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Advanced Semiconductor Manufacturing Corporation Limited

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

(Stock Code: 03355)

Annual Report

2008

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. ZHOU Weiping
Ms. CHENG Jianyu

Non-executive Directors

Dr. CHEN Jianming *(Chairman)*
Mr. YEH Yi Liang *(Vice Chairman)*
Mr. ZHU Peiyi *(Vice Chairman)*
Mr. ZHU Jian
Mr. SUN Zhen
Mr. Christopher Paul BELDEN

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. Christopher Paul BELDEN
Mr. ZHU Peiyi

Remuneration Committee

Dr. CHEN Jianming *(Chairman)*
Mr. James Arthur WATKINS
Dr. SHEN Weijia

SUPERVISORS

Mr. David Siu Kee KIANG *(Chairman)*
Mr. SHEN Qitang
Mr. YANG Yanhui
Ms. CHEN Yan
Mr. GUO Yiwu
Mr. PAN Guojin

JOINT COMPANY SECRETARIES

Mr. JING Wei
Mr. NGAI Wai Fung

AUTHORIZED REPRESENTATIVES

Ms. CHENG Jianyu
Mr. JING Wei

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

Corporate Information

SHAREHOLDERS' ENQUIRIES

Contact Information

Tel: (86 21) 6485 1900
Fax: (86 21) 6485 1056
Website: www.asmcs.com

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 2008:
published on 22 August 2008
Annual Results for 2008:
published on 25 March 2009

Annual General Meeting

11.00 a.m. on Thursday, 21 May 2009

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Advanced Semiconductor Manufacturing Corporation Limited (the "Company"), I am pleased to present the annual report of the Company for the year ended 31 December 2008.

2008 was the year of the Company's 20th anniversary. However, it was also a year in which the Company encountered considerable difficulties and an unfavorable business environment including the slowdown of the global economy, below-normal seasonal performance within the industry, and deteriorating end-market demand as a result of global financial turmoil, ultimately leading to a sharp decline in demand for semiconductors across all applications starting from the latter part of the year. As such, the Company's customers were cutting orders even more aggressively due to worsening visibility in the market place and rising inventory. Under such circumstances, the Company deliberately implemented a three-week shut-down of its operations at the end of the year to conduct annual maintenance in advance. As a result, the Company's revenue for the year ended 31 December 2008 decreased by 21.2% to RMB932.6 million, compared to RMB1,183.1 million for the year ended 31 December 2007. Its production output of 8-inch equivalent wafers decreased from 474,686 pieces in the preceding year to 383,301 pieces in the year ended 31 December 2008. The shipment of 8-inch equivalent wafers was 400,505 pieces in the year ended 31 December 2008, a decrease of 14.4% from 467,754 pieces in the previous year.

In 2008, the Company recorded a loss of RMB122.5 million from operating activities, compared to a loss of RMB148.3 million in 2007, primarily due to lower sales as a result of the deteriorating market demand. In addition, the Company took an impairment charge of RMB145.1 million against its 8-inch fabrication facilities to reflect worse-than-expected trading performance as well as the decline in economic value of such facilities, resulting in a net loss of RMB237.1 million for the year ended 31 December 2008, compared with a net loss of RMB840.2 million for the year ended 31 December 2007. Earnings per share were negative RMB0.15 for 2008 compared with negative RMB0.55 for 2007.

The Board of Directors has resolved not to recommend the payment of a final dividend for the year ended 31 December 2008 (2007:Nil).

During the year, the Company made an important decision to enhance the Company's management team by the appointment of Mr. Zhou Weiping as the new President and the Chief Executive Officer, with effect from 1 September 2008, followed by the appointment of Dr. Wang Qingyu as Vice President of Operations. The Board believes that such appointment will be beneficial to improving the Company's operational efficiency and business management as well as its future development. The Company, under the leadership of new management team, timely implemented further aggressive cost-cutting programs including reducing its headcount by 396 employees and shutting down its operations at the end of the year in response to ongoing sluggish end-market demand.

With the semiconductor industry likely set to post negative growth in the coming year as a result of continuing deteriorated end-market conditions amid global economic recession, the Board believes that the Company will face more severe challenges than ever before in 2009. In the face of continuing worsening business environment, the Company will strive to improve overall efficiency and competitiveness by further implementing a stringent cost control, and strengthening internal production planning and execution. On the other hand, by leveraging the Chinese economy recovery relatively quicker than other nations owing to the numerous stimulus packages being implemented by the Chinese government, combined with international IDMs' fab-light strategy, the Company will further explore new business development, especially focused on the Greater China market by proactively working with potential business partners while further enhancing its business alliance with existing customers so as to better support its sustainable growth in future once the global economy emerges from the current downturn, ultimately to consolidate its position as a leading dedicated analog foundry.

Chairman's Statement

It is my great honor to be Chairman of the Board and I would like to express my sincere appreciation to the Board, the management and all staff for their devoted service and loyalty in 2008. I believe that Mr. Zhou Weiping, with his extensive industry experience and excellent leadership, together with the new management team, will continue to lead the Company, as always, to achieve long-term stable growth to maximize returns for shareholders.

Finally, on behalf of the Board, I would like to express my gratitude to the Company's customers, business partners and shareholders for their continued trust and support.

Chen Jianming
Chairman

25 March 2009

The Company experienced an unprecedented negative market environment including softening market demand and low seasonality in the first half 2008, and the sharp decline in semiconductor demand across all applications resulting from the global economic recession in the latter part of 2008, which eventually drove the Company's customers to cut their orders even more aggressively. In view of deteriorated end-market conditions, the Company also shut down its internal operations for a period at the end of year to conduct an annual major overhaul in advance. In addition, the Company was obliged to take a further impairment charges against its 8-inch fab plant based on ongoing negative market outlook. All these factors constituted a significant adverse impact on the Company's business performance and financial results in 2008.

In 2008, the Company appointed Mr. Zhou Weiping as the new President and the Chief Executive Officer and Dr. Wang Qingyu as Vice President of Operations to further enhance the Company's management team. As a result of ongoing worsening market situation and lack of visibility in the end markets, the Company, under the leadership of new management team, deliberately implemented a three-week shutdown of its internal operations, and reduced its workforce by 396 people at the end of the year to save operating expenses in 2008 and better meet more severe challenges in the coming year.

COMPARISON BETWEEN 2007 AND 2008 ENDING 31 DECEMBER

Sales

The sales of the Company decreased by 21.2% from RMB1,183.1 million in 2007 to RMB932.6 million in 2008, resulting in a lower overall utilization rate reduced from 66% in 2007 to 57% in 2008. the Company's throughput of 8-inch equivalent wafers decreased by 19.3%, from 474,686 pieces for the year ended 31 December 2007 to 383,301 pieces for the year ended 31 December 2008 and correspondingly the Company's shipment of 8-inch equivalent wafers decreased by 14.4%, from 467,754 pieces to 400,505 pieces.

Cost of sales and gross profit

The cost of sales decreased by 20.5% from RMB1,201.7 million in 2007 to RMB955.0 million in 2008. The gross profit was negative RMB22.4 million in 2008 compared to negative RMB18.6 million in 2007, while the Company's gross margin in 2008 was negative 2.4% compared to negative 1.6% in 2007. The decrease in gross profit and margin was mainly due to the significant decrease in sales of both 6-inch and 8-inch wafers resulting from the sharp decline in end-market demand throughout the year attributable to the adverse economic environment, which was partially offset by the reduction of RMB137.6 million in the cost of sales as a result of the decrease of RMB148.8 million in depreciation charges after the recognition of an 8-inch wafer asset impairment for the year ended 31 December 2007.

Operating expenses and operating income

Selling and marketing expenses decreased by 15.0% from RMB8.0 million in 2007 to RMB6.8 million in 2008, primarily due to lower payroll-related expenses and the decline of commission rate.

General and administrative expenses decreased by 24.5% from RMB80.8 million for the year ended 31 December 2007 to RMB61.0 million for the year ended 31 December 2008, primarily due to a reversal of accrued retirement benefits carried forward from previous years to general and administrative expenses for the year ended 31 December 2008, details of which are set out in note 7(1) to the financial statements.

Research and development costs were RMB32.3 million in 2008, down 20.8% from RMB40.8 million in 2007. This was primarily attributable to the reduction of research and development activities as a result of the declining sales.

The Company's operating expenses decreased by 22.8% from RMB129.6 million in 2007 to RMB100.1 million in 2008. As a result, it recorded an operating loss of RMB122.5 million in 2008, compared to an operating loss of RMB148.3 million in 2007.

Other income and finance Costs

The other income was RMB48.6 million in 2008, compared to RMB25.5 million in 2007. In 2008, the Company's other income mainly derived from power outage compensation received, and compensation received for the settlement of arbitration, interest income, scrap sales and net foreign exchange gain. In 2007, the Company's other income mainly comprised interest income, scrap sales and net foreign exchange gain and others.

The Company's finance costs decreased by 51.7% from RMB35.2 million in 2007 to RMB17.0 million in 2008. The substantial decrease in finance costs was primarily attributable to lower interest expense as a result of a continued decrease in the Company's bank loan balance after the advance payment of long-term bank loan.

Other Expenses

The other expenses amounted to RMB146.4 million in 2008, compared to RMB674.2 million in 2007, primarily due to the significant impairment charge against the Company's 8-inch fabrication facilities.

In accordance with International Accounting Standards ("IAS"), in preparing its final accounts for the year ended 31 December 2008, the Company reviewed the carrying value of its 8-inch wafer fabrication 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 carrying amount of the Assets exceeded the recoverable amount of the Assets. Under such circumstances, the Company has been obliged to recognize an impairment charge of RMB145.1 million against the Assets to reflect the decline in economic value of the Assets, which has further reduced its net income in 2008.

Net income

As a result of the foregoing factors, the Company had a net loss of RMB237.1 million for the year ended 31 December 2008, compared to a net loss of RMB840.2 million for the year ended 31 December 2007.

Liquidity and capital resources

The Company's cash and cash equivalents were RMB261.9 million as at 31 December 2008, compared to RMB207.0 million as at 31 December 2007. The Company's net cash inflow from operating activities showed an increase of 8.9% from RMB226.4 million for the year ended 31 December 2007 to RMB246.5 million for the year ended 31 December 2008.

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 RMB20.0 million for the year ended 31 December 2008, compared to RMB27.9 million for the year ended 31 December 2007. The capital expenditure incurred in 2008 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 RMB161.7 million in 2008, compared to net cash outflow of RMB392.2 million in 2007. The net cash outflow of RMB161.7 million represented the net effect of RMB366.7 million for the repayment of bank loans and the new bank loans of RMB205.0 million in 2008.

