mr. PAN Guojin was elected as an employee representative supervisor of the second session of the Supervisory Committee by the Company's employees in a democratic manner on 28 December 2006. The term of the second session of the Supervisory Committee took effect from 2 March 2007 to 1 March 2010. Mr. Anthony LEAR was subsequently appointed as chairman of the second session of the Supervisory Committee.

On 30 June 2007, Mr. Anthony LEAR resigned as a supervisor and chairman of the Supervisory Committee by reason of attainment of retirement age at NXP B.V., a substantial shareholder of the Company. On 7 September 2007, Ms. WANG Xiangqun resigned as a supervisor of the Supervisory Committee by reason of change of her job duties at China Orient Asset Management Corporation, a substantial shareholder of the Company.

At the Company's extraordinary general meeting held on 30 October 2007, Mr. YEH Yi Liang and Ms. CHEN Yan were elected as shareholder representative supervisors of the second session of the Supervisory Committee to fill the aforementioned vacancies. Mr. YEH Yi Liang was subsequently appointed as chairman of the second session of the Supervisory Committee.

During the year ended 31 December 2007, the Supervisory Committee held two meetings as follows:

At the first meeting of the second session of the Supervisory Committee held on 19 March 2007, the Supervisory Committee reviewed and approved the audited financial statements for the year ended 31 December 2006 prepared in accordance with IFRS and PRC GAAP, the preliminary results announcement and annual report (including the supervisor's report) for the year ended 31 December 2006, the profit distribution proposal for the year ended 31 December 2006, and the proposed appointment and terms of engagement of PRC and international auditors for 2007.

At the second meeting of the second session of the Supervisory Committee held on 16 August 2007, the Supervisory Committee reviewed and approved the financial statements, preliminary results announcement and interim report for the six months ended 30 June 2007.

Report of the Supervisory Committee

The independent opinions of the Supervisory Committee on its work in the year ended 31 December 2007 are summarised as follows:

1/ The Supervisory Committee reviewed the Company's financial statements and interim report for the six months ended 30 June 2007 and financial statements and annual report for the year ended 31 December 2006 and is of the view that they were true and reliable and that the external auditors engaged by the Company gave objective and fair opinions on the financial statements.

2/ The Supervisory Committee oversaw the annual assessment by the Audit Committee of the Company's system of internal control and is of the view that it is effective and adequate.

3/ The Supervisory Committee reviewed the use of proceeds from the Company's initial public offering during the year ended 31 December 2007 and is of the view that the decision of the Board of Directors to apply the remaining proceeds in the reduction of the Company's long-term debt in order to reduce its finance costs was in the best interests of the Company and its shareholders.

4/ The Supervisory Committee monitored the discharge of duties by the Directors and managers and is of the view that during the year ended 31 December 2007, all the Directors and mangers had diligently and faithfully discharged their duties under the Articles of Association of the Company, worked towards maximising the interests of the shareholders and the Company and been dedicated to promoting the development of the Company. The Supervisory Committee was not aware of any act of the Directors or managers during their discharge of duties that were in contradiction to the laws or regulations of the PRC or Articles of Association or detrimental to the interests of shareholders of the Company.

In the coming year, the Supervisory Committee will endeavour to better deliver its supervisory functions and protect the interests of shareholders as a whole.

BY ORDER OF THE SUPERVISORY COMMITTEE

YEH Yi Liang
Chairman

Shanghai, the PRC
31 March 2008

ERNST & YOUNG
安 永

To the Shareholders of
Advanced Semiconductor Manufacturing Corporation Limited
(Established in the People's Republic of China with limited liability)

We have audited the financial statements of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") set out on pages 49 to 106, which comprise the balance sheet as at 31 December 2007 and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2007, and of the Company's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
31 March 2008

Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	5	**1,183,076**	1,355,193
Cost of sales		**(1,201,706)**	(1,214,253)
Gross (loss)/profit		**(18,630)**	140,940
Selling and distribution costs		**(8,006)**	(9,016)
General and administrative expenses		**(80,786)**	(75,914)
Research and development costs		**(40,829)**	(32,001)
(Loss)/profit from operating activities		**(148,251)**	24,009
Other income	6	**25,470**	37,106
Other expenses	6	**(674,181)**	(224)
Finance costs	7	**(35,220)**	(57,922)
(Loss)/profit before income tax	7	**(832,182)**	2,969
Income tax (expense)/credit	10	**(8,017)**	974
Net (loss)/profit attributable to ordinary equity holders of the Company		**(840,199)**	3,943
Dividends	11	**—**	—
(Loss)/earnings per share attributable to ordinary equity holders of the Company —Basic	12	**(54.76) cents**	0.28 cents

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

Balance Sheet

31 December 2007

	Notes	**2007 RMB'000**	2006 RMB'000
Non-current assets			
Property, plant and equipment	13	**926,022**	1,941,434
Construction in progress	14	**3,101**	1,929
Land lease prepayments	15	**35,085**	35,854
Intangible assets	16	**14,530**	17,559
Deferred tax assets	17	**—**	7,795
Total non-current assets		**978,738**	2,004,571
Current assets			
Inventories	18	**234,507**	261,829
Accounts and notes receivables	19	**83,778**	137,802
Prepayments, deposits and other receivables	20	**42,108**	21,736
Due from related companies	21	**35,812**	35,894
Cash and cash equivalents	22	**206,995**	396,987
Total current assets		**603,200**	854,248
Total assets		**1,581,938**	2,858,819
Current liabilities			
Accounts payable	23	**171,680**	194,344
Accrued liabilities and other payables		**81,056**	95,433
Due to related companies	21	**4,165**	12,492
Interest-bearing borrowings	24	**350,291**	286,451
Total current liabilities		**607,192**	588,720
Net current (liabilities)/assets		**(3,992)**	265,528

	Notes	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Interest-bearing borrowings	24	**—**	455,376
Deferred tax liability	17	**222**	—
Total non-current liabilities		**222**	455,376
Net assets		**974,524**	1,814,723
Capital and reserves			
Registered and paid-up capital	25	**1,534,227**	1,534,227
Reserves	26	**(559,703)**	280,496
Shareholders' equity		**974,524**	1,814,723

