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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 2009 Report

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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. LI Zhi
Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN

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. Wilhelmus Jacobus Maria Joseph JOSQUIN
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. SUN Biyuan
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 "Stock Exchange")

Listing Date

7 April 2006

Stock Code

03355

Number of H-shares Issued

1,131,333, 472 H-shares

Year-end Date

31 December

Results Announcements

Interim Results for 2009:
published on 18 August 2009
Annual Results for 2009:
published on 10 March 2010

Annual General Meeting

11.00 a.m. on Wednesday, 19 May 2010

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 2009.

The 2009 financial year witnessed some of the most challenging operating conditions that the Company has faced in its history. During the year, the semiconductor industry market was seriously affected by the financial tsunami trigged by the global credit crisis, and reached a cyclical bottom early in the year as a result of the combined effect of a reduced demand environment and a supply chain that was aggressively working to reduce the inventory, then afterwards gradually showed signs of stabilization as a result of worldwide governments' financial and monetary policy. Most importantly, the real demand from emerging markets, particularly China, was reviving thanks to the strong fiscal stimulus package and the semiconductor end-market experienced a slow recovery boosted by the influx of rush orders and the inventory restocking activities since February 2009. Despite evidence that the semiconductor industry has been gradually returning to growth, the Company's major customers still adopted a cautious order pattern during the year owing to limited visibility across end-markets. Moreover, the Company's business operation was also adversely impacted by an unplanned one-week shutdown in late October 2009 due to a leakage incident in its 5-inch wafer fabrication facility (the "Incident") (which was fully described in the Company's announcement dated 9 October 2009). As a result, the Company's revenue for the year ended 31 December 2009 decreased by 30.8% to RMB645.6 million, compared to RMB932.6 million for the year ended 31 December 2008. Its production output of 8-inch equivalent wafers decreased from 383,301 pieces in the preceding year to 285,499 pieces in the year ended 31 December 2009. The shipment of 8-inch equivalent wafers was 284,486 pieces in the year ended 31 December 2009, a decrease of 29.0% from 400,505 pieces in the previous year.

In 2009, the Company recorded a gross profit of RMB15.5 million, compared to a gross loss of RMB22.4 million in 2008. This was largely attributable to the cost-cutting efforts and the decrease in depreciation charges as a result of a recognition of an 8-inch wafer asset impairment for the year ended 31 December 2008. However, the Company incurred a loss of RMB13.4 million associated with the unplanned maintenance and overhaul service owing to the Incident. As a result of the foregoing, the Company had a net loss of RMB102.8 million for the year ended 31 December 2009, compared to a net loss of RMB237.1 million for the year ended 31 December 2008. Earnings per share were negative RMB0.07 for 2009 compared with negative RMB0.15 for 2008.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2009 (2008:Nil).

In view of the substantial decline in end-market demand during the year, the Company has reacted quickly to further reduce its production cost, optimize its internal organization structure and lower its inventory level, as well as implement a highly effective cash management program. As a result, the Company has maintained relatively a healthy financial position with cash and cash equivalents of RMB318.0 million as at the end of year under review. In addition, the Company has been making further progress in an automotive electronics business, which was strongly encouraged by the government's drive to develop an automotive chip industry in the PRC. During the report period, the Company successfully conducted a stringent quality audit according to VDA6.3 quality system, and was awarded with the score of 90, and has been qualified as an "A" rated supplier. The Company has also signed a strategic cooperation agreement with well-known domestic players in the supply chain with a view to establishing an automotive chip manufacturing platform.

Chairman's Statement

Looking to 2010, the global economy should continue on its recovery path. The outlook for semiconductor market is gradually improving amid the downturn, and will become far more positive but a major near term hurdle remains, i.e. uncertain consumer spending in developed economies. On the other hand, China's economic rebound remains unbalanced and is not yet solid. Under the current business environment, the Company plans to leverage off the role of China's auto industry in economic development, combined with financial and policy support from the local and national government for developing an automotive chip industry in the PRC, as well as the fab-light business model from its customer and will continue to carry out the strategies of establishing an automotive chip manufacturing platform with self-owned intellectual property rights by closely working with both existing customers and the leading players in the supply chain both at home and abroad. Meanwhile, the Company will continue to implement the cost-effective management system internally, and further expand its presence in the Greater China market. The Board believes that these actions will drive incremental revenue growth going forward, and will successfully position itself as a more competitive analog foundry player in the foundry sector when the global economy achieves a full recovery.