As at 31 December 2008, the Company's short-term interest-bearing borrowings were RMB188.6 million, of which approximately 58% was denominated in Renminbi ("RMB"), and the remaining 42% was denominated in US dollars.

As at 31 December 2008, the Company's current ratio was 1.28 when compared to 0.99 as at 31 December 2007. The Company's debt to equity ratio as at 31 December 2008 improved to 54.5% from 62.3% as at 31 December 2007.

Employees

As at 31 December 2008, the Company had 1,269 employees. The 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 interest rate fluctuation of LIBOR plus margin. As nearly half of the Company's debts are denominated in US Dollars, its profitability is subject to interest rate exposure arising from fluctuations of US Dollar LIBOR. The Company adopted an interest rate swap for the interest payable on the principal amount of US$10.0 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 functional and reporting currency. A large amount of the Company's revenue and expenditures is denominated in foreign 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 currencies deposit into Renminbi, which might result in exchange loss, ultimately leading to a negative impact on its cash flow. No derivative instruments and hedging activities against Renminbi appreciation were adopted by the Company during the period under review.

Capital commitment

As at 31 December 2008, the Company had capital commitments for property, plant and equipment amounting to RMB22.9 million, of which RMB10.6 million was contracted but not provided for, while the remaining balance of RMB12.3 million was authorised but not contracted for.

OPERATING RESULTS FOR THE THREE MONTHS ENDED 31 DECEMBER 2008

Sales for the three months ended 31 December 2008 was RMB158.7 million, down 37.8% from RMB255.0 million for the three months ended 30 September 2008, due mainly to sharp decrease in sales of 5-inch, 6-inch and 8-inch wafer arising from the deteriorated end-market demand attributable to the global economic recession and a three-week shut-down of its operations at the end of year to conduct annual maintenance in advance.

Gross profit significantly decreased from RMB19.3 million for the three months ended 30 September 2008 to negative RMB57.8 million for the three months ended 31 December 2008. Gross margin for the three months ended 31 December 2008 was negative 36.4%, compared to 7.6% for the three months ended 30 September 2008. The decline in gross margin was attributable to the lower level of capacity utilization rate.

Operating expenses were recorded at RMB15.6 million for the three months ended 31 December 2008, a decrease of 54.7%, compared to RMB34.4 million for the third quarter of 2008. The decrease in operating expenses was mainly attributable to the substantial decrease in general and administrative expenses, and to a lesser extent, in research and development cost and selling and distribution expenses.

The other income for the three months ended 31 December 2008 was RMB4.3 million, compared to RMB6.5 million for the third quarter of 2008. The other income for the fourth quarter of 2008 was mainly generated from interest income and net foreign exchange gain, while the other income in the third quarter was mainly derived from arbitration settlement received, higher interest income and fair value gain on interest rate swap. The finance costs decreased by 11.4%, from RMB3.5 million for the three months ended 30 September 2008 to RMB3.1 million for the three months ended 31 December 2008, which was mainly attributable to lower interest expense as a result of the Company's repayment of long-term loan.

The other expenses for the three months ended 31 December 2008 amounted to RMB146.4 million, primarily due to the significant impairment charges against the Company's 8-inch fabrication facilities.

Collectively, the Company recorded a net loss of RMB218.3 million for the three months ended 31 December 2008, compared to net loss of RMB12.2 million for the three months ended 30 September 2008.

1. Revenue Analysis

For the three months ended 31 December 2008, sales from communication, computer and consumer products were basically in line with the prior quarter.

By Application	4Q08	3Q08	4Q07
Communication	32%	32%	32%
Computer	32%	33%	34%
Consumer	36%	35%	34%

For the three months ended 31 December 2008, sales to the USA, Europe and Asia Pacific accounted for 50%, 34% and 16% of total revenue respectively, compared to 50%, 31% and 19% in the previous quarter.

By Geography	4Q08	3Q08	4Q07
USA	50%	50%	56%
Europe	34%	31%	28%
Asia Pacific	16%	19%	16%

For the three months ended 31 December 2008, sales to IDM and fabless customers accounted for 46% and 54% of total revenue respectively, compared to 43% and 57% in the third quarter of 2008.

By Customer Type	4Q08	3Q08	4Q07
IDM	46%	43%	36%
Fabless	54%	57%	64%

For the three months ended 31 December 2008, sales as a percentage of total revenue from 5-inch, 6-inch and 8-inch wafer were 18%, 53% and 28% respectively, compared to 16%, 54% and 29% in the previous quarter.

By Product	4Q08	3Q08	4Q07
5" wafers	18%	16%	19%
6" wafers	53%	54%	49%
8" wafers	28%	29%	31%
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 twenty-five percentage points from 65% in the previous quarter to 40% for the three months ended 31 December 2008.

Fab	4Q08	3Q08	4Q07
Fab 1/2			
5-inch wafers	39%	59%	67%
6-inch wafers	46%	77%	67%
Fab 3			
8-inch wafers	34%	54%	49%
Overall Capacity Utilization Rate	40%	65%	60%

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 2008 was 154,000 8-inch equivalent wafers, which was the same as that of the previous quarter and that of the fourth quarter of 2007.

Fab (wafers in thousand)	4Q08	3Q08	4Q07
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 2008 was 51 days as compared to 46 days in the third quarter of 2008.

Inventory turnover increased from 84 days for the three months ended 30 September 2008 to 89 days for the three months ended 31 December 2008.

	4Q08	3Q08	4Q07
Trade & Notes Receivables Turnover (days)	51	46	42
Inventory Turnover (days)	89	84	75

4. Capital Expenditure

The amount of capital expenditure for the three months ended 31 December 2008 was RMB1.0 million, which was mainly spent in technical modifications and operational efficiency improvement associated with both 5-inch and 6-inch wafer production facilities.

	4Q08	3Q08	4Q07
(Amount: RMB'000)			
Capex	974	13,051	4,183

PROSPECTS AND FUTURE PLANS

The world economies have entered into a period of severe contraction in 2009, especially as the short-term economic outlook continues to deteriorate, which might result in the semiconductor industry likely set to post a negative growth, eventually leading to continuing weakening semiconductor end-market demand. Therefore, it is expected that the Company will face more serious challenges than ever before in the coming year.

In the face of the increasingly negative macro environment, the Company will strive to improve further its overall efficiency and competitiveness by implementing stringent cost control initiatives, and optimizing its production and operations activities. To this end, the Company will primarily focus on the following aspects going forward:

- Further reduce both production and human resources costs;
- Secure the Company's core and critical business by meeting customers' order demand;
- Jointly develop new business by deepening its strategic alliance with the existing customers to consolidate the Company's market position;
- Expand its market share in Greater China by proactively integrating itself into the fields of science and technology supported and advocated by the Chinese government;
- Improve the efficiency of capital utilization by effectively controlling materials procurement and inventory;
- Better prepare for technology transfer and products qualification by leveraging international IDMs' fab-lite strategy to explore new business opportunities;
- Optimize the human resources structure and improve incentive programs;

Moving forward, the Company will make great efforts to seize every growth opportunity, and strive to improve the operating performances and profitability by creating mutually beneficial partnerships with its customers and providing quality and customized manufacturing solutions. On the other hand, the Company, under leadership of its new management team, will map out its mid-and long-term development plans, thus enabling the Company to achieve its sustainable growth once the global economy emerges from the current recession.

Profiles of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHOU Weiping

Mr. Zhou Weiping, age 42, is an executive Director of the second session of the Company's Board of Directors. Mr. Zhou has been the President and Chief Executive Officer of the Company since 1 September 2008, and has been an executive Director of the Company's Board of Directors since 3 November 2008. Mr. Zhou was the general manager of Shanghai Belling Microelectronics Manufacturing Company Limited prior to his joining the Company.

Mr. Zhou started his career at Shanghai Belling Corporation Limited in 1990. During the period from 1990 to 2003, Mr. Zhou took various roles at Shanghai Belling Corporation Limited with increasing levels of responsibility in wafer fab start-up and management. Mr. Zhou was appointed as the vice president and the general manager of manufacturing business unit in 2003 and subsequently was promoted as the executive vice president of Shanghai Belling Corporation Limited in 2004. From January 2007 to November 2007, Mr. Zhou served as the general manager of Ningbo Shanshan Ulica Solar Technology Developing Company Limited. In December 2007, Mr. Zhou re-joined the group of Shanghai Belling Corporation Limited and was appointed as the general manager of Shanghai Belling Microelectronics Manufacturing Company Limited.

Mr. Zhou received a bachelor of solid state electronics degree from East China Normal University in 1990 and a master of business administration degree from Fudan University in 2000.

Ms. CHENG Jianyu

Ms. Cheng Jianyu, age 51, 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 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.

Profiles of Directors, Supervisors and Senior Management

NON-EXECUTIVE DIRECTORS

Dr. CHEN Jianming

Dr. Chen Jianming, age 55, is a non-executive Director of the second session of the Company's Board of Directors. Dr. Chen has been a non-executive Director and the Chairman of the Company's Board of Directors since 1 August 2008. Dr. Chen has previously worked at Shanghai Truck Transportation Company, Shanghai Jinqiao Export Processing Zone Development Company and General Office of Shanghai National People's Congress Standing Committee. From 2001 to 2003, Dr. Chen served as the Assistant General Manager of Shanghai Chemical Industry Park Development Company Limited, and was subsequently appointed as the Chief Economist in 2003. Dr. Chen has also served as a director of Shanghai Chemical Industrial Park Investment Enterprise Company Limited since 2008. Dr. Chen received a master of business administration degree from Fudan University in 1993, and received a doctor of industrial economics degree from Fudan University in 1998.

Mr. ZHU Jian

Mr. Zhu Jian, age 34, 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. and the Shanghai Waigaoqiao Free Trade Zone Administrative Commission. Mr. Zhu has served as the deputy general manager of Shanghai Chemical Industrial Park Investment Enterprise Company Limited ("SCIPI") since 2001 and has served as director and general manager of SCIP (HK) since 2002. Mr. Zhu also served as secretary of the board of directors of Shanghai Chemical Industry Park Development Company Limited ("SCIPD") from 2003 to 2008. Mr. Zhu has been an assistant to president of SCIPD and a director and general manager of SCIPI since 2005. 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. Christopher Paul BELDEN

Mr. Christopher Paul Belden, age 48, 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 30 September 2008.

Mr. Belden has over 27 years of experience in semiconductor manufacturing and operations. From February 2005 to February 2007, he was Group Vice President of Global Operations for Applied Materials, Inc., a global leader in the semiconductor equipment industry, where he was responsible for volume manufacturing, supply chain management, reliability, quality and worldwide facilities. Mr. Belden was also the executive sponsor for the Applied Materials China Initiative which included the design and construction of an engineering design center and cleanroom in Xi'an, China. Prior to joining Applied Materials, Mr. Belden had a 23-year career at Motorola with increasing levels of responsibility in Operations management, including 3 fab start-ups. His last role in Motorola was Senior Vice President of Global Manufacturing and Operations where he was responsible for all manufacturing, facilities, and supply chain management including internal wafer fabs, assembly and test sites in the US, Scotland, France, Japan, Malaysia and Tianjin, China as well as foundry and subcontract partnerships worldwide.