Hsueh Cheng Lu
Director

Cheng Jianyu
Director

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

Statement of Changes in Equity

Year ended 31 December 2007

	Notes	**2007 RMB'000**	2006 RMB'000
Registered and paid-up capital	25		
Ordinary shares of RMB1.00 each:			
At beginning of year		**1,534,227**	1,109,080
Global offering of shares		**—**	425,147
At end of year		**1,534,227**	1,534,227
Capital reserve	26 (a)		
At beginning of year		**205,363**	39
Global offering of shares		**—**	205,324
At end of year		**205,363**	205,363
Statutory surplus reserve	26 (b)		
At beginning of year		**19,353**	12,902
Increase: Transferred from statutory public welfare fund		**—**	6,451
At end of year		**19,353**	19,353
Statutory public welfare fund	26 (c)		
At beginning of year		**—**	6,451
Decrease: Transferred to statutory surplus reserve		**—**	(6,451)
At end of year		**—**	—
(Accumulated losses)/retained earnings	26 (d)		
At beginning of year		**55,780**	51,837
Net (loss)/profit for the year		**(840,199)**	3,943
At end of year		**(784,419)**	55,780
Reserves		**(559,703)**	280,496
Shareholders' equity		**974,524**	1,814,723

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

Cash Flow Statement

Year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Cash flows from operating activities		
(Loss)/profit before income tax	**(832,182)**	2,969
Adjustments for:		
Depreciation	**384,153**	382,801
Amortisation of intangible assets	**3,837**	3,491
Amortisation of land lease prepayments	**769**	769
Loss on disposal of property, plant and equipment	**520**	1,392
Impairment losses on property, plant and equipment	**653,496**	—
Construction in progress written off	**—**	10
Reversal of impairment loss on construction in progress	**—**	(1,299)
Reversal of impairment of accounts receivable	**—**	(22)
Allowance for inventories	**7,523**	13,186
Fair value loss on interest rate swaps	**3,018**	224
Finance costs	**35,220**	57,922
Interest income	**(11,644)**	(11,104)
Operating profit before working capital changes	**244,710**	450,339
Decrease/(increase) in accounts and notes receivables	**54,024**	(13,516)
Decrease/(increase) in inventories	**19,799**	(101,917)
(Increase)/decrease in prepayments, deposits and other receivables	**(30,955)**	9,750
Increase in balances with related companies	**(8,245)**	(5,787)
(Decrease)/increase in accounts payable	**(22,664)**	8,144
(Decrease)/increase in accrued liabilities and other payables	**(5,542)**	29,992
Cash flows from operations	**251,127**	377,005
Interest paid	**(43,761)**	(57,922)
Interest received	**19,015**	3,733
Net cash inflow from operating activities	**226,381**	322,816

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

Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Cash flows from investing activities			
Acquisition of property, plant and equipment, construction in progress and intangible assets		**(27,933)**	(208,943)
Interest capitalised attributable to construction of qualifying assets	7	**—**	(231)
Total additions of property, plant and equipment, construction in progress and intangible assets		**(27,933)**	(209,174)
Payment of land lease prepayment		**—**	(10,000)
Proceeds from disposal of property, plant and equipment		**3,792**	784
Net cash outflow from investing activities		**(24,141)**	(218,390)
Cash flows from financing activities			
Proceeds from issue of new shares	25	**—**	775,776
Share issue expenses	25	**(696)**	(81,910)
Payment of proceeds from Sale H shares to National Social Security Fund	25	**—**	(62,699)
New bank loans		**255,074**	159,912
Repayment of bank loans		**(646,610)**	(604,404)
Net cash (outflow)/inflow from financing activities		**(392,232)**	186,675
Net (decrease)/increase in cash and cash equivalents		**(189,992)**	291,101
Cash and cash equivalents at beginning of year		**396,987**	105,886
Cash and cash equivalents at end of year		**206,995**	396,987
Analysis of balances of cash and cash equivalents			
Cash and bank balances	22	**77,495**	149,546
Non-pledged time deposits	22	**129,500**	247,441
		206,995	396,987

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

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 RMB1.00 each to the then shareholders. The tenure of operation of the Company was revised to infinite. On 7 April 2007, the Company's H shares were successfully listed on The Hong Kong Stock Exchange Limited.

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. SUMMARY OF SIGNIFICANT 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 the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except as disclosed in this summary of significant accounting policies.

At 31 December 2007, the current liabilities of the Company exceed its current assets by RMB3,992,000. The financial statements of the Company for the year ended 31 December 2007 have been prepared on a going concern basis because the Company believes that the Company has sufficient cash inflow from operations, available banking facilities and continuing financial support from the bankers to enable the Company to meet its financial obligations as and when they fall due for a period of not less than twelve months from the balance sheet date.

The Company has adopted the following amended and new IFRSs and IFRIC interpretation during the year which are generally effective for accounting periods on or after 1 January 2007 that are relevant to its operations.

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 10	Interim Financial Reporting and Impairment

The adoption of the above standards and interpretation has no material impact on thefinancial performance or position of the Company, except for the additional or revised disclosures where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impact of issued but not yet effective IFRSs

The Company has not applied the following new and revised IFRSs applicable to the Company that have been issued but are not yet effective in these financial statements.

IAS 1 (revised)	Presentation of Financial Statements
IFRS 8	Operating Segments
IAS 23 (revised)	Borrowing Costs

IAS 1 (revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.

IFRS 8 will affect the disclosures about the Company's operating segments, the Company's products and services, the geographical areas in which it operates, and its major customers.

IAS 23 (revised) removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

IFRS 8 supersedes IAS 14, and is effective for periods beginning on or after 1 January 2009. IAS 1 (revised) and IAS 23 (revised) shall be applied for annual periods beginning on or after 1 January 2009.