Finally, on behalf of the Board, I would like to extend my sincere appreciation to shareholders, business partners and customers for their confidence and continued support during this difficult period. Likewise, I would also like to thank the management and employees for their dedication and hard work in streamlining and improving the Company's operations to prepare for future challenges.

Chen Jianming
Chairman

10 March 2010

Management Discussion and Analysis

The Company faced an extremely difficult year in 2009 as a result of the global economic crunch. The semiconductor market reached a cyclical bottom in the first quarter of 2009. With the benefit of various fiscal and monetary policies implemented by governments around the world, the Company has witnessed a slow recovery in its overall business since then, primarily driven by a flurry of inventory restocking and influx of rush orders. However, the Company's major customers located in U.S. and Europe remained relatively cautious about placing orders due to very limited visibility across many end-markets, which severely affected its business operation, ultimately leading to a substantial impact on the Company's financial results for the year 2009.

Despite the difficult market environment, the Company managed to reduce its costs during the year by streamlining production and operations, including optimizing internal resources and enhancing its cash management program. On the other hand, as part of its ongoing efforts to establish an automotive chip manufacturing platform, the Company has entered into a strategic cooperation agreement with leading players in the supply chain. Moreover, the Company successfully exercised process auditing of its VDA6.3 quality system, and attained the score of 90, and has been qualified as an "A" rated supplier, thus enabling the Company to get access to the international automobile market, generating incremental revenue streams, which will ultimately help better sustain its long-term growth.

COMPARISON BETWEEN 2008 AND 2009 ENDED 31 DECEMBER

Sales

The sales of the Company decreased by 30.8% from RMB932.6 million in 2008 to RMB645.6 million in 2009, resulting in a lower overall utilization rate reduced from 57% in 2008 to 43% in 2009. The Company's throughput of 8-inch equivalent wafers decreased by 25.5%, from 383,301 pieces for the year ended 31 December 2008 to 285,499 pieces for the year ended 31 December 2009 and correspondingly the Company's shipment of 8-inch equivalent wafers decreased by 29.0%, from 400,505 pieces to 284,486 pieces.

Cost of sales and gross profit

The cost of sales decreased by 34.0% from RMB955.0 million in 2008 to RMB630.1 million in 2009. The gross profit was RMB15.5 million in 2009 compared to negative RMB22.4 million in 2008, while the Company's gross margin in 2009 was 2.4% compared to negative 2.4% in 2008. The improvement in gross profit and margin was mainly due to various cost-cutting measures and the reduction of RMB41.9 million in cost of sales as a result of the decrease of RMB43.1 million in depreciation charges after recognition of an 8-inch wafer asset impairment for the year ended 31 December 2008, partly offset by lower levels of capacity utilization rate.

Management Discussion and Analysis

Selling and distribution costs

Selling and distribution costs decreased by 20.6% from RMB6.8 million in 2008 to RMB5.4 million in 2009, primarily due to lower payroll-related expenses as a result of headcount reductions and the decrease in commission rate.

General and administrative expenses

General and administrative expenses decreased by 16.2% from RMB61.0 million for the year ended 31 December 2008 to RMB51.1 million for the year ended 31 December 2009, primarily due to the reduction in allowance for doubtful debts and cost-reduction initiatives.

Research and development costs

Research and development costs were RMB41.8 million in 2009, up 29.4% from RMB32.3 million in 2008. This was primarily attributable to the increase in research and development activities.