Mr. Belden is currently Senior Vice President Operations for NXP, the independent semiconductor company founded by Philips. He is responsible for all of NXP's Operations, including Front End and Back End manufacturing, Purchasing, Supply Chain and Quality. In this role, he is part of the NXP executive management team. Mr. Belden also serves on the board of Energy Conversion Devices, an alternative energy company.

Mr. Belden graduated from Alfred University with a bachelor degree in Ceramic Engineering.

Mr. ZHU Peiyi

Mr. Zhu Peiyi, age 44, is a non-executive Director of the second session of the Company's Board of Directors. He has been a non-executive Director and the 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 worked for China Orient Asset Management Corporation Shanghai Office from 2000 and was appointed as the manager of second asset management department in 2004. He joined Shanghai Dongxing Investment Holdings Development Company, a wholly owned subsidiary of China Orient Asset Management Corporation in 2005 and was appointed as the deputy general manager in 2008. 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. SUN Zhen

Mr. Sun Zhen, age 41, 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 3 November 2008. From 1996 to 1997, Mr. Sun was a process integration engineer of the Company. From 1997 to 1999, Mr. Sun served as a customer engineer at Chartered Semiconductor Manufacturing Limited (Singapore). Mr. Sun re-joined the Company in 1999 and took various roles as customer engineering manager, international sales and marketing manager, director of sales and marketing and vice president of sales and marketing of the Company during the period from 1999 to 2007. Mr. Sun has served as the Chief Executive Officer of Shanghai Belling Microelectronics Manufacturing Company Limited since July 2008. Mr. Sun graduated with a bachelor of electrical engineering degree from Fudan University in 1991.

Mr. YEH Yi Liang

Mr. Yeh Yi Liang, age 54, is a non-executive Director of the second session of the Company's Board of Directors. He has been a non-executive Director and the Vice Chairman of the Company's Board of Directors since 30 September 2008.

Mr. Yeh joined Philips Taiwan in 1982 as a System Analyst. When Philips began IC design in 1987, Mr. Yeh was appointed as the IC Design Center Manager. In 1988, Mr. Yeh participated in a joint venture project between Philips and Taiwan Semiconductors Manufacturing Company ("TSMC") by setting up a technical team, transferring process from Philips European fab to TSMC. During 1989 to 1990, Mr. Yeh was transferred to Hamburg Germany, where he took up jobs both in Engineer and Marketing.

In 1991, Mr. Yeh returned to Philips Taipei and with the role of Asia Regional Product Sales Support Manager. He established a System Application team of 40 members providing technical and application support to customers in Asian regions. In 1993, Mr. Yeh was promoted to Product Group Manager, CICT Philips Semiconductors handling business with major clients such as Sony etc. Under the leadership of Mr. Yeh, the business tripled in 1997 and contributed significantly to the company's profit and growth. In 1998, Mr. Yeh was transferred to a Philips' joint-venture to grow the ODM (Original Design Manufacturer) notebook computers business for famous brands. From 1999 to 2001, Mr. Yeh was the president of AMtek Semiconductors Taiwan, which is one of the analog IC design-in houses in Taiwan.

In the end of 2001, Mr. Yeh rejoined Philips Semiconductors as the Business Line General Manager and set up the operation in Shanghai. In April 2007, he was appointed as the Country Manager of NXP China/Hong Kong on the top of Business Line General Manager role. In October same year, Mr. Yeh was appointed as Country Manager Greater China. In April 2008 he was promoted to the current capacity of Senior Vice President and Regional Executive of NXP Semiconductors Greater China.

Mr. Yeh holds a master degree in Systems Engineering at University of Virginia, USA.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James Arthur WATKINS

Mr. James Arthur Watkins, age 63, 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 58, 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 25 years of business experience in Asia. From 1997 to 2002, Mr. Beczak was the 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. From June 2001 until May 2007, Mr. Beczak was a member of the Advisory Committee of the Securities and Futures Commission in 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. from 2005 until 31 March 2008. He is currently the Chairman of Cowen Latitude Asia.

Mr. Beczak is also involved in a number of private companies, including the position of the non-executive Chairman of ACR Capital Holdings Pte Ltd, an Asian reinsurance company headquartered in Singapore the non-executive Chairman of Artisan Du Luxe Holding Limited, the owner of the "John Hardy" jewelry brand. He is also an independent non-executive director of a number of listed companies, including: Namtai Electronic & Electrical Products Limited, Arnhold Holdings Limited, Phoenix Satellite Television and Pacific Online Limited, all headquartered 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 55, is an independent non-executive Director of the second session of the 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 May 2005. Dr. Shen received a master of business administration degree from Leuven University, Belgium in 1987, and a doctor of economics degree from Fudan University in 2000.

SUPERVISORS

Mr. David Siu Kee KIANG

Mr. David Siu Kee Kiang, age 55, 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 September 2008, and the Chairman of the second session of the Company's Supervisory Committee since 21 October 2008.

Mr. Kiang began his career in the field of Information Technology, Auditing & Finance Management in Australia. In 1978, he was appointed as System Analyst of Computer Science of America (Australia) and subsequently was appointed as EDP Audit Manager with N.S.W. State Building Society of Australia in 1982 and Senior Finance & System Manager of Telstra, Australia (formerly Overseas Telecommunication Commission, Australia) in 1984.

After his return to Hong Kong in 1989, Mr. Kiang was appointed as General Manager (Finance & Administration) of Inchcape Pacific Ltd. for three of its subsidiary companies (Gliman Business Systems, Dodwell Business Systems & Repromac Office Systems) managing its Hong Kong & China joint venture business operations.

Mr. Kiang joined Philips Semiconductors Hong Kong in 1998 as Financial Controller. In 2000, he was appointed as Global Sales Operations Controller (Asia) and was posted in Taipei. In 2003, Mr. Kiang was promoted to his current position, the Regional Controller (Greater China) of NXP Semiconductors China, formerly the semiconductors product division of Philips Group and held local general management positions covering Finance, Accounting, Treasury and Information Technology functions.

Mr. Kiang received a bachelor degree in Information Systems & Accounting and a master degree in Economics & Financial Management from Macquarie University of Sydney, Australia. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and Australian Institute of Certified Practicing Accountant and is a member of the Australian Computer Society.

Mr. SHEN Qitang

Mr. Shen Qitang, age 57, 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 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 1997. 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 1982. He has been a senior accountant since 1992 and has been a certified accountant since 1994.

Mr. YANG Yanhui

Mr. Yang Yanhui, age 45, 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 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 the 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 35, 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 50, 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., a director of Hangzhou Miaxis Biometrics Co., Ltd., the vice-chairman of Shanghai Newtouch Software Co., Ltd. and the chairman of Shanghai RFID System Technology Co., Ltd.

Mr. PAN Guojin

Mr. Pan Guojin, age 55, 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. 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. JING Wei

Mr. Jing Wei, age 38, is the joint company secretary and qualified accountant of the Company. Mr. Jing served as the internal audit manager of the Company during the period from May 2006 to May 2008, and was subsequently appointed as the company secretary and qualified accountant of the Company. Mr. Jing has over 12 years of experience in financial reporting, auditing and internal control professions. Mr. Jing joined Ernst & Young, an international accounting firm, in 1997 and was appointed as an audit manager from 2002 to 2004. From 2005 to 2006, he was the finance manager of China headquarters of an overseas public company. Mr. Jing received a bachelor of engineering degree from Shanghai Jiao Tong University in 1993. Mr. Jing is a member of Chinese Institute of Certified Public Accountants and a member of Association of Chartered Certified Accountants.

Mr. Ngai Wai Fung

Mr. Ngai Wai Fung, age 48, 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 Chairman of its 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 Ph.D. (thesis stage) in Finance at Shanghai University of Finance and Economics.

SENIOR MANAGEMENT

Dr. WANG Qingyu

Dr. Wang Qingyu, age 50, is the Vice President of Operations of the Company from 17 November 2008. Prior to joining the Company, Dr. Wang was General Manager of Anadigics China Corporation. Dr. Wang has 18 years semiconductor research and manufacturing experience with 7 years wafer foundry experience in China. He joined Vishay-Siliconix in 1995 and Maxim Integrated Products in 2000, where both companies are semiconductor's companies in the Silicon Valley. He returned to China in 2001 and joined Semiconductor Manufacturing International Corporation in Shanghai where he was promoted to Special Assistant to the Senior Vice President of Operations. Dr. Wang joined Shanghai Belling Co., Ltd. in 2006, where he was the Vice President of Operations. Dr. Wang earned his Ph.D. degree in physical chemistry from Fudan University in 1989. He continued his education and research in the UK, Harvard University and University of Minnesota.

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2008.

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 2008.

Segment information

The Company's revenue and loss for the year ended 31 December 2008 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 2008 and the state of affairs of the Company at that date are set out in the financial statements on pages 52 to 112.

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 2008.

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 pages 35 to 36. 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 2008 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 2008 are set out in note 26 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 2008.

Reserves

Details of movements in the reserves of the Company during the year ended 31 December 2008 are set out in note 27 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 2008, the Company does not have distributable reserves available for distribution.

Charitable donation

The Company made a charitable donation in 2008 for Sichuan earthquake relief in the amount of RMB500,000.

Major customers and suppliers

In the year ended 31 December 2008, sales to the Company's five largest customers accounted for 68% of the total sales for the year and sales to the largest customer included therein amounted to 24%. Purchases from the Company's five largest suppliers accounted for 27% of the total purchases for the year and purchases from the largest supplier accounted for 11%.

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 and suppliers.

DIRECTORS

The directors of the Company during the year ended 31 December 2008 and up to the date of this annual report were:

Executive Directors

Mr. LU Hsueh Cheng (resigned on 1 September 2008)
Mr. ZHOU Weiping (appointed on 3 November 2008)
Ms. CHENG Jianyu

Non-executive Directors

Mr. RUAN Yanhua, Chairman (resigned on 31 July 2008)
Dr. CHEN Jianming, Chairman (appointed on 1 August 2008)
Mr. ZHU Jian
Mr. Petrus Antonius Maria VAN BOMMEL (resigned on 30 September 2008)
Mr. Ajit MANOCHA (resigned on 1 January 2008)
Dr. Hendricus Cornelis Maria VAN DER ZEEUW (appointed on 18 March 2008 and resigned on 30 September 2008)
Mr. YEH Yi Liang (appointed on 30 September 2008)
Mr. Christopher Paul BELDEN (appointed on 30 September 2008)
Mr. ZHU Peiyi
Mr. XIAO Yongji (resigned on 30 October 2008)
Mr. SUN Zhen (appointed on 3 November 2008)

Independent Non-executive Directors

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

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") from Mr. James Arthur WATKINS, Mr. Thaddeus Thomas BECZAK and Dr. SHEN Weijia on 10 February 2009 and still considers them to be independent.