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

2. SUMMARY OF SIGNIFICANT 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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. 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. In determining fair value less costs to sell, an appropriate valuation model is used. 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, but 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets are stated at cost less accumulated depreciation and impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Amortisation is calculated on the straight-line basis to write off the cost of each item of intangible assets to its residual value over its estimated useful life. The estimated useful lives of the intangible assets are as follows:

Computer software	2~10 years

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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 credits 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 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 sheet 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax (Continued)

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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on the estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investment not at fair value through profit or loss, directly attributable transaction costs. The Company did not have available-for-sale financial assets at 31 December 2007 and 31 December 2006.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separate embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on financial assets held for trading are recognised in the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised 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. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held- to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment and for which an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, an allowance for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company 's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company 's continuing involvement is the amount of the transferred asset that the Company may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

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

For the purpose of the balance sheet, cash and cash equivalents, bank balances comprise cash in hand and at banks, including term deposits, which are not restricted as to use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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, unless the effect of discounting would be immaterial, in which case they are stated at cost. 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 or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. 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 a future 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.

2. SUMMARY OF SIGNIFICANT 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.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or

(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Company as a lessee

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other taxes or duty.

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.

Retirement benefits

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

Accommodation benefits

According to the relevant PRC rules and regulations, the Company and their employees are each required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the government agencies in the PRC. There is no further obligation on the part of the Group except for such contributions to the accommodation fund. Contributions to an accommodation fund administrated by government agency are charged to the income statement as and when they incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION

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 continuing 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) Deferred tax assets

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 asset 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION *(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) Deferred tax assets

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) Impairment on accounts receivable

Impairment on accounts receivable is made based on assessment of the recoverability of the trade receivables and other receivables. The identification of impairment on accounts receivable 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 impairment expenses/write-back in the period in which such estimate has been changed.

4. 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:

	2007 **RMB'000**	2006 RMB'000
United States of America	**642,742**	696,869
Europe	**308,154**	347,337
Asia	**232,180**	310,987
	1,183,076	1,355,193

5. REVENUE

	2007 **RMB'000**	2006 RMB'000
Sale of goods	**1,182,667**	1,354,399
Others	**409**	794
	1,183,076	1,355,193

6. OTHER INCOME AND OTHER EXPENSES

	2007 RMB'000	2006 RMB'000
Other income		
Interest income	**11,644**	11,104
Scrap sales	**562**	7,622
Compensation received	**—**	4,801
Net foreign exchange gains and others	**13,264**	13,579
	25,470	37,106
Other expenses		
Loss arising from power failure (1)	**(17,667)**	—
Fair value loss on interest rate swaps	**(3,018)**	(224)
Impairment losses on property, plant and equipment (2)	**(653,496)**	—
	(674,181)	(224)

(1) Power failure

The Company suffered a two-hour power outage on 27 October 2007 which caused serious damage to certain plant and equipment and to the wafers in the process of fabrication of the 5- and 6-inch fabs and, to a lesser extent, of the 8-inch fab. The Company is in the process of claiming the loss resulting from this damage from the insurance company.

(2) Impairment losses on property, plant and equipment

The Company recognised an impairment loss of RMB651,294,000 for the 8-inch plant and machinery during the year. The recognition of this loss was in accordance with principles of International Accounting Standards 36 *Impairment of Assets* based on the recoverable amounts of these assets which were determined by reference to the present value of estimated future cash flows expected to arise from the use of the plant and machinery.

The Company also recognised an impairment loss of RMB2,202,000 for the idle tools included in the plant and machinery during the year as the Company considered it is unlikely to recover these idle tools at their present carrying amount.

All the above assets are located in Shanghai, the PRC.

7. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):

	2007	2006
	RMB'000	RMB'000
Staff costs (including Directors', supervisors' and senior executives' emoluments as set out in note 8):		
Retirement benefits (note 9)		
- defined contribution fund	**16,789**	13,180
Accommodation benefits (note 9)		
- defined contribution fund	**4,327**	4,055
Salaries and other staff costs	**164,222**	146,377
	185,338	163,612
Interest on bank loans	**35,220**	58,153
Less: Interest capitalised	**—**	(231)
Finance costs	**35,220**	57,922
Average interest rate capitalised	**—**	*4.93%*
Depreciation	**384,153**	382,801
Amortisation of intangible assets	**3,837**	3,491
Amortisation of land lease prepayments	**769**	769
Auditors' remuneration	**1,550**	2,400
Loss on disposal of property, plant and equipment	**520**	1,392
Impairment losses on property, plant and equipment	**653,496**	—
Reversal of impairment losses on construction in progress	**—**	(1,299)
Reversal of impairment on accounts receivable	**—**	(22)
Construction in progress written off	**—**	10
Allowance for inventories	**7,523**	13,186

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

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

	2007	2006
	RMB'000	RMB'000
Fees	**2,862**	3,122
Other emoluments for executive directors and supervisors:		
- Basic salaries and other benefits	**4,652**	4,736
- Non-discretionary bonuses paid and payable	**586**	590
- Retirement contributions	**38**	36
	5,276	5,362
	8,138	8,484

(a) *Independent non-executive directors*

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	RMB'000	RMB'000
James Arthur Watkins	**234**	250
Thaddeus Thomas Beczak	**234**	250
Shen Weijia	**234**	250
	702	750

There were no other emoluments payable to the independent non-executive directors during the year.