Other income and gains

Other income and gains were RMB5.1 million in 2009, compared to RMB48.6 million in 2008. In 2009, the Company's other income and gains mainly derived from interest income and subsidy income. In 2008, the Company's other income and gains mainly comprised power outage compensation received, and compensation received for the settlement of arbitration, interest income, scrap sales and net foreign exchange gain.

Other expenses

Other expenses amounted to RMB15.9 million in 2009, compared to RMB146.4 million in 2008. Other expenses in 2009 were primarily comprised of loss arising from the Incident, loss on interest rate swap, net foreign exchange loss and others, while in 2008, other expenses were mainly composed of loss on interest rate swap, impairment loss on property, plant and equipment and donation.

Finance costs

Finance costs decreased by 45.3% from RMB17.0 million in 2008 to RMB9.3 million in 2009. 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.

Net income

As a result of the foregoing factors, the Company had a net loss of RMB102.8 million for the year ended 31 December 2009, compared to a net loss of RMB237.1 million for the year ended 31 December 2008.

Management Discussion and Analysis

Liquidity and capital resources

The Company's cash and cash equivalents were RMB318.0 million as at 31 December 2009, compared to RMB261.9 million as at 31 December 2008. The Company's net cash inflow from operating activities showed a decrease of 75.2% from RMB246.5 million for the year ended 31 December 2008 to RMB61.1 million for the year ended 31 December 2009.

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 RMB17.8 million for the year ended 31 December 2009, compared to RMB20.0 million for the year ended 31 December 2008. The capital expenditure incurred in 2009 was mostly allocated to the production facilities and equipment associated with both 5-inch and 6-inch wafers.

The Company's net cash outflow from financing activities amounted to RMB10.3 million in 2009, compared to net cash outflow of RMB161.7 million in 2008. The net cash outflow of RMB10.3 million represented the net effect of RMB188.6 million for the repayment of bank loans and the new bank loans of RMB178.3 million in 2009.

As at 31 December 2009, the Company's short-term interest-bearing borrowings were RMB178.3 million, of which approximately 62% was denominated in Renminbi ("RMB"), and the remaining 38% was denominated in US dollars.

As at 31 December 2009, the Company's current ratio was 1.44 when compared to 1.28 as at 31 December 2008. The Company's debt to equity ratio as at 31 December 2009 was 54.9%, compared to 54.5% as at 31 December 2008.

Employees

As at 31 December 2009, the Company had 1,231 employees. The remuneration and employment benefits were provided for and paid in accordance with the PRC laws and regulations.

Interest rate risk

The Company's interest-bearing loans and borrowings are subject to interest rate fluctuation of LIBOR plus margin. As approximately 38% 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$2.5 million to hedge interest rate fluctuation.

Renminbi fluctuation risks

As Renminbi is the legal currency in the 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 2009, the Company had capital commitments for property, plant and equipment amounting to RMB107.1 million, of which RMB9.8 million was contracted but not provided for, while the remaining balance of RMB97.3 million was authorized but not contracted for.

OPERATING RESULTS FOR THE THREE MONTHS ENDED 31 DECEMBER 2009

Sales for the three months ended 31 December 2009 were RMB171.0 million, down 4.4% from RMB178.9 million for the three months ended 30 September 2009, due mainly to the lower wafer shipments as a result of a one-week maintenance overhaul of its 5-inch fabrication line and, to a lesser extent, of its 6-inch fabrication line.

Gross profit decreased from RMB13.6 million for the three months ended 30 September 2009 to RMB9.9 million for the three months ended 31 December 2009. Gross margin for the three months ended 31 December 2009 was 5.8%, compared to 7.6% for the three months ended 30 September 2009. The decline in gross margin was primarily attributable to the lower level of capacity utilization rate.

Selling and distribution costs for the three months ended 31 December 2009 amounted to RMB1.4 million, almost the same as that of the third quarter of 2009.

General and administrative expenses for the three months ended 31 December 2009 were RMB15.2 million, compared to RMB15.3 million for the third quarter of 2009.

Research and development costs for the three months ended 31 December 2009 were RMB9.9 million, down 16.1% from RMB11.8 million for the third quarter of 2009. This was primarily attributable to the increase in the sales of engineering wafer lots during the period which resulted in higher absorption of its related research and development costs.