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

There are no changes in the board between the balance sheet date and date of this annual report.

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 2008, 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 Listing Rules.

Substantial shareholders' interests and short positions

As at 31 December 2008, 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%
NXP B.V.	Unlisted foreign shares	12,643,512 (Long position)	Beneficial owner	100%	0.82%
Shanghai Chemical Industrial Park Development Co., Ltd.	H shares	254,866,584 (Long position) *(Note 1)*	Beneficial owner	22.53%	16.61%
China Orient Asset Management Corporation	Domestic shares	179,303,000 (Long position)	Beneficial owner	45.95%	11.69%
Shanghai Chemical Industrial Park Development Co., Ltd.	Domestic shares	122,220,616 (Long position) *(Note 2)*	Beneficial owner	31.32%	7.97%
Shanghai Belling Co., Ltd.	Domestic shares	88,726,400 (Long position)	Beneficial owner	22.74%	5.78%

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 122,220,616 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 2008, 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 2008, 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 2008, 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

General disclosure for the continuing connected transactions conducted during the year ended 31 December 2008

The Company had the following material transactions with NXP B.V. , a connected person of the Company by virtue of being the substantial shareholder of the Company, and its subsidiaries and associates (has the meanings ascribed to them in the Listing Rules) ("NXP Group") during the year ended 31 December 2008:

Types of Transactions	**2008 Actual RMB'000**	**Approved caps 2008 (disclosed in the Company's Prospectus) RMB'000**
Sales	219,533	441,900
Technology transfer fees	7,991	25,600
Information technology ("IT") related service fees	2,520	4,900

Specific disclosure for the continuing connected transactions conducted during the year ended 31 December 2008

Details of the agreements related to the continuing connected transactions conducted during the year ended 31 December 2008 are disclosed as follows: -

(A) Sales

(i) On 1 January 2002, the Company (as the seller) and Philips Semiconductors (as the buyer), the predecessor of a NXP Group member, entered into the Philips Foundry Services Agreement whereby the Company manufactured and sold licensed products and identification products to NXP Group (previously Philips Group) by using the manufacturing process and other design rules and proprietary information provided by Philips Semiconductors for the period from 1 January 1998 to 31 December 2008. Prices for finished semiconductor wafers were initially stated in the agreement and were reviewed quarterly and adjusted by mutual agreement between the parties with reference to the then prevailing materials, supply and process costs and market prices of the products. Prices for good dies (packaged and unpackaged) were agreed separately between the parties.

(ii) On 29 May 2002, the Company (as the seller) and Philips Semiconductors (as the buyer) entered into the Philips Cooperation Agreement whereby the Company manufactured and sold licensed products to NXP Group (previously Philips Group) by using the technology and know-how transferred to the Company by Philips Semiconductors for the period from 1 January 2002 to 31 December 2008. Prices for the licensed products and identification products sold by the Company under the agreement and the payment terms were determined in accordance with the provisions of the Philips Foundry Services Agreement.

(B) Technology Transfer

(i) On 12 January 2005, the Company (as the buyer) and Philips Semiconductors International B.V. (as the supplier), the predecessor of a NXP Group member, entered into the Technology Transfer and Cooperation Agreement for a period of 10 years from 2 March 2004 to 1 March 2014, pursuant to which Philips Semiconductors International B.V. (a) transferred to the Company the relevant knowledge and experience relating to foundry manufacturing service, (b) granted to the Company a license to manufacture at its production facility in the People's Republic of China and sold the licensed products, (c) provided the Company with technical assistance for the manufacture, testing and assembly of licensed products and (d) provided technical training to the Company's engineers. The Company paid a consideration equivalent to 3% of the net selling price of each product the Company sold to the supplier and its other customers.

(ii) On 29 May 2002, the Company (as the buyer) and Royal Philips (as the supplier) entered into the Philips Identification Licensing Agreement whereby Royal Philips granted the Company a non-exclusive and non-transferable license over certain intellectual property rights relating to non-volatile memory and the EEPROM process technology for use in manufacturing the identification products for the period from 1 January 2002 to 31 December 2008. The Company paid a consideration equivalent to 10% of the net selling price of each product the Company produced by using the technology under the agreement and sold to its customers. On 28 September 2006, Royal Philips assigned all the rights and obligations under the agreement to NXP Semiconductors.

(C) IT Related Services

(i) On 6 July 1998, the Company (as the licensee) and Philips Semiconductors (as the licensor) entered into the (Open) ERIC Software License whereby Philips Semiconductors licensed to the Company the use of the (Open) ERIC software for an annual fee of US$75,000 with effect from 1 January 1998. The agreement was then renewed periodically with the same annual fee until 31 December 2008.

(ii) On 10 November 2008, the Company (as the buyer) and NXP Semiconductors (as the supplier), a NXP Group member, entered into the 2008 Service Level Agreement pursuant to which NXP Semiconductors provided the Company with regular maintenance service for the (Open) ERIC software used by the Company for a period of one year from 1 January 2008 to 31 December 2008. The total consideration of such transaction was Euro112,000 (approximately equivalent to RMB1,131,200).

(iii) On 14 May 2008, the Company (as the buyer) and NXP Semiconductors (as the supplier) entered into the 2008 dataPower Services Agreement pursuant to which NXP Semiconductors provided the Company with regular maintenance service for dataPower software used by the Company for a period of one year from 1 January 2008 to 31 December 2008. The total consideration of such transaction was Euro70,000 (approximately equivalent to RMB707,700).

(iv) On 13 March 2006, the Company (as the buyer) and Philips International B.V. (as the supplier), the predecessor of a NXP Group member, entered into the Corporate IT Services Agreement for a term of one year commencing from 1 January 2005 whereby Philips International B.V. offered the Company certain IT services for an annual fee which was determined on arm's length terms and was reviewed at least once a year. The agreement was extended periodically until 31 December 2008. For the year ended 31 December 2008, the total consideration paid/payable by the Company under the agreement was US$23,600 (approximately equivalent to RMB161,500).

Specific disclosure for the IT related continuing connected transactions conducted during the year ended 31 December 2007

As stated in the Company's announcement dated 18 September 2008, details of the following IT related agreements entered into during the year ended 31 December 2007 are disclosed as follows to ensure the Company's due compliance with the relevant reporting requirements of the Listing Rules: -

(i) On 26 October 2007, the Company (as the buyer) and NXP Semiconductors (as the supplier) entered into the 2007 Service Level Agreement pursuant to which NXP Semiconductors provided the Company with regular maintenance service for the Open (ERIC) software used by the Company for a period of one year from 1 January 2007 to 31 December 2007. The total consideration of such transaction was Euro68,975 (approximately equivalent to RMB696,648).

(ii) On 15 November 2007, the Company (as the buyer) and NXP Semiconductors (as the supplier) entered into the 2007 dataPower Services Agreement pursuant to which NXP Semiconductors provided the Company with regular maintenance service for datePower software used by the Company for a period of one year from 1 January 2007 to 31 December 2007. The total consideration of such transaction was Euro67,000 (approximately equivalent to RMB676,700).

Opinion of the independent non-executive directors of the Company

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

Opinion of the Company's Auditors

The Company's Auditors have performed certain agreed-upon procedures on the continuing connected transactions for the year ended 31 December 2008 pursuant to Rule 14A.38 of the Listing Rules and advised the Board in writing with a copy provided to the Stock Exchange that: -

1. the continuing connected transactions have been reviewed by and have received the approvals of the Board of Directors;

2. based on the samples selected, the continuing connected transactions are in accordance with the terms of the relevant agreements governing the transactions signed by the Company and relevant connected parties; the continuing connected transactions involving sales of goods to relevant connected parties are in accordance with the pricing policy of the Company; and

3. the continuing connected transactions have not exceeded the relevant annual cap limit set out in the relevant paragraphs in the Prospectus dated 27 March 2006.

Directors' interests in a competing business

During the year ended 31 December 2008 and up to the date of this annual 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. Christopher Paul BELDEN has been appointed as a non-executive director of the second session of the Board of Directors of the Company with effect from 30 September 2008. He is currently the senior vice president of operations of NXP, which is engaged in the development, design and manufacture of semiconductor products. During his tenure of service with the Company, he is also the chairman of Systems on Silicon Manufacturing Company Pte Ltd, which is an IC foundry engaged in the business of offering semiconductor fabrication solutions.

Mr. YEH Yi Liang 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 30 September 2008. He is currently the senior vice president and regional executive of NXP Semiconductors (Greater China).

Mr. SUN Zhen has been appointed as a non-executive director of the second session of the Board of Directors of the Company with effect from 3 November 2008. He is currently the chief executive officer of Shanghai Belling Microelectronics Manufacturing Company Limited, which is engaged in the design and manufacture (processing) of silicon wafer and sale of integrated circuits.

Since Mr. BELDEN, Mr. YEH and Mr. SUN are not directly involved in managing the Company, the Board is of the view that the Company is capable of carrying on its business independently of, and at arm's length from the competing businesses. When making decisions on the matters related to the Company, Mr. BELDEN, Mr. YEH and Mr. SUN have acted and will continue to act in the best interest of the Company.

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 2009 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

CHEN Jianming
Chairman

Shanghai, the PRC
25 March 2009

Five Years Financial Summary

INCOME STATEMENT

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**932,581**	1,183,076	1,355,193	931,583	1,147,367
Cost of sales	**(955,000)**	(1,201,706)	(1,214,253)	(860,626)	(827,247)
Gross profit/(loss)	**(22,419)**	(18,630)	140,940	70,957	320,120
Selling and distribution costs	**(6,814)**	(8,006)	(9,016)	(7,377)	(11,128)
General and administrative expenses	**(60,979)**	(80,786)	(75,914)	(77,640)	(78,164)
Research and development costs	**(32,284)**	(40,829)	(32,001)	(74,931)	(52,041)
Profit/(loss) from operating activities	**(122,496)**	(148,251)	24,009	(88,991)	178,787
Other income	**48,628**	25,470	37,106	37,397	6,632
Other expenses	**(146,393)**	(674,181)	(224)	0	0
Finance costs	**(16,952)**	(35,220)	(57,922)	(33,427)	(4,934)
Profit/(loss) before income tax	**(237,213)**	(832,182)	2,969	(85,021)	180,485
Income tax (expenses) /credit or refund, net	**130**	(8,017)	974	9,991	2,165
Net profit/(loss) attributable to shareholders	**(237,083)**	(840,199)	3,943	(75,030)	182,650
Dividends	**—**	—	—	—	35,109
Earnings/(loss) per share (RMB) – Basic	**(15.45) cents**	(54.76) cents	0.28 cents	(6.77) cents	16.47 cents

Five Years Financial Summary

BALANCE SHEET

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,139,214**	1,581,938	2,858,819	2,641,903	1,951,902
Total liabilities	**401,773**	607,414	1,044,096	1,461,594	696,563
Net assets / shareholders' equity	**737,441**	974,524	1,814,723	1,180,309	1,255,339

Report on Corporate Governance

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 2008 (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 2007, three months ended 31 March 2008, six months ended 30 June 2008 and nine months ended 30 September 2008 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.