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

(b) Executive directors and non-executive directors

	Fees RMB'000	Basic salaries and other benefits RMB'000	Non-discretionary bonuses paid and payable RMB'000	Retirement contributions RMB'000	Total remuneration RMB'000
2007					
Executive directors:					
Mr. Tony Yuhai Liu	—	2,008	387	—	2,395
Mr. Hsueh Cheng Lu	—	985	—	—	985
Ms. Cheng Jianyu	—	1,416	168	19	1,603
	—	4,409	555	19	4,983
Non-executive directors:					
Mr. Ruan Yanhua	187	—	—	—	187
Mr. Zhu Jian	187	—	—	—	187
Mr. Zhu Peiyi	187	—	—	—	187
Mr. Xiao Yongji	141	—	—	—	141
Mr. Zhou Weiping	47	—	—	—	47
Mr. Ajit Manocha	187	—	—	—	187
Mr. Petrus Antonius Maria Van Bommel	187	—	—	—	187
	1,123	—	—	—	1,123

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

(b) Executive directors and non-executive directors *(Continued)*

	Fees RMB'000	Basic salaries and other benefits RMB'000	Non-discretionary bonuses paid and payable RMB'000	Retirement contributions RMB'000	Total remuneration RMB'000
2007					
Supervisors:					
Mr. Shen Qitang	187	—	—	—	187
Mr. Yang Yanhui	187	—	—	—	187
Mr. Zhang Yueh	47	—	—	—	47
Ms. Wang Xiangqun	129	—	—	—	129
Mr. Huang Jihua	47	—	—	—	47
Mr. Guo Yiwu	140	—	—	—	140
Ms. Chen Yan	33	—	—	—	33
Mr. Ye Yuliang	33	—	—	—	33
Mr. Mang Wai Kin	140	—	—	—	140
Mr. Anthony Lear	94	—	—	—	94
Mr. Pan Guojin	—	151	5	16	172
Mr. Xu Songneng	—	92	26	3	121
	1,037	243	31	19	1,330
	2,160	4,652	586	38	7,436

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

(b) Executive directors and non-executive directors (Continued)

	Fees RMB'000	Basic salaries and other benefits RMB'000	Non-discretionary bonuses paid and payable RMB'000	Retirement contributions RMB'000	Total remuneration RMB'000
2006					
Executive directors:					
Mr. Tony Yuhai Liu	—	2,787	390	—	3,177
Ms. Cheng Jianyu	—	1,416	168	18	1,602
	—	4,203	558	18	4,779
Non-executive directors:					
Mr. Ruan Yanhua	201	—	—	—	201
Mr. Zhu Jian	201	—	—	—	201
Mr. Anthony Lear	201	—	—	—	201
Mr. Mang Wai Kin	—	—	—	—	—
Mr. Zhu Peiyi	201	—	—	—	201
Mr. Ma Mai	—	—	—	—	—
Mr. Zhou Weiping	201	—	—	—	201
Mr. Petrus Antonius Maria Van Bommel	161	—	—	—	161
	1,166	—	—	—	1,166
Supervisors:					
Mr. Shen Qitang	201	—	—	—	201
Mr. Yang Yanhui	201	—	—	—	201
Mr. Zhang Yueh	201	—	—	—	201
Mr. Ajit Manocha	201	—	—	—	201
Ms. Wang Xiangqun	201	—	—	—	201
Mr. Huang Jihua	201	—	—	—	201
Mr. Xu Songneng	—	533	32	18	583
	1,206	533	32	18	1,789
	2,372	4,736	590	36	7,734

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

(b) *Executive directors and non-executive directors* *(Continued)*

The five highest paid individuals in the Company include three (2006: two) executive directors for the year ended 31 December 2007, details of whose emoluments have been disclosed above.

The details of the emoluments of the remaining two (2006: three) highest paid individuals are as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries and other benefits	**2,041**	3,552
Non-discretionary bonuses paid and payable	**399**	483
Retirement contributions	**32**	53
	2,472	4,088

The number of the two (2006: three) non-director, highest paid employees, whose remuneration fell within the following bands, is as follows:

	2007	2006
HK$1,000,001 - HK$1,500,000	**2**	2
HK$1,500,001 - HK$2,000,000	**—**	1
	2	3

During the years ended 31 December 2006 and 2007, no director or supervisor waived or agreed to waive any emolument and no emoluments were paid by the Company to the directors, supervisors or two (2006: three) non-director highest paid employees of the Company as an inducement to join or upon joining the Company or as compensation for loss of office.

9. RETIREMENT BENEFITS AND ACCOMMODATION

Retirement benefits

As stipulated by 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.

10. 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 years ended 31 December 2006 and 2007.

The Company is located at Caohejing High-Tech Park of Shanghai, the PRC, and its applicable PRC 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 the PRC corporate income tax for an additional five years from 2004 to 2008. Accordingly, the Company was subject to the PRC corporate income tax at an applicable corporate income tax rate of 7.5% for the years ended 31 December 2006 and 2007.

10. INCOME TAX *(Continued)*

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

	2007 RMB'000	2006 RMB'000
Provision for income tax in respect of profit for the year	—	—
Over provision of income tax in respect of prior years	—	—
	—	—
Deferred tax expense/(credit)	8,017	(974)
Income tax expense/(credit)	8,017	(974)

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

	2007 RMB'000	2006 RMB'000
(Loss)/profit before income tax	(832,182)	2,969
Tax at applicable tax rate of 7.5%	(62,414)	223
Tax effect of:		
- Expenses not deductible for tax purpose	50,815	3
- Additional deductible expenses for tax purpose	—	(1,200)
- Temporary difference not recognised for the current period	1	—
- Taxable loss not recognised for the current period	11,820	—
- Reversal of previously recognised deferred tax assets	7,795	—
Income tax expense/(credit)	8,017	(974)

The additional deductible expenses for tax purpose in 2006 refer to additional 50% deduction for research and development costs according to PRC tax law.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New CIT Law") was approved and became effective on 1 January 2008. The New CIT Law introduces a wide range of changes including, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The New CIT Law has been announced, pursuant to which, enterprises currently entitled to certain preferential tax rates will gradually turn to statutory corporate tax rate of 25% within 5 years from 2008.

11. DIVIDENDS

The Board of Directors does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2007 (31 December 2006: Nil).