Other income for the three months ended 31 December 2009 was RMB0.2 million, compared to RMB2.4 million for the third quarter of 2009. Other income for both the third quarter and fourth quarter of 2009 was mainly generated from interest income and subsidy income.

Other expenses for the three months ended 31 December 2009 booked a net gain of RMB6.8 million, primarily due to a net write-back of RMB6.3 million against the provision of RMB19.7 million recognized as other expenses for the three months ended 30 September 2009 as a result of the actual loss from the Incident amounting to RMB13.4 million.

Finance costs were RMB2.2 million for the three months ended 31 December 2009, almost flat with the third quarter of 2009.

Collectively, the Company recorded a net loss of RMB11.6 million for the three months ended 31 December 2009, compared to the net loss of RMB35.1 million for the three months ended 30 September 2009.

Management Discussion and Analysis

1. Revenue Analysis

For the three months ended 31 December 2009, sales from communication, computer and consumer products were 32%, 33% and 35%, which was basically in line with the prior quarter.

By Application	4Q09	3Q09	4Q08
Communication	32%	33%	32%
Computer	33%	33%	32%
Consumer	35%	34%	36%

For the three months ended 31 December 2009, sales to the USA, Europe and Asia Pacific accounted for 58%, 24% and 18% of total revenue respectively, compared to 51%, 30% and 19% in the previous quarter.

By Geography	4Q09	3Q09	4Q08
USA	58%	51%	50%
Europe	24%	30%	34%
Asia Pacific	18%	19%	16%

For the three months ended 31 December 2009, sales to IDM and fabless customers accounted for 27% and 73% of total revenue respectively, compared to 35% and 65% in the third quarter of 2009.

By Customer Type	4Q09	3Q09	4Q08
IDM	27%	35%	46%
Fabless	73%	65%	54%

For the three months ended 31 December 2009, sales as a percentage of total revenue from 5-inch, 6-inch and 8-inch wafer were 22%, 46% and 31% respectively, compared to 19%, 45% and 35% in the previous quarter.

By Product	4Q09	3Q09	4Q08
5″ wafers	22%	19%	18%
6″ wafers	46%	45%	53%
8″ wafers	31%	35%	28%
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 two percentage points from 46% in the previous quarter to 44% for the three months ended 31 December 2009.

Fab	4Q09	3Q09	4Q08
Fab 1/2			
5-inch wafers	47%	43%	39%
6-inch wafers	37%	42%	46%
Fab 3			
8-inch wafers	51%	52%	34%
Overall Capacity Utilization Rate	44%	46%	40%

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 2009 was 154,000 8-inch equivalent wafers, which was the same as that of the previous quarter and that of the fourth quarter of 2008.

Fab (wafers in thousand)	4Q09	3Q09	4Q08
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 2009 was 45 days as compared to 43 days in the third quarter of 2009.

Inventory turnover decreased from 77 days for the three months ended 30 September 2009 to 75 days for the three months ended 31 December 2009.

	4Q09	3Q09	4Q08
Trade & Notes Receivables Turnover (days)	45	43	51
Inventory Turnover (days)	75	77	89

4. Capital Expenditure

The amount of capital expenditure for the three months ended 31 December 2009 was RMB4.1 million, which was mainly spent in technical modifications and operational efficiency improvement associated with both 5-inch and 6-inch wafer production facilities.

(Amount: RMB'000)	4Q09	3Q09	4Q08
Capex	4,071	2,300	974

Management Discussion and Analysis

PROSPECTS AND FUTURE PLANS

The overall semiconductor industry is expected to witness modest growth as the global economic recovery will continue through 2010. Although the visibility into consumer spending, especially in the developed world, remains far from clear, the Company is still relatively optimistic about the prospects ahead in light of the continuing gradual improvement in business fundamentals.