Report on Corporate Governance

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

Executive Directors

Mr. LU Hsueh Cheng (resigned on 1 September 2008)
Mr. ZHOU Weiping (appointed on 3 November 2008)
Ms. CHENG Jianyu

Non-executive Directors

Mr. RUAN Yanhua, Chairman (resigned on 31 July 2008)
Dr. CHEN Jianming, Chairman (appointed on 1 August 2008)
Mr. ZHU Jian
Mr. Petrus Antonius Maria VAN BOMMEL (resigned on 30 September 2008)
Mr. Ajit MANOCHA (resigned on 1 January 2008)
Dr. Hendricus Cornelis Maria VAN DER ZEEUW (appointed on 18 March 2008 and resigned on 30 September 2008)
Mr. YEH Yi Liang (appointed on 30 September 2008)
Mr. Christopher Paul BELDEN (appointed on 30 September 2008)
Mr. ZHU Peiyi
Mr. XIAO Yongji (resigned on 30 October 2008)
Mr. SUN Zhen (appointed on 3 November 2008)

Independent Non-executive Directors

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

Mr. RUAN Yanhua resigned as a non-executive director, the chairman of the Board and the chairman of the Remuneration Committee of the Company on 31 July 2008 due to his retirement. Dr. CHEN Jianming was elected as a non-executive director of the second session of the Board by the Company's extraordinary general meeting held on 1 August 2008. Dr. CHEN Jianming was subsequently appointed as the chairman of the Board and the chairman of the Remuneration Committee by the Board of the Company on the same date.

Mr. LU Hsueh Cheng resigned as an executive director, the president and the chief executive officer of the Company on 1 September 2008 to pursue other interests. Mr. ZHOU Weiping was elected as an executive director of the second session of the Board by the Company's extraordinary general meeting held on 3 November 2008.

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.

Mr. Petrus Antonius Maria VAN BOMMEL resigned as a non-executive director of the Company with effect from 30 September 2008 due to his decision to step down as the chief financial officer and a member of the board of management of NXP B.V. and to leave NXP B.V.. Dr. Hendricus Cornelis Maria VAN DER ZEEUW resigned as a non-executive director of the Company with effect from 30 September 2008 due to his decision to step down as the chief operations and a member of the board of management of NXP B.V. and to leave NXP B.V.. Mr. YEH Yi Liang and Mr. Christopher Paul BELDEN each was elected as a non-executive director of the second session of the Board by the Company's extraordinary general meeting held on 30 September 2008.

Mr. XIAO Yongji resigned as a non-executive director of the Company with effect from 30 October 2008 due to the change of job duties. Mr. SUN Zhen was elected as a non-executive director of the second session of the Board by the Company's extraordinary general meeting held on 3 November 2008.

All directors (with the exception of the executive directors) are non-executive directors 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 four extraordinary general meetings on 18 March 2008, 1 August 2008, 30 September 2008 and 3 November 2008 respectively, for the purpose of election of filling the vacancies caused by the resignation of Mr. Ajit MANOCHA, Mr. RUAN Yanhua, Mr. LU Hsueh Cheng, Mr. Petrus Antonius Maria VAN BOMMEL, Dr. Hendricus Cornelis Maria VAN DER ZEEUW and Mr. XIAO Yongji.

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 post of the chairman of the Board was held by Mr. RUAN Yanhua (prior to 31 July 2008) and Dr. CHEN Jianming (subsequent to 1 August 2008), and the post of the president (as head of the executive management) was held by Mr. LU Hsueh Cheng (prior to 1 September 2008) and Mr. ZHOU Weiping (subsequent to 1 September 2008). 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

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 (prior to 30 September 2008), Mr. Christopher Paul BELDEN (subsequent to 30 September 2008) 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 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's 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 2007, for the three months ended 31 March 2008, for the six months ended 30 June 2008 and for the nine months ended 30 September 2008, 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

The Remuneration Committee of the second session (from 2 March 2007 to 1 March 2010) of the Board comprises Mr. RUAN Yanhua (chairman, prior to 31 July 2008), Dr. CHEN Jianming (chairman, subsequent to 1 August 2008), Mr. James Arthur WATKINS and Dr. SHEN Weijia.

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's 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 three correspondence meetings and performed, amongst other things, the following work:

(1) review and approval of the year 2008 performance appraisal targets and management bonuses ranges for senior officers;

(2) review and approval of termination packages for resigned senior officers; and

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

Table 1

Directors	Meetings Attended / Held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. LU Hsueh Cheng	3/3		
Mr. ZHOU Weiping	1/1		
Ms. CHENG Jianyu	4/4		
Non-executive Directors			
Mr. RUAN Yanhua	0/2		
Dr. CHEN Jianming	2/2		3/3
Mr. ZHU Jian	4/4		
Mr. Petrus Antonius Maria VAN BOMMEL	2/3	2/3	
Dr. Hendricus Cornelis Maria VAN DER ZEEUW	1/3		
Mr. Christopher Paul BELDEN	1/1	1/1	
Mr. YEH Yi Liang	1/1		
Mr. ZHU Peiyi	3/4	3/4	
Mr. XIAO Yongji	3/3		
Mr. SUN Zhen	1/1		
Independent Non-executive Directors			
Mr. Thaddeus Thomas BECZAK	4/4	4/4	
Mr. James Arthur WATKINS	4/4	4/4	3/3
Dr. SHEN Weijia	3/4	1/4	3/3

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, total remuneration paid or payable to Ernst & Young, amounting to RMB1,700,000, was related to their audit services.

Table 2

Audit services	RMB1,700,000
Non-audit services	—
Total	RMB1,700,000

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, 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 the Reporting Period and up to the date of this annual report, the internal audit department conducted reviews of internal control systems, both at the entity level and also the various processes/transactions levels, 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 2008, 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 supervisors of the Supervisory Committee during the year ended 31 December 2008 and up to the date of this annual report were:

Shareholder Representative Supervisors

Mr. YEH Yi Liang (resigned on 30 September 2008)
Mr. David Siu Kee KIANG (appointed on 30 September 2008)
Mr. MANG Waikin (resigned on 15 December 2008)
Mr. SHEN Qitang
Mr. YANG Yanhui
Ms. CHEN Yan
Mr. GUO Yiwu

Employee Representative Supervisor

Mr. PAN Guojin

Mr. YEH Yi Liang resigned as a supervisor and the chairman of the Supervisory Committee on 30 September 2009 due to the intention of NXP B.V. to propose him for election of a director of the Company and his willingness to be elected. Mr. David Siu Kee KIANG was elected as a shareholder representative supervisor of the second session of the Supervisory Committee by the Company's extraordinary general meeting held on 30 September 2008, and was subsequently appointed as the chairman of the second session of the Supervisory Committee on 21 October 2008.

Mr. MANG Waikin resigned as a shareholder representative supervisor of the Supervisory Committee with effect from 15 December 2008 due to his decision to step down as the senior vice president and regional sales manager of NXP B.V. and to leave NXP B.V.. The Board will propose one supervisor candidate to fill the vacancy caused by his resignation for approval by shareholders in a general meeting in due course.

Report of the Supervisory Committee

During the year ended 31 December 2008, the Supervisory Committee held two meetings as follows:

At the third meeting of the second session of the Supervisory Committee held on 31 March 2008, the Supervisory Committee reviewed and approved the audited financial statements for the year ended 31 December 2007 prepared in accordance with IFRS and PRC GAAP, the preliminary results announcement and annual report (including the Report of the Supervisory Committee) for the year ended 31 December 2007, the profit distribution proposal for the year ended 31 December 2007, and the proposed appointment and terms of engagement of the Company's PRC and international auditors for 2008.

At the fourth meeting of the second session of the Supervisory Committee held on 22 August 2008, the Supervisory Committee reviewed and approved the financial statements, the preliminary results announcement and interim report for the six months ended 30 June 2008.

The independent opinions of the Supervisory Committee on its work during the year ended 31 December 2008 are summarised as follows:

1/ The Supervisory Committee reviewed the Company's financial statements and interim report for the six months ended 30 June 2008 and financial statements and annual report for the year ended 31 December 2007 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 monitored the discharge of duties by the directors and managers and is of the view that during the year ended 31 December 2008, 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 had 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 the Articles of Association of the Company 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

David Siu Kee KIANG
Chairman

Shanghai, the PRC
25 March 2009

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 52 to 112, which comprise the balance sheet as at 31 December 2008 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 2008, 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
25 March 2009

Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	5	**932,581**	1,183,076
Cost of sales		**(955,000)**	(1,201,706)
Gross loss		**(22,419)**	(18,630)
Selling and distribution costs		**(6,814)**	(8,006)
General and administrative expenses		**(60,979)**	(80,786)
Research and development costs		**(32,284)**	(40,829)
Loss from operating activities		**(122,496)**	(148,251)
Other income	6	**48,628**	25,470
Other expenses	6	**(146,393)**	(674,181)
Finance costs	7	**(16,952)**	(35,220)
Loss before income tax	7	**(237,213)**	(832,182)
Income tax credit/(expense)	10	**130**	(8,017)
Net loss attributable to ordinary equity holders of the Company		**(237,083)**	(840,199)
Dividends	11	**—**	—
Loss per share attributable to ordinary equity holders of the Company -Basic	12	**(15.45) cents**	(54.76) cents

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

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	13	**579,405**	926,022
Construction in progress	14	**731**	3,101
Land lease prepayments	15	**34,316**	35,085
Intangible assets	16	**10,687**	14,530
Total non-current assets		**625,139**	978,738
Current assets			
Inventories	17	**156,220**	234,507
Accounts and notes receivables	18	**41,168**	83,778
Prepayments, deposits and other receivables	19	**16,358**	42,108
Other financial asset	20	**10,000**	—
Due from related companies	21	**28,442**	35,812
Cash and cash equivalents	22	**261,887**	206,995
Total current assets		**514,075**	603,200
Total assets		**1,139,214**	1,581,938
Current liabilities			
Accounts payable	23	**122,108**	171,680
Accrued liabilities and other payables		**47,519**	81,056
Due to related companies	21	**43,456**	4,165
Interest-bearing borrowings	24	**188,598**	350,291
Total current liabilities		**401,681**	607,192
Net current assets/(liabilities)		**112,394**	(3,992)