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

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

	2007	2006
(Loss)/profit attributable to ordinary equity holders of the Company (RMB'000)	**(840,199)**	3,943
Weighted average number of ordinary shares in issue ('000)	**1,534,227**	1,421,800

Diluted (loss)/earnings per share has not been disclosed as there were no dilutive options and other potential dilutive ordinary shares in issue during the years ended 31 December 2006 and 2007.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2007:					
Cost:					
At 1 January 2007	156,241	3,619,605	71,183	3,740	3,850,769
Additions	27	2,722	1,832	—	4,581
Transferred from CIP	1	21,169	202	—	21,372
Disposals	—	(5,810)	(1,207)	(510)	(7,527)
At 31 December 2007	156,269	3,637,686	72,010	3,230	3,869,195
Accumulated depreciation:					
At 1 January 2007	28,628	1,841,752	36,076	2,879	1,909,335
Charge for the year	5,208	368,045	10,601	299	384,153
Disposals	—	(2,096)	(1,205)	(510)	(3,811)
At 31 December 2007	33,836	2,207,701	45,472	2,668	2,289,677
Accumulated impairment losses:					
At beginning of year	—	—	—	—	—
Charge for the year	—	653,496	—	—	653,496
Disposals	—	—	—	—	—
At end of year	—	653,496	—	—	653,496
Net book value:					
At 31 December 2007	122,433	776,489	26,538	562	926,022

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2006:					
Cost:					
At 1 January 2006	104,222	3,318,453	50,433	3,391	3,476,499
Additions	40	25,080	7,496	473	33,089
Transferred from CIP	53,932	278,974	14,562	—	347,468
Disposals	(1,953)	(2,902)	(1,308)	(124)	(6,287)
At 31 December 2006	156,241	3,619,605	71,183	3,740	3,850,769
Accumulated depreciation:					
At 1 January 2006	24,140	1,474,006	29,280	2,757	1,530,183
Charge for the year	4,903	369,548	8,104	246	382,801
Disposals	(415)	(1,802)	(1,308)	(124)	(3,649)
At 31 December 2006	28,628	1,841,752	36,076	2,879	1,909,335
Net book value:					
At 31 December 2006	127,613	1,777,853	35,107	861	1,941,434

The Company's buildings, plant and machinery with a net book value of RMB898,922,000 at 31 December 2007 (31 December 2006: RMB1,905,466,000) were pledged to banks as security for the bank loans amounting to US$25,502,800 (equivalent to approximately RMB 186,288,000) at 31 December 2007 (31 December 2006: RMB718,401,000).

As at 31 December 2007, the Company has yet to obtain the certificate of the real estate ownership for the buildings with carrying amount of RMB47,878,000.

14 CONSTRUCTION IN PROGRESS

	2007 RMB'000	2006 RMB'000
Carrying amount:		
At beginning of year	**1,929**	175,937
Additions	**22,544**	173,470
Transferred to property, plant and equipment	**(21,372)**	(347,468)
Transferred to inventory	**—**	(1,299)
Written off	**—**	(10)
Impairment loss reversed	**—**	1,299
At end of year	**3,101**	1,929
Cost	**3,101**	1,929
Accumulated impairment loss	**—**	—
Carrying amount at end of year	**3,101**	1,929

The Company's construction in progress with a net book value of RMB3,101,000 at 31 December 2007 (31 December 2006: RMB1,929,000) was pledged to banks as security for the bank loans amounting to US$25,502,800 (equivalent to approximately RMB186,288,000) at 31 December 2007 (31 December 2006: RMB718,401,000).

15. LAND LEASE PREPAYMENTS

	2007 RMB'000	2006 RMB'000
Carrying amount:		
At beginning of year	**36,623**	37,392
Amortisation for the year	**(769)**	(769)
At end of year	**35,854**	36,623
Current portion included in prepayments, deposits and other receivables	**(769)**	(769)
Non-current portion	**35,085**	35,854

The Company's land lease prepayments with a net book value of RMB35,854,000 at 31 December 2007 (31 December 2006: RMB36,623,000) were pledged to banks to secure the bank loans amounting to US$25,502,800 (equivalent to approximately RMB186,288,000) at 31 December 2007 (31 December 2006: RMB718,401,000).

16. INTANGIBLE ASSETS

	2007 RMB'000	2006 RMB'000
Cost:		
At beginning of year	**21,050**	18,569
Addition	**808**	2,615
Disposal	**—**	(134)
At end of year	**21,858**	21,050
Accumulated amortisation:		
At beginning of year	**(3,491)**	—
Amortisation for the year	**(3,837)**	(3,491)
At end of year	**(7,328)**	(3,491)
Net book value	**14,530**	17,559

The intangible assets are computer software.

17. DEFERRED TAX (LIABILITY)/ASSETS

	2007 RMB'000	2006 RMB'000
Deferred tax (liability)/assets in respect of		
- Depreciation charges	**(222)**	(562)
- Fair value gain on interest rate swaps	**—**	(196)
- Unutilised tax losses	**—**	4,291
- Provisions	**—**	4,262
	(222)	7,795

17. DEFERRED TAX (LIABILITY)/ASSETS *(Continued)*

Deferred tax assets have not been recognised in respect of the following deductible temporary differences:

	2007	2006
	RMB'000	RMB'000
Tax losses	**198,445**	—
Fair value loss on interest rate swaps	**402**	—
Provisions	**51,927**	—
	250,774	—

The above tax losses are available for offsetting against future taxable profits of the Company before the expiry of five years period. Deferred tax assets have not been recognised in respect of the above deductible temporary differences as it is not considered probable that sufficient taxable profits will be available against which the above items can be utilised.

18. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**86,963**	78,340
Spare parts and consumables	**70,645**	73,467
Work in progress	**78,445**	123,946
Finished goods	**47,587**	27,686
	283,640	303,439
Less: Allowance for inventories	**(49,133)**	(41,610)
	234,507	261,829
Represented by:		
Inventories carried at cost	**182,635**	177,193
Inventories carried at net realisable value	**51,872**	84,636
	234,507	261,829
Analysis of allowance for inventories:		
At beginning of year	**41,610**	28,424
Provided for the year	**24,996**	25,793
Utilised for the year	**(17,473)**	(12,607)
At end of year	**49,133**	41,610

19. ACCOUNTS AND NOTES RECEIVABLES

	2007 RMB'000	2006 RMB'000
Accounts receivable	**82,300**	137,802
Notes receivables	**1,478**	—
	83,778	137,802

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

19. ACCOUNTS AND NOTES RECEIVABLES *(Continued)*

An aged analysis of the accounts receivable as at 31 December 2007 is as follows:

	2007	2006
	RMB'000	RMB'000
Outstanding balances with ageing:		
Within 30 days	**55,485**	79,462
Between 31 and 90 days	**16,947**	57,567
Between 91 and 180 days	**7,333**	557
Between 181 and 365 days	**2,535**	216
	82,300	137,802
Less: Impairment of accounts receivable	**—**	—
	82,300	137,802

As at 31 December 2007, there were no accounts and notes receivables which were impaired and required to be fully provided for. Movements in the allowance for impairment of receivables were as follows:

	2007	2006
	RMB'000	RMB'000
At beginning of year	**—**	22
Charged for the year	**—**	—
Impairment losses reversed	**—**	(22)
At end of year	**—**	—

19. ACCOUNTS AND NOTES RECEIVABLES *(Continued)*

As at 31 December 2006 and 2007, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**<60 days**	**61-180 days**	**181-365 days**	**>365 days**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2007	82,300	61,383	11,070	9,683	164	—
31 December 2006	137,802	84,104	52,935	547	216	—

The Directors are of the opinion that no allowance for impairment of accounts receivable as at 31 December 2007 is needed.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2007	2006
	RMB'000	RMB'000
Prepayments	**1,885**	2,094
Deposits	**126**	340
Insurance compensation receivable	**25,000**	—
VAT refundable	**2,261**	2,261
VAT receivable	**7,597**	1,770
Held for trading financial assets		
– Interest rate swaps	**—**	2,616
Interest income receivable	**—**	7,371
Sundry debtors		
– Proceeds from disposal of property, plant and equipment	**—**	596
– Others	**5,239**	4,688
	42,108	21,736

21. BALANCES WITH RELATED COMPANIES

The Company was previously under the significant influence of Koninklijke Philips Electronics N.V. ("Royal Philips") through its wholly-owned subsidiary, Philips Electronics China B.V. (formerly known as Philips Electronics South-East Asia Holding B.V.), which held more than 26.6% of the equity interest of the Company.

On 3 August 2006, Royal Philips announced that it had signed an agreement with Kohlberg Kravis Roberts & Co., Sliver 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 NXP B.V. (formerly known as "Philips Semiconductor International B.V."). However, such shares may not be transferred, except that, according to the advice of the Company's legal advisors as to PRC law for the purpose of its initial public offering, the trading of such Converted H shares on the Hong Kong Stock Exchange will require prior approval from the Ministry of Commerce. Consequently, the Company was considered to be under significant influence of NXP B.V. controlled by the Consortium effective from 1 September 2006. The companies controlled by or under the significant influence of NXP B.V. are considered to be the Company's related parties during the year.

The amounts due from/to related companies, which are subsidiaries or associates of NXP B.V., 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.

22. CASH AND CASH EQUIVALENTS

	2007 **RMB'000**	2006 RMB'000
Cash and bank balances	**77,495**	149,546
Time deposits	**129,500**	247,441
	206,995	396,987

The time deposits at 31 December 2007 are non-pledged, and have varying periods between three to six months depending on the immediate cash requirements of the Company.

23. ACCOUNTS PAYABLE

	2007 RMB'000	2006 RMB'000
Outstanding balances with ageing:		
Within 30 days	**146,669**	144,646
Between 31 and 90 days	**12,978**	33,790
Between 91 and 180 days	**6,361**	7,245
Between 181 and 365 days	**1,147**	3,461
Over 365 days	**4,525**	5,202
	171,680	194,344

24. INTEREST-BEARING BORROWINGS

	2007		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans:			
Unsecured	**5.02~6.90**	**2008**	**164,003**
Secured	**6.14~6.58**	**2008**	**186,288**
Total			**350,291**
Repayable:			
Within one year			**350,291**
In the second year			**—**
Total			**350,291**

	2006		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans:			
Unsecured	3.96~6.30	2007	23,426
Secured	4.93~7.08	2007	263,025
			286,451
Non-current			
Secured	4.93~7.08	2008	455,376
Total			741,827
Repayable:			
Within one year			286,451
In the second year			234,702
Between the third and fifth years, inclusive			220,674
Total			741,827

24. INTEREST-BEARING BORROWINGS *(Continued)*

The carrying amounts of the Company's current borrowings approximate to their fair values.

The Company has repaid the bank loan of US$33,000,000 (equivalent to approximately RMB241,052,000) in accordance with a supplementary agreement dated on 27 June 2007 to the US$ 100 million credit facility term loan agreement (the "Term Loan Agreement") dated on 31 March 2005. The supplementary agreement revised certain financial covenants, and adjusted the last testing date to 30 September 2008.

On 31 December 2007, the Company complied with the revised financial covenants set out in the Term Loan Agreement and its supplementary agreements.

The Company's buildings, plant and machinery, construction in progress, and land lease prepayments with a net book value of RMB898,922,000, RMB3,101,000 and RMB35,854,000, respectively, at 31 December 2007 were pledged to banks as security for the bank loans amounting to US$25,502,800 (equivalent to approximately RMB186,288,000).

As at 31 December 2007, the Company had unutilised credit facilities of approximately RMB80,000,000 which will expire on 24 November 2008. Subsequent to 31 December 2007, the Company was granted the extension of the maturity date to 15 February 2009 and 17 March 2009 for the short term loans amounting to US$ 5,500,000 (equivalent to approximately RMB40,175,000) and US$ 3,000,000 (equivalent to approximately RMB21,914,000), respectively.

25. REGISTERED AND PAID-UP CAPITAL

	Notes	**31 December 2007 Number of shares '000**	31 December 2006 Number of shares '000	**31 December 2007 RMB'000**	31 December 2006 RMB'000
Registered		**1,534,227**	1,109,080	**1,534,227**	1,109,080
Issued and fully paid:					
Non-listed foreign shares	(a)	**33,272**	33,272	**33,272**	33,272
Domestic Share	(b)	**369,621**	369,621	**369,621**	369,621
H Shares	(c)	**467,660**	467,660	**467,660**	467,660
Converted H Shares	(d)	**663,674**	663,674	**663,674**	663,674
Total		**1,534,227**	1,534,227	**1,534,227**	1,534,227

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.