In view of a picture of still volatile but improved conditions, the Company will address this with a focus on technology advancement, new product development and best-cost manufacturing solution to sustain its competitive advantage. By doing so, the Company will continue to improve its overall efficiency and profitability by means of the following initiatives:

- deepen its cooperation with leading players in the supply chain to establish an automotive chip manufacturing platform with its own intellectual property right;
- accelerate technology/process transfer from both its existing and new customers to improve its ability to drive automotive chip manufacturing business;
- capitalize on the growing domestic market by aggressively developing new business so as to enhance its presence in Greater China market;
- further streamline business operations and maximize its productivities through improving key operational indices, such as line yield and cycle time;
- continuously implement a stringent budget control internally; and
- execute effective human resources policy by further optimizing internal organization structure and resources.

Moving forward, the Company, utilising ability to provide flexible, customized and quality services at competitive prices, combined with financial aid and supporting policy from local and national government to develop the automotive chip industry in the PRC, will continue to emphasize on ramping up automotive electronics business as the primary growth driver, and strive for good results in the coming year.

Profiles of Directors, Supervisors and Senior Management

EXCUTIVE DIRECTORS

Mr. ZHOU Weiping

Mr. Zhou Weiping, aged 43, is an Executive Director of the third session of the Board.

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 Board since 3 November 2008.

Mr. Zhou started his career at Shanghai Belling Corporation Limited ("Shanghai Belling") in 1990. During the period from 1990 to 2003, Mr. Zhou took various roles at Shanghai Belling 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 to be the Executive Vice President of Shanghai Belling 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 rejoined 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, aged 52, is an Executive Director of the third session of the Board.

Ms. Cheng has been the Company's Vice President and Chief Financial Officer since 1995, and has been an Executive Director of the Board 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.

Ms. Cheng 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, aged 56, is a Non-executive Director of the third session of the Board.

Dr. Chen has been a Non-executive Director and the Chairman of the Board since 1 August 2008. Dr. Chen 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, aged 35, is a Non-executive Director of the third session of the Board.

Mr. Zhu has been a Non-executive Director of the Board since 2 March 2004. He previously worked at Shanghai Waigaoqiao Free Trade Zone United Development Co., Ltd. and the Shanghai Waigaoqiao Free Trade Zone Administrative Commission. From 2001 to 2009, Mr. Zhu served as the Deputy General Manager, the General Manager and a director of Shanghai Chemical Industrial Park Investment Enterprise Company Limited ("SCIPI"). From 2003 to 2008, Mr. Zhu served as the Secretary of the board of directors of Shanghai Chemical Industry Park Development Company Limited ("SCIPD"). Mr. Zhu has been a director and the General Manager of SCIP (HK) since 2002, an assistant to President of SCIPD since 2005, and a supervisor of SCIPI since 2009.

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. ZHU Peiyi

Mr. Zhu Peiyi, aged 45, is a Non-executive Director of the third session of the Board.

Mr. Zhu has been a Non-executive Director and the Vice Chairman of the Board 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.

Profiles of Directors, Supervisors and Senior Management

Mr. LI Zhi

Mr. Li Zhi, aged 46, is a Non-executive Director of the third session of the Board.

Mr. Li has been a Non-executive Director of the Board since 21 May 2009. From 1994 to 1995, Mr. Li served as the Secretary (Deputy Division Chief) of the General Manager Office of China Electronics Corporation. From 1995 to 1998, Mr. Li served as the Secretary (Deputy Division Chief) of General Office of Minister of the Ministry of Electronic Industry. From 1998 to 2003, Mr. Li was appointed as the Head of General Administration Department of Beijing Huahong NEC Integrated Circuit Design Co., Ltd.. From 2003 to 2005, Mr. Li was appointed as the Assistant General Manager and the Head of Administration and Legal Department of Beijing Huahong Integrated Circuit Design Co., Ltd.. From July 2005 to March 2009, Mr. Li was appointed as the board secretary of the Board of Huahong Semiconductor Co., Ltd. and Shanghai Huahong NEC Electronics Co., Ltd., and from August 2005 to March 2009, Mr. Li was appointed as a director of Secretariat (ie., the Board Secretary) of Shanghai Huahong (Group) Co., Ltd.. Mr. Li was appointed as the Executive Vice President of Shanghai Belling in March 2009. Since June 2009, Mr. Li was appointed as a director and the Acting General Manager of Shanghai Belling.