	Notes	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Deferred tax liability	25	**92**	222
Net assets		**737,441**	974,524
Capital and reserves			
Registered and paid-up capital	26	**1,534,227**	1,534,227
Reserves	27	**(796,786)**	(559,703)
Shareholders' equity		**737,441**	974,524

Zhou Weiping
Director

Cheng Jianyu
Director

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

Statement of Changes in Equity

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Registered and paid-up capital	26		
Ordinary shares of RMB1.00 each:			
At beginning and end of year		**1,534,227**	1,534,227
Capital reserve	27 (a)		
At beginning and end of year		**205,363**	205,363
Statutory surplus reserve	27 (b)		
At beginning and end of year		**19,353**	19,353
(Accumulated losses)/retained earnings	27 (c)		
At beginning of year		**(784,419)**	55,780
Net loss for the year		**(237,083)**	(840,199)
At end of year		**(1,021,502)**	(784,419)
Reserves		**(796,786)**	(559,703)
Shareholders' equity		**737,441**	974,524

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

Cash Flow Statement

Year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Cash flows from operating activities		
Loss before income tax	**(237,213)**	(832,182)
Adjustments for:		
Depreciation	**222,973**	384,153
Amortisation of intangible assets	**3,843**	3,837
Amortisation of land lease prepayments	**769**	769
Loss on disposal of property, plant and equipment	**835**	520
Impairment loss on property, plant and equipment	**145,143**	653,496
Allowance for doubtful debts	**9,056**	—
Allowance for inventories	**16,609**	7,523
Loss on interest rate swaps	**750**	3,018
Finance costs	**16,952**	35,220
Interest income	**(4,635)**	(11,644)
Operating profit before working capital changes	**175,082**	244,710
Decrease in accounts and notes receivables	**33,554**	54,024
Decrease in inventories	**61,678**	19,799
Decrease/(increase) in prepayments, deposits and other receivables	**25,816**	(30,955)
Increase/(decrease) in balances due to related companies	**46,661**	(8,245)
Decrease in accounts payable	**(49,572)**	(22,664)
Decrease in accrued liabilities and other payables	**(30,868)**	(5,542)
Cash flows from operations	**262,351**	251,127
Interest paid	**(19,915)**	(43,761)
Interest received	**4,258**	17,102
(Payments)/receipts on interest rate swaps	**(145)**	1,913
Net cash inflow from operating activities	**246,549**	226,381

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

Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from investing activities			
Acquisition of property, plant and equipment, construction in progress and intangible assets		**(19,964)**	(27,933)
Proceeds from disposal of property, plant and equipment		**—**	3,792
Increase in other financial asset		**(10,000)**	—
Net cash outflow from investing activities		**(29,964)**	(24,141)
Cash flows from financing activities			
Share issue expenses		**—**	(696)
New bank loans		**205,038**	255,074
Repayment of bank loans		**(366,731)**	(646,610)
Net cash outflow from financing activities		**(161,693)**	(392,232)
Net increase/(decrease) in cash and cash equivalents		**54,892**	(189,992)
Cash and cash equivalents at beginning of year		**206,995**	396,987
Cash and cash equivalents at end of year		**261,887**	206,995
Analysis of balances of cash and cash equivalents			
Cash and bank balances	22	**71,659**	77,495
Non-pledged time deposits	22	**190,228**	129,500
		261,887	206,995

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 2006, the Company's H shares were successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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

2. 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. The financial statements are prepared in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB '000") except when otherwise stated.

The financial statements of the Company for the year ended 31 December 2008 have been prepared on a going concern basis because the Company believes that the Company has sufficient cash flows from operations and banking facilities 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.

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

Impact of new and revised IFRSs

The Company has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

IFRIC-Int 11	IFRS 2 – *Group and Treasury Share Transactions*
IFRIC-Int 12	*Service Concession Arrangements*

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRIC-Int 11 IFRS 2 – *Group and Treasury Share Transactions*

IFRIC-Int 11 requires arrangements whereby an employee is granted rights to the Company's equity instruments to be accounted for as an equity-settled scheme, even if the Company buys the instruments from another party, or the shareholders provide the equity instruments needed. As the Company currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Company.

(b) IFRIC-Int 12 *Service Concession Arrangements*

IFRIC-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. The Company is not such an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Company.

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, that have been issued but are not yet effective in these financial statements.

IAS 1 (Revised) Presentation of Financial Statements[1]
IAS 32 and IAS 1 Amendments Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 Amendment Share-based Payment—Vesting Conditions and Cancellations[1]
IFRS 3 (Revised) Business Combinations[2]
IAS 27 (Revised) Consolidated and Separate Financial Statements[2]
IFRS 8 Operating Segments[1]
IAS 23 (Revised) Borrowing Costs[1]
IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures—Reclassification of Financial Assets (Amendments)[3]
IFRIC-Int 13 Customer Loyalty Programmes[3]
IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]
IFRIC 15 Agreements for the Construction of Real Estate[1]
IFRIC 16 Hedges of a Net Investment in a Foreign Operation[4]
IFRIC 17 Distributions of Non-cash Assets to Owners[2]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008

The revised IAS 1 was issued in September 2007. The standard 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 recognized in profit or loss, together with all other items of recognized 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.

Amendments to IAS 32 and IAS 1 were issued in February 2008. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company does not expect these amendments to impact the financial statements of the Company.

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

Impact of issued but not yet effective IFRSs (Continued)

IFRS 2 Amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Company has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

The revised IFRS 3 and IAS 27 were issued in January 2008. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 8, which will replace IAS 14 Segment reporting, specifies how an entity should report information about its operating segments, based on information about the components of the equity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Company operate, and revenue from the Company's major customers. The Company expects to adopt IFRS 8 from 1 January 2009. The revised standard will not have a material effect on the segment identification of the Company.

IAS 23 has been revised to require capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Company's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Company.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets (Amendments) has been issued to allow reclassifications of certain financial instruments from held for trading and available for sale categories. The Company expects to adopt this revised standard from 1 July 2008. The revised standard will not have a material financial effect on the Company.

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

Impact of issued but not yet effective IFRSs (Continued)

IFRIC-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Company currently has no customer loyalty award credits, IFRIC-Int 13 is not applicable to the Company and therefore is unlikely to have any financial impact on the Company.

IFRIC 14 addresses the assessment of the limit, under IAS 19 Employee Benefits, on the amount of the surplus that can be recognised as an asset particularly when a minimum funding requirement exists. As the Company currently has no such employee benefit arrangement, IFRIC 14 is not applicable to the Company and therefore is unlikely to have any financial impact on the Company.

IFRIC 15 provides guidance to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue. As the Company currently has no construction of real estate, IFRIC 15 is not applicable to the Company and therefore is unlikely to have any financial impact on the Company.

IFRIC 16 provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. As the Company currently has no hedges of foreign currency gains and losses on a net investment in a foreign operation, IFRIC 16 is not applicable to the Company and therefore is unlikely to have any financial impact on the Company.

IFRIC 17 provides guidance on accounting for non-cash asset distributions to shareholders, including those distributions that provide shareholder with an option to receive non-cash assets or cash. The Interpretation provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so. This interpretation is applied prospectively, and would therefore affect any future non-cash distributions to shareholders.

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 least 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. If such an indication exists, the recoverable amount is estimated. 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 an 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 2008 and 31 December 2007.

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.

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.

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

Derecognition of financial assets *(Continued)*

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.

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.

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

Financial liabilities at amortised cost

Financial liabilities including accounts and other payables and amounts due to related parties are initially stated at fair value less directly attributable transaction costs and 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. The related interest expense is recognised within finance costs in the income statement.

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

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.

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.

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

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.

Foreign currency transactions

The functional and presentation currency of the Company is 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.

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

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.

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.

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

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 Company 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION *(Continued)*

Judgements *(Continued)*

(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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION *(Continued)*

Estimation uncertainty *(Continued)*

(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:

	2008	2007
	RMB'000	RMB'000
United States of America	**457,381**	642,742
Europe	**297,261**	308,154
Asia	**177,939**	232,180
	932,581	1,183,076

5. REVENUE

	2008 RMB'000	2007 RMB'000
Sale of goods	**932,340**	1,182,667
Others	**241**	409
	932,581	1,183,076

6. OTHER INCOME AND OTHER EXPENSES

	2008 RMB'000	2007 RMB'000
Other income		
Power outage compensation received (1)	**33,410**	—
Compensation received for the settlement of arbitration (note 31(b))	**5,132**	—
Interest income	**4,635**	11,644
Scrap sales	**2,750**	562
Net foreign exchange gain and others	**2,701**	13,264
	48,628	25,470

	2008 RMB'000	2007 RMB'000
Other expenses		
Loss arising from power failure (1)	**—**	(17,667)
Loss on interest rate swaps	**(750)**	(3,018)
Impairment loss on property, plant and equipment (2)	**(145,143)**	(653,496)
Donation	**(500)**	—
	(146,393)	(674,181)

6. OTHER INCOME AND OTHER EXPENSES *(Continued)*

Note:

(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.

After deducting initial compensation of RMB25,000,000 received/receivable from the insurance company, the loss resulting from the damage amounting to RMB17,667,000 was recognised as other expenses for the year ended 31 December 2007. During the year ended 31 December 2008, the Company received further compensation of RMB43,500,000 from the insurance company after rounds of negotiations. The compensation received after deducting further losses noted in the year ended 31 December 2008 was recognised as other income for the year ended 31 December 2008.

(2) Impairment loss on property, plant and equipment

The Company recognised an impairment loss of RMB145,143,000 (2007: 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.

During the year ended 31 December 2007, 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. There was no further provision of impairment loss for the idle tools made during the year ended 31 December 2008.

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

7. LOSS BEFORE INCOME TAX

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

	2008	2007
	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	**10,985**	16,789
Accommodation benefits (note 9)		
- defined contribution fund	**4,009**	4,327
Salaries and other staff costs	**151,936**	164,222
Reversal of retirement benefits payable (1)	**(23,503)**	—
	143,427	185,338
Interest on bank loans	**16,952**	35,220
Depreciation	**222,973**	384,153
Amortisation of intangible assets	**3,843**	3,837
Amortisation of land lease prepayments	**769**	769
Auditors' remuneration	**1,700**	1,550
Impairment loss on property, plant and equipment	**145,143**	653,496
Loss on disposal of property, plant and equipment	**835**	520
Allowance for doubtful debts	**9,056**	—
Allowance for inventories	**16,609**	7,523

Note:

(1) Reversal of retirement benefits payable

In previous years, the Company accrued the retirement benefits according to the then prevailing regulations but paid according to the amount verbally agreed with the Labour and Social Security Bureau (the "Bureau") on monthly basis. The balance accrued but unpaid remained in other payables and amounted to RMB23,503,000 as at 31 December 2008. On 10 February 2009, the Company obtained written confirmation from the Bureau confirming that the Company has fully paid the retirement benefits since 1993 when the Company first registered with the Bureau up to January 2009, on regular basis with no underpayment noted. As such, the Company has reversed the accrual of retirement benefits carried forward from previous years to general and administrative expenses for the year ended 31 December 2008.