25. 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, and the Company's Articles of Association contain no 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 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, plus the following rights:

- to request the Company to pay dividends in foreign currencies;
- to request the Company 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. ("Shanghai Belling") 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

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.

(d) Converted H Shares

Converted H Shares are H Shares held by NXP B.V. and SCIP (HK) Limited at the balance sheet date. H Shares and Converted H Shares belong to the same class of shares in the Company's share capital. Converted H Shares have identical rights as that of H Shares, except that, according to the advice of the Company's legal advisors as to PRC law for the purpose of its initial public offering, the trading of such Converted H shares on The Hong Kong Stock Exchange Limited will require prior approval from the Ministry of Commerce.

25. REGISTERED AND PAID-UP CAPITAL *(Continued)*

Pursuant to the "Provisional Administrative Measures for the Reduction of State-owned Shares in Raising the Social Security Fund", COAMC sold a number of its Domestic Shares amounting to 10% of the H Shares offered in the Global Offering (the "Sale H Shares"). The proceeds arising from the sales of 42,513,000 Sale H Shares as a result of the conversion of 42,513,000 Domestic Shares into Sale H Shares have been remitted to the National Social Security Fund (the "NSSF") during year 2006.

The nominal value of 467,660,000 H shares, less 42,513,000 Sale H Shares, issued pursuant to the Global Offering has been registered as the registered capital of the Company as at 31 December 2007.

There were 467,660,000 H Shares of the Company, which represent 369,693,000 New H Shares and 36,969,000 Sale H Shares, listed on the Main Board of The Hong Kong Stock Exchange Limited 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, listed on the Main Board of The Hong Kong Stock Exchange Limited on 11 April 2006. These H Shares, with a nominal value of RMB1.00 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 was 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 RMB696,000 at 31 December 2006 were included in accrued liabilities and other payable of RMB95,433,000.

26 RESERVES

(a) 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.

(b) 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.

26 RESERVES *(Continued)*

(c) *Statutory public welfare fund*

According to Company law of the PRC, the Company is no longer required to make any transfer of profit after tax to the statutory public welfare fund. The balance of statutory public welfare fund as at 31 December 2006 is transferred to statutory surplus reserve.

(d) *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.

27. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

2007

	Financial assets at fair value through profit or loss - held for trading RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts and notes receivables	—	83,778	83,778
Financial assets included in prepayments, deposits and other receivables	—	40,223	40,223
Due from related companies	—	35,812	35,812
Cash and cash equivalents	—	206,995	206,995
	—	366,808	366,808

27. FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

2006

	Financial assets at fair value through profit or loss - held for trading RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts and notes receivables	—	137,802	137,802
Financial assets included in prepayments, deposits and other receivables	2,616	17,026	19,642
Due from related companies	—	35,894	35,894
Cash and cash equivalents	—	396,987	396,987
	2,616	587,709	590,325

Financial liabilities

2007

	Financial liabilities at fair value through profit or loss - held for trading RMB'000	**Financial liabilities at amortised cost RMB'000**	**Total RMB'000**
Accounts payable	**—**	**171,680**	**171,680**
Financial liabilities included in accrued liabilities and other payables	**402**	**80,654**	**81,056**
Due to related companies	**—**	**4,165**	**4,165**
Interest-bearing borrowings	**—**	**350,291**	**350,291**
	402	**606,790**	**607,192**

27. FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

2006

	Financial liabilities at fair value through profit or loss - held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Accounts payable	—	194,344	194,344
Financial liabilities included in accrued liabilities and other payables	—	95,433	95,433
Due to related companies	—	12,492	12,492
Interest-bearing borrowings	—	741,827	741,827
	—	1,044,096	1,044,096

28. RELATED PARTY TRANSACTIONS

As set out in note 21 to the financial statements, the companies controlled by or under the significant influence of NXP B.V. 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 NXP B.V. during the year ended 31 December 2007:

	Notes	**2007** **RMB'000**	2006 RMB'000
Sales	(i)	**160,128**	245,450
Purchases	(i)	**—**	1,016
Technology transfer fees	(ii)	**13,130**	21,530
Information technology ("IT") related service fees	(iii)	**2,058**	2,613

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 services rendered in accordance with the terms of 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 as such in the future.

The above related parties transactions also constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited (" the Listing Rules").

29. COMMITMENTS

The Company had the following capital commitments as at 31 December 2007:

	2007	2006
	RMB'000	RMB'000
Capital commitments in respect of property, plant and equipment:		
- contracted, but not provided for	**3,843**	6,584
- authorised, but not contracted for	**20,989**	46,182
	24,832	52,766

30. CONTINGENT LIABILITIES

(a) Reference is made to the disclosures in the Annual Report of the Company for the year ended 31 December 2006 regarding the litigation Monolithic Power Systems, Inc. ("MPS") v. O2 Micro International Limited ("O2 Micro") where the Company was involved as one of the defendants.

The court trial began on 30 April 2007 and was limited to whether the United States Patent No. 6396722 (the "722 patent") was invalid, whether the Company and other defendants infringed the 722 patent, and should the 722 patent be found valid and enforceable, whether O2 Micro was entitled to an injunction.

On 8 May 2007, the Company filed a motion for judgment as a matter of law seeking to be dismissed from the case due to a lack of infringement evidence presented by O2 Micro. On 10 May 2007, the judge orally granted the motion and on 14 May, the judge instructed the jury that the Company was no longer a party to the action. On 15 May 2007, the jury rendered a verdict finding the 722 patent claims invalid, no claims literally infringed by MPS and its customer ASUSTek Computer Inc., and two claims infringed under the doctrine of equivalents. Since one cannot infringe an invalid claim, the jury's finding of infringement under the doctrine of equivalents is superseded by the invalidity finding.

On 30 October 2007, the Court denied all post-trial motions and entered judgment in favour of the Company. On 29 November 2007, O2 Micro filed a notice of appeal with the Federal Circuit. On 6 December 2007, the Company filed a cross-appeal. O2 Micro's opening appeal brief is currently due 27 March 2008.