Mr. Li received an Executive Master of Business Administration degree from University of Texas at Arlington in 2006.

Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN

Mr. Wilhelmus Jacobus Maria Joseph Josquin, aged 57, is a Non-executive Director of the third session of the Board.

Mr. Josquin has been a Non-executive Director of the Board since 2 March 2010. After finishing his university study in Chemistry, Mr. Josquin joined Philips Electronics Central Research in 1976, initially as a scientist and later as a Manager in the area of semiconductor technology. In 1991, he joined the Semiconductor Division of Philips, where he acted as the Operations Manager and General Manager of several waferfabs in the Netherlands and Germany. In 2004, he moved to headquarters to take up the post of the Head of Industrial Strategy and Innovation of the Operations Unit of the company. Since the spin-off of the company and its merging with NXP, he has led the operations work streams in a series of M&A projects.

During his career, Mr. Josquin has been involved in the Company's affairs on multiple occasions: in the mid nineties as the Head of the 5-inch waferfab at Nijmegen, the original mother fab of the Company and later on for the Company's external foundry relations, and occasionally as an ad hoc advisor in strategic matters.

Mr. YEH Yi Liang

Mr. Yeh Yi Liang, aged 55, is a Non-executive Director of the third session of the Board.

Mr. Yeh has been a Non-executive Director and the Vice Chairman of the Board 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 and transferring process from Philips European fab to TSMC. From 1989 to 1990, Mr. Yeh was transferred to Hamburg Germany, where he participated in projects both in Engineering and Marketing areas.

In 1991, Mr. Yeh returned to Philips Taipei and took up 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 the post of Product Group Manager CICT Philips Semiconductors handling business with major clients such as Sony. Under the leadership of Mr. Yeh, the business tripled in 1997. He contributed significantly to the company's profit and growth. In 1998, Mr. Yeh was transferred to a Philips' joint-venture to develop the ODM (Original Design Manufacturer) notebook computers business with 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.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James Arthur WATKINS

Mr. James Arthur Watkins, aged 64, is an Independent Non-executive Director of the third session of the Board.

Mr. Watkins has been an Independent Non-executive Director of the Board since 1 February 2005. Mr. Watkins is a qualified solicitor in England and in Hong Kong. He started his career in 1967 as a solicitor at Linklaters, an international law firm. He later became a Partner at the firm's London office and was subsequently the Senior Partner of the firm's Hong Kong office. From 1994 to 1996, Mr. Watkins was the Legal Director of Trafalgar House plc, London. He was the group Legal Director at Schroders plc, London from 1996 to 1997. Mr. Watkins was the General Counsel and a director of the Jardine Matheson Group in Hong Kong from 1994 to 2003, during which 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 the Non-executive Director of Mandarin Oriental International Ltd., Hongkong Land Holdings Ltd., Jardine Cycle & Carriage Ltd., MCL Land Ltd., Global Sources Ltd., Asia Satellite Telecommunications Holdings Ltd. and IL&FS India Realty Fund II LLC.

Mr. Watkins graduated with a Bachelor of Laws degree from the University of Leeds in England in 1966.

Profiles of Directors, Supervisors and Senior Management

Mr. Thaddeus Thomas BECZAK

Mr. Thaddeus Thomas Beczak, aged 59, is an Independent Non-executive Director of the third session of the Board.

Mr. Beczak has been an Independent Non-executive Director of the Board since 1 February 2005. From 1997 to 2002, Mr. Beczak was the Chairman of the Listing Committee of the Stock Exchange, and he was a member of the board of directors of the Stock Exchange from 1998 to 2001. From June 2001 to May 2007, Mr. Beczak was a member of the Advisory Committee of the Securities and Futures Commission in Hong Kong (the "SFC"). By being the former Chairman of the Listing Committee of the Stock Exchange and a member of the Advisory Committee of the SFC, Mr. Beczak has gained extensive experience in analyzing and scrutinizing financial statements of public companies in Hong Kong, and reviewing and implementing a variety of corporate governance measures. He is also a member of the International Advisory Committee of the China Securities Regulatory Commission.