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

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

	2008 RMB'000	2007 RMB'000
Fees	**2,728**	2,862
Other emoluments for executive directors and supervisors:		
- Basic salaries and other benefits	**3,467**	4,652
- Non-discretionary bonuses paid and payable	**426**	586
- Retirement contributions	**52**	38
- Compensation for loss of office	**1,396**	—
	5,341	5,276
	8,069	8,138

(a) Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
James Arthur Watkins	**220**	234
Thaddeus Thomas Beczak	**220**	234
Shen Weijia	**220**	234
	660	702

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	Compensation for loss of office RMB'000	Total remuneration RMB'000
2008						
Executive directors:						
Mr. Hsueh Cheng Lu*	—	1,723	188	—	1,396	3,307
Mr. Zhou Weiping	—	361	—	8	—	369
Ms. Cheng Jianyu	—	1,214	211	22	—	1,447
	—	3,298	399	30	1,396	5,123
Non-executive directors:						
Mr. Ruan Yanhua*	103	—	—	—	—	103
Mr. Chen Jianming	73	—	—	—	—	73
Mr. Zhu Jian	176	—	—	—	—	176
Mr. Zhu Peiyi	176	—	—	—	—	176
Mr. Xiao Yongji*	147	—	—	—	—	147
Mr. Sun Zhen	29	—	—	—	—	29
Mr. Hendricus Cornelis Maria Van Der Zeeuw*	95	—	—	—	—	95
Mr. Petrus Antonius Maria Van Bommel*	132	—	—	—	—	132
Mr. Christopher Paul Belden	44	—	—	—	—	44
Mr. Yeh Yi Liang	176	—	—	—	—	176
	1,151	—	—	—	—	1,151

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	Compensation for loss of office RMB'000	Total remuneration RMB'000
Supervisors:						
Mr. Shen Qitang	176	—	—	—	—	176
Mr. Yang Yanhui	176	—	—	—	—	176
Mr. David Siu Kee Kiang	44	—	—	—	—	44
Mr. Mang Wai Kin*	169	—	—	—	—	169
Mr. Guo Yiwu	176	—	—	—	—	176
Ms. Chen Yan	176	—	—	—	—	176
Mr. Pan Guojin	—	169	27	22	—	218
	917	169	27	22	—	1,135
	2,068	3,467	426	52	1,396	7,409

* These directors and supervisor have resigned during the year ended 31 December 2008.

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					
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
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. Yeh Yi Liang	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

* These directors and supervisors have resigned during the year ended 31 December 2007.

There was no arrangement which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals in the Company include two (2007:three) executive directors for the year ended 31 December 2008, details of whose emoluments have been disclosed above.

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

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

The details of the emoluments of the remaining three (2007: two) highest paid individuals are as follows:

	2008 **RMB'000**	2007 RMB'000
Basic salaries and other benefits	**3,455**	2,041
Non-discretionary bonuses paid and payable	**880**	399
Retirement contributions	**—**	32
Compensation for loss of office	**1,532**	—
	5,867	2,472

The number of the three (2007: two) non-director, highest paid employees, whose remuneration fell within the following bands, is as follows:

	2008	2007
HK$1,000,001 - HK$1,500,000	**—**	2
HK$1,500,001 - HK$2,000,000	**2**	—
HK$2,000,001 - HK$2,500,000	**—**	—
HK$2,500,001 - HK$3,000,000	**1**	—
	3	2

During the years ended 31 December 2007 and 2008, no emoluments were paid by the Company to the directors, supervisors or three (2007: two) non-director highest paid employees of the Company as an inducement to join or upon joining the Company . During the year ended 31 December 2008, compensation for loss of office was paid to a director and two non-director highest paid employees of the Company amounted to RMB1,396,000 and RMB1,532,000, respectively (2007: Nil).

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 2007 and 2008.

In accordance with the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, the provision for Mainland China current income tax has been based on a statutory rate of 25% of the assessable profits of the Company for the year. However, the Company qualifies as "High and New Technology Enterprise" and thus was granted a preferential rate of 15% from 1 January 2008 to 31 December 2010 (2007: 7.5%). During the years ended 31 December 2007 and 2008, no provision for PRC corporate income tax has been made as the Company was still in a tax loss position.

10. INCOME TAX *(Continued)*

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

	2008 **RMB'000**	2007 RMB'000
Provision for income tax in respect of profit for the year	**—**	—
Deferred tax (credit)/expense	**(130)**	8,017
Income tax (credit)/expense	**(130)**	8,017

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

	2008 **RMB'000**	2007 RMB'000
Loss before income tax	**(237,213)**	(832,182)
Tax at applicable tax rate of 15% (2007:7.5%)	**(35,582)**	(62,414)
Tax effect of:		
- Expenses not deductible for tax purpose	**34**	1,802
- Temporary difference not recognised for the current period	**3,970**	49,014
- Taxable loss not recognised for the current period	**31,448**	11,820
- Reversal of previously recognised deferred tax assets	**—**	7,795
Income tax (credit)/expense	**(130)**	8,017

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 2008 (31 December 2007: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

	2008	2007
Loss attributable to ordinary equity holders of the Company (RMB'000)	**(237,083)**	(840,199)
Weighted average number of ordinary shares in issue ('000)	**1,534,227**	1,534,227

Diluted loss 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 2007 and 2008.

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 2008:					
Cost:					
At 1 January 2008	156,269	3,637,686	72,010	3,230	3,869,195
Additions	28	2,392	119	158	2,697
Transferred from construction in progress	—	19,267	370	—	19,637
Disposals	—	(8,036)	(73)	(60)	(8,169)
At 31 December 2008	156,297	3,651,309	72,426	3,328	3,883,360
Accumulated depreciation:					
At 1 January 2008	33,836	2,207,701	45,472	2,668	2,289,677
Charge for the year	5,209	207,982	9,519	263	222,973
Disposals	—	(6,338)	(68)	(60)	(6,466)
At 31 December 2008	39,045	2,409,345	54,923	2,871	2,506,184
Accumulated impairment losses:					
At beginning of year	—	653,496	—	—	653,496
Charge for the year	—	145,143	—	—	145,143
Disposals	—	(868)	—	—	(868)
At end of year	—	797,771	—	—	797,771
Net book value:					
At 31 December 2008	117,252	444,193	17,503	457	579,405

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 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 construction in progress	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

The Company's buildings, plant and machinery with a net book value of RMB561,445,000 at 31 December 2008 (31 December 2007: RMB898,922,000) were pledged to banks as security for the bank loans amounting to US$25,502,800 (equivalent to approximately RMB186,288,000). The Company has repaid all the related bank loans during the year ended 31 December 2008, and after the balance sheet date the pledge of buildings , plant and equipment was released by the banks.

As at 31 December 2008, the Company is in the process of applying certificates of real estate ownership from the relevant PRC government authorities for buildings with carrying amount of RMB21,246,000 (31 December 2007: RMB47,878,000).

14. CONSTRUCTION IN PROGRESS

	2008 **RMB'000**	2007 RMB'000
At beginning of year	**3,101**	1,929
Additions	**17,267**	22,544
Transferred to property, plant and equipment	**(19,637)**	(21,372)
At end of year	**731**	3,101

The Company's construction in progress with a net book value of RMB731,000 at 31 December 2008 (31 December 2007: RMB3,101,000) was pledged to banks as security for the bank loans amounting to US$25,502,800 (equivalent to approximately RMB186,288,000). The Company has repaid all the related bank loans during the year ended 31 December 2008, and after the balance sheet date the pledge of construction in progress was released by the banks.

15. LAND LEASE PREPAYMENTS

	2008 **RMB'000**	2007 RMB'000
Carrying amount:		
At beginning of year	**35,854**	36,623
Amortisation for the year	**(769)**	(769)
At end of year	**35,085**	35,854
Current portion included in prepayments, deposits and other receivables	**(769)**	(769)
Non-current portion	**34,316**	35,085

The Company's land lease prepayments with a net book value of RMB35,085,000 at 31 December 2008 (31 December 2007: RMB35,854,000) were pledged to banks to secure the bank loans amounting to US$25,502,800 (equivalent to approximately RMB186,288,000). The Company has repaid all the related bank loans during the year ended 31 December 2008, and after the balance sheet date the pledge of land lease prepayments was released by the banks.

16. INTANGIBLE ASSETS

	2008 **RMB'000**	2007 RMB'000
Cost:		
At beginning of year	**21,858**	21,050
Addition	**—**	808
At end of year	**21,858**	21,858
Accumulated amortisation:		
At beginning of year	**(7,328)**	(3,491)
Amortisation for the year	**(3,843)**	(3,837)
At end of year	**(11,171)**	(7,328)
Net book value	**10,687**	14,530

The intangible assets are computer software.

17. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**63,933**	86,963
Spare parts and consumables	**71,268**	70,645
Work in progress	**50,626**	78,445
Finished goods	**26,199**	47,587
	212,026	283,640
Less: Allowance for inventories	**(55,806)**	(49,133)
	156,220	234,507
Represented by:		
Inventories carried at cost	**67,999**	182,635
Inventories carried at net realisable value	**88,221**	51,872
	156,220	234,507
Analysis of allowance for inventories:		
At beginning of year	**49,133**	41,610
Provided for the year	**33,277**	24,996
Utilised for the year	**(16,668)**	(17,473)
Written off for the year	**(9,936)**	—
At end of year	**55,806**	49,133

18. ACCOUNTS AND NOTES RECEIVABLES

	2008 RMB'000	2007 RMB'000
Accounts receivable	**44,859**	82,300
Notes receivables	**5,365**	1,478
	50,224	83,778
Allowance for accounts and notes receivables	**(9,056)**	—
	41,168	83,778

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

An aged analysis of the accounts and notes receivable as at 31 December 2008 is as follows:

	2008 RMB'000	2007 RMB'000
Outstanding balances with ageing:		
Within 30 days	**38,615**	56,963
Between 31 and 90 days	**408**	16,947
Between 91 and 180 days	**1,919**	7,333
Between 181 and 365 days	**226**	2,535
	41,168	83,778

Movements in the allowance for impairment of accounts and notes receivables were as follows:

	2008 RMB'000	2007 RMB'000
At beginning of year	**—**	—
Impairment losses recognised	**9,056**	—
At end of year	**9,056**	—

18. ACCOUNTS AND NOTES RECEIVABLES *(Continued)*

As at 31 December 2007 and 2008, the analysis of accounts and notes 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**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008	**41,168**	**35,216**	**3,699**	**2,253**	**—**
31 December 2007	83,778	62,861	11,070	9,683	164

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in the credit quality of those customers and that the balances are still considered fully recoverable. The Company does not hold any collateral or other credit enhancements over these balances.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2008	2007
	RMB'000	RMB'000
Prepayments	**2,352**	1,885
Deposits	**107**	126
Insurance compensation receivable	**—**	25,000
VAT receivable	**10,083**	9,858
Sundry debtors	**3,816**	5,239
	16,358	42,108

20. OTHER FINANCIAL ASSET

On 6 August 2008, the Company invested RMB10,000,000 in a short-term investment plan run by Bank of Communications for a fixed period of eleven months. The investment plan guaranteed a fixed return of 5.9% per annum. The Company is not allowed to withdraw the money invested prior to its maturity.