According to the external legal advice sought by the Company, the Company considered that the liability arising from the 722 patent is possible but not probable and therefore no provision is being made in the financial statements.

30. CONTINGENT LIABILITIES *(Continued)*

(b) In September 2006, the Company received from a customer (the "Customer") an unsubstantiated allegation amounting to USD1.97 million (equivalent to approximately RMB15.4 million) for alleged breaches by the Company of certain terms of a foundry agreement dated 22 October 2004 (the "Foundry Agreement"). The Company has denied such allegation.

In November 2007, the Company filed for arbitration to pursue damages it had suffered as a result of the termination by the Customer of the Foundry Agreement. The Customer (respondent in the arbitration) in response currently raised conditional counter-claims estimated at about USD2.64 million (equivalent to approximately RMB19.28 million) excluding lost revenue and about USD16.14 million (equivalent to approximately RMB117.9 million) including the lost revenue to the extent that the Company is permitted to recover the cost of materials and equipment it purchased under the Foundry Agreement. Such counter-claims are not specified or supported by evidence. The arbitration is currently pending before a sole arbitrator.

According to the external legal advice sought by the Company, the Company considered that liability arising from such counter-claims is possible but not probable and therefore no provision is being made in the financial statements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprised cash and cash equivalents and interest-bearing bank borrowings. The Company has various other financial assets and liabilities such as trade and note receivables, prepayments and other receivables, trade and notes payables, as well as accrued liabilities and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company does not hold or issue derivative financial instruments either for hedging or for trading purposes, other than interest rate swaps as disclosed in interest rate risk below. The Directors of the Company review and agree policies for managing each of the risks and they are summarized 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 oblige 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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk (Continued)

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 6.04% per annum. After the interest rate swaps, the Company's weighted average interest rate at the balance sheet date was 5.77% per annum.

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:

	2007 **RMB'000**	2006 RMB'000
Later than one year and not later than five years	**127,831**	195,218

The fair value of the interest rate swap contracts at 31 December 2007 of RMB402,000 has been recorded in note 27 to the financial statements as financial liabilities of fair value through profit or loss held for trading.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax. There is no impact on the Company's equity.

	Increase/ decrease in basis points	**Effect on profit before tax RMB'000**
2007		
US$	**+20**	**(40)**
US$	**-15**	**30**
2006		
US$	+20	(57)
US$	-15	43

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The Company operates in the PRC and its principal activities are transacted in RMB, being the functional currency of the Company. However, the Company has transactional currency exposures. Such exposure mainly arises from sales by US dollar and other currencies. Approximately 87% and 84% of the Company's export sales are denominated in US dollar, while 13% and 16% are denominated in RMB in 2006 and 2007, respectively.

The Company's financial assets and liabilities are subject to foreign currency risk as a result of certain receivables and loans denominated in US dollar. Therefore, the fluctuations in the exchange rate of RMB against US$ could affect the Company's results of operations. The Company does not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the directors consider that the Company has no significant foreign currency risk.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in US$ rate	Effect on profit before tax RMB'000
2007	**+5%**	**(6,044)**
	-5%	**6,044**
2006	+5%	(17,840)
	-5%	17,840

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

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

	2007	2006
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents:		
- US$	**141,835**	378,258
- Others	**987**	7,244
	142,822	385,502
Accounts and notes receivables:		
- US$	**82,670**	105,903
- Others	**—**	—
	82,670	105,903
Due from related companies:		
- US$	**35,812**	35,894
- Others	**—**	—
	35,812	35,894
Financial liabilities		
Interest-bearing borrowings:		
- US$	**270,291**	741,827
- Others	**—**	—
	270,291	741,827

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk (Continued)

	2007 RMB'000	2006 RMB'000
Accounts payable:		
- US$	**103,734**	93,089
- Others	**20,173**	4,488
	123,907	97,577
Accrued liabilities and other payables:		
- US$	**3,377**	29,447
- Others	**727**	2,151
	4,104	31,598
Due to related companies:		
- US$	**3,799**	12,492
- Others	**—**	—
	3,799	12,492

Credit risk

The Company trades only with recognised and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Company's exposure to bad debts is not significant.

The credit risk of the Company's other financial assets, which comprise cash and cash equivalents, amounts due from related companies and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Company trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Company minimises its exposure to credit risk by only dealing with counterparties with acceptable credit ratings.

There are no significant concentrations of credit risk for the Company's financial asset.

Further quantitative data in respect of the Company's exposure to credit risk arising from trade and other receivables are disclosed in note 19 to the financial statements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivables, other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short-term and long-term bank loans.

The table below summaries the maturity profile of the Company's financial liabilities at 31 December 2006 and 2007 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007						
Accounts payables	**23,780**	**142,101**	**5,799**	**—**	**—**	**171,680**
Accrued liabilities and other payables	**81,056**	**—**	**—**	**—**	**—**	**81,056**
Interest-bearing loans and borrowings	**—**	**186,983**	**171,753**	**—**	**—**	**358,736**
	104,836	**329,084**	**177,552**	**—**	**—**	**611,472**
2006						
Accounts payables	28,753	156,739	8,417	435	—	194,344
Accrued liabilities and other payables	95,433	—	—	—	—	95,433
Interest-bearing loans and borrowings	—	181,222	113,054	514,810	—	809,086
	124,186	337,961	121,471	515,245	—	1,098,863

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a sufficient capital to support its continuing business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2007.

The Company monitors capital using total liabilities over tangible net assets ratio which is the net debt divided by the tangible net assets. The Company's policy is to maintain the total liabilities over tangible net assets ratio of not more than 1. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents. Tangible net assets include total equity plus reserves, less intangible assets. The total liabilities over tangible net assets ratios as at the balance sheet dates were as follows:

	2007 **RMB'000**	2006 RMB'000
Interest-bearing borrowings	**350,291**	741,827
Less: Cash and bank balances	**(206,995)**	(396,987)
Total liabilities	**143,296**	344,840
Tangible net assets	**959,994**	1,797,164
Total liabilities over tangible net assets ratio	**0.15**	0.19

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.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2008.