21. BALANCES WITH RELATED COMPANIES

The Company was under the significant influence of NXP B.V., which held more than 27.47% of the equity interest of the Company. 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

	2008 **RMB'000**	2007 RMB'000
Cash and bank balances	**71,659**	77,495
Time deposits	**190,228**	129,500
	261,887	206,995

The time deposits at 31 December 2007 and 2008 are non-pledged, and have varying periods between three to six months depending on the immediate cash requirements of the Company.

23. ACCOUNTS PAYABLE

	2008 RMB'000	2007 RMB'000
Outstanding balances with ageing:		
Within 30 days	**101,868**	146,669
Between 31 and 90 days	**13,245**	12,978
Between 91 and 180 days	**3,278**	6,361
Between 181 and 365 days	**1,302**	1,147
Over 365 days	**2,415**	4,525
	122,108	171,680

24. INTEREST-BEARING BORROWINGS

	2008		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans repayable within one year:			
- Unsecured	**4.78~6.78**	**2009**	**188,598**
Total			**188,598**

	2007		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans repayable within one year:			
- Unsecured	5.02~6.90	2008	164,003
- Secured	6.14~6.58	2008	186,288
Total			350,291

24. INTEREST-BEARING BORROWINGS *(Continued)*

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

The Company's buildings, plant and machinery, construction in progress, and land lease prepayments with a net book value of RMB561,445,000, RMB731,000 and RMB35,085,000, respectively, at 31 December 2008 (31 December 2007: RMB898,922,000, RMB3,101,000 and RMB35,854,000, respectively) were pledged to banks as security for the bank loans amounting to US$25,502,800 (equivalent to approximately RMB186,288,000). The Company has repaid all the related bank loans during the year ended 31 December 2008, and after the balance sheet date the pledge of buildings, plant and machinery, construction in progress, and land lease prepayments was released by the banks.

25. DEFERRED TAX LIABILITY

	2008	2007
	RMB'000	RMB'000
Deferred tax liability in respect of		
- Depreciation charges	**92**	222
	92	222

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

	2008	2007
	RMB'000	RMB'000
Tax losses	**408,097**	198,445
Temporary differences due to impairment of plant and machinery	**649,321**	653,495
Fair value loss on interest rate swaps	**639**	402
Provisions	**67,212**	51,927
	1,125,269	904,269

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.

26. REGISTERED AND PAID-UP CAPITAL

	Notes	**31 December 2008 Number of shares '000**	31 December 2007 Number of shares '000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Registered		**1,534,227**	1,534,227	**1,534,227**	1,534,227
Issued and fully paid:					
Non-listed foreign shares	(a)	**12,643**	33,272	**12,643**	33,272
Domestic Shares	(b)	**390,250**	369,621	**390,250**	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.

(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.

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

(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 Stock Exchange will require prior approval from the Ministry of Commerce.

27. 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.

(c) 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. There is no material difference noted between the profits reflected in the Company's PRC statutory financial statements which is prepared in accordance with PRC GAAP as compared to those that are reflected in this report which is prepared in accordance with IFRSs.

28. FINANCIAL INSTRUMENTS

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

Financial assets

2008

	Loans and receivables RMB'000
Accounts and notes receivables	**41,168**
Financial assets included in prepayments, deposits and other receivables	**3,923**
Other financial asset	**10,000**
Due from related companies	**28,442**
Cash and cash equivalents	**261,887**
	345,420

28. FINANCIAL INSTRUMENTS *(Continued)*

2007

	Loans and receivables RMB'000
Accounts and notes receivables	83,778
Financial assets included in prepayments, deposits and other receivables	40,223
Due from related companies	35,812
Cash and cash equivalents	206,995
	366,808

Financial liabilities

2008

	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	**—**	**122,108**	**122,108**
Financial liabilities included in accrued liabilities and other payables	**639**	**44,561**	**45,200**
Due to related companies	**—**	**10,650**	**10,650**
Interest-bearing borrowings	**—**	**188,598**	**188,598**
	639	**365,917**	**366,556**

28. FINANCIAL INSTRUMENTS *(Continued)*

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	75,718	76,120
Due to related companies	—	4,165	4,165
Interest-bearing borrowings	—	350,291	350,291
	402	601,854	602,256

29. 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 2008:

	Notes	2008 RMB'000	2007 RMB'000
Sales	(i)	**219,533**	160,128
Technology transfer fees	(ii)	**7,991**	13,130
Information technology ("IT") related service fees	(iii)	**2,520**	2,058

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (" the Listing Rules").

30. COMMITMENTS

The Company had the following capital commitments as at 31 December 2007 and 2008:

	2008 RMB'000	2007 RMB'000
Capital commitments in respect of property, plant and equipment:		
- contracted, but not provided for	**10,615**	3,843
- authorised, but not contracted for	**12,322**	20,989
	22,937	24,832

31. CONTINGENT LIABILITIES

(a) Reference is made to the disclosures in the financial statements of the Company for the year ended 31 December 2007 regarding the litigation Monolithic Power Systems, Inc. ("MPS") v. O2 Micro International Limited ("O2 Micro") where the Company was involved as one of the counter-defendants.

On 11 April 2008, O2 Micro filed its opening brief with the Federal Circuit. O2 Micro did not file an appeal with respect to the judgement as a matter of law granted to the Company. As a result, the district court judgement in favour of the Company is final and cannot be appealed. Based on the external legal advice obtained by the Company, the liability attributable to the United States Patent No. 6396722 to the Company is remote and therefore no provision was made in the financial statements.

(b) Reference is made to the disclosures in the financial statements of the Company for the year ended 31 December 2007 regarding the counter-claims for the alleged breaches of certain terms of a foundry agreement dated 22 October 2004.

On 2 July 2008, the Company and a customer ("the Customer") came to an amicable settlement of all claims and disputes between them, and agreed to release each other from all present or future claims relating to the arbitration. On 8 August 2008, the Company received payment of the settlement from the Customer under the said settlement. On 28 August 2008, the proceedings were formally terminated by both parties. The settlement amounting to RMB 5,132,000 was recognised as other income disclosed in Note 6 to the financial statements.

32. 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 accounts and notes receivables, prepayments and other receivables, accounts 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. The Directors of the Company review and agree policies for managing each of the risks and they are summarised below:

Interest rate risk

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

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
2008		
US$	**+20**	**(4)**
US$	**-15**	**3**
2007		
US$	+20	(40)
US$	-15	30

32. 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 in US dollars and other currencies. Approximately 84% and 89% of the Company's export sales are denominated in US dollars, while 16% and 11% are denominated in RMB in 2007 and 2008, 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 dollars. 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 cost would outweigh the potential benefits.

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
2008	**+5%**	**6,642**
	-5%	**(6,642)**
2007	+5%	(6,044)
	-5%	6,044

32. 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:

	2008 RMB'000	2007 RMB'000
Financial assets		
Cash and cash equivalents:		
- US$	**237,546**	141,835
- Others	**929**	987
	238,475	142,822
Accounts and notes receivables:		
- US$	**38,068**	82,670
Due from related companies:		
- US$	**28,442**	35,812
Financial liabilities		
Interest-bearing borrowings:		
- US$	**78,598**	270,291

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

Foreign currency risk *(Continued)*

	2008	2007
	RMB'000	RMB'000
Accounts payable:		
- US$	**56,096**	103,734
- Others	**5,624**	20,173
	61,720	123,907
Accrued liabilities and other payables:		
- US$	**3,034**	3,377
- Others	**1,120**	727
	4,154	4,104
Due to related companies:		
- US$	**33,480**	3,799
- Others	**1,916**	—
	35,396	3,799

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 accounts and notes receivables are disclosed in note 18 to the financial statements.

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

Liquidity risk

The working capital requirements and cash flow of the Company have historically been and continue to be subject to quarterly and yearly fluctuations, depending on a number of factors including the level of sales, the collection of receivable and the servicing of financing obligations. If the Company is unable to manage fluctuations in cash flow, its business, operating results and financial condition may be materially adversely affected.

The Company monitors its risk of shortage of funds to ensure the ability of the Company to meet its liabilities as and when they fall due. The liquidity reserve of the Company comprises the bank borrowing facility and cash and cash equivalents (note 22) available as at each month end in meeting its liabilities. The Company maintained flexibility in funding cash generated by their operating activities and availability of committed credit facilities from banks which include revolving short term loan facilities of approximately RMB178,000,000 that will expire in November 2009.

The maturity profile of the Company's financial liabilities at 31 December 2007 and 2008 was as follows:

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
2008				
Accounts payable	**65,878**	**55,009**	**1,221**	**122,108**
Accrued liabilities and other payables	**45,200**	**—**	**—**	**45,200**
Due to related companies	**9,974**	**676**	**—**	**10,650**
Interest-bearing loans and borrowings	**—**	**58,094**	**130,504**	**188,598**
	121,052	**113,779**	**131,725**	**366,556**

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
2007				
Accounts payable	23,780	142,101	5,799	171,680
Accrued liabilities and other payables	76,120	—	—	76,120
Due to related companies	4,165	—	—	4,165
Interest-bearing loans and borrowings	—	184,807	165,484	350,291
	104,065	326,908	171,283	602,256

32. 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 for managing capital during the year ended 31 December 2008.

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:

	2008 **RMB'000**	2007 RMB'000
Interest-bearing borrowings	**188,598**	350,291
Less: Cash and bank balances	**(261,887)**	(206,995)
Total (assets)/liabilities	**(73,289)**	143,296
Tangible net assets	**726,754**	959,994
Total (assets)/liabilities over tangible net assets ratio	**(0.10)**	0.15

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

Fair value

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

The carrying amounts of the financial assets and liabilities of the Company at balance sheet date approximated to their fair values.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2009.