Mr. Beczak has over 30 years of business experience in Asia. He joined J.P. Morgan Inc. in 1974. He was then appointed as the Managing Director of J.P. Morgan Inc. in 1998 and the President of J.P. Morgan Securities Asia. 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 the 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 specializing in affairs related to corporate finance, management and treasury activities. He also oversaw the activities of all the financial officers of the listed subsidiaries of the Kerry group. Moreover, Mr. Beczak also held the positions of Deputy Chairman of Shangri-La Asia Limited and Director of Kerry Properties Limited, Kuok Philippines Properties Inc., and China World Trade Center Limited and SCMP Holdings Limited. Mr. Beczak was the Independent Non-executive Director of Namtai Electronic & Electrical Products Limited . He was also the Senior Advisor of Nomura International (Hong Kong) Limited and the Chairman of Nomura Asia Holdings N.V.

Mr. Beczak is currently the Chairman of Cowen Latitude Advisors Limited and the Vice Chairman of Cowen and Company, LLC. He is also an Independent Non-executive Director of Arnhold Holdings Limited, Phoenix Satellite Television and Pacific Online Limited.

Mr. Beczak is a graduate of Georgetown University (B.S.F.S.) and Columbia University (M.B.A.). He is also an Adjunct Professor of the MBA Program of The Hong Kong University of Science and Technology.

Profiles of Directors, Supervisors and Senior Management

Dr. SHEN Weijia

Dr. Shen Weijia, aged 56, is an Independent Non-executive Director of the third session of the Board.

Dr. Shen has been an Independent Non-executive Director of the Board 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 the General Manager of Shanghai Waigaoqiao Free Trade Zone 3U Development Co., Ltd.. From 2000 to 2002, Dr. Shen was a director and the Executive Vice President of Shanghai Sunway Biotech Co. Ltd.. From 2002 to 2003, Dr. Shen was a director and the Vice President of SIIC Medical Science and Technology (Group) Ltd.. From 2000 to 2004, Dr. Shen was also a director of Shanghai Bright Dairy & Food Co., Ltd. and Shanghai Jahwa United Co., Ltd.. Dr. Shen has been an Executive Director of GITI Tire China Investment Co., Ltd. since 2004, a director of GITI Tire Corporation since 2005, and the Chairman and the General Manager of Shanghai G.T. Microfiber Co. Ltd. since 2008.

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. Dr. Shen has been a Chair Professor of EMBA program of the School of Management, Fudan University since 2003.

SUPERVISORS

Mr. David Siu Kee KIANG

Mr. David Siu Kee Kiang, aged 56, is a Supervisor of the third session of the Supervisory Committee of the Company (the "Supervisory Committee").

Mr. Kiang has been a Supervisor of the Supervisory Committee since 30 September 2008, and the Chairman of the Supervisory Committee since 21 October 2008. He began his career in the field of Information Technology, Auditing and Finance Management in Australia. In 1978, he was appointed as the System Analyst of Computer Science of America (Australia) and subsequently was appointed as the EDP Audit Manager with N.S.W. State Building Society of Australia in 1982 and the 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 the General Manager (Finance & Administration) of Inchcape Pacific Ltd. for three of its subsidiaries (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 its Financial Controller. In 2000, he was appointed as the 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 holds local various general management positions covering Finance, Accounting, Treasury and Information Technology functions.

Mr. Kiang received a Bachelor's 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.

Profiles of Directors, Supervisors and Senior Management

Mr. SUN Biyuan

Mr. Sun Biyuan, aged 35, is a Supervisor of the third session of the Supervisory Committee.

Mr. Sun has been a Supervisor of the Supervisory Committee since 2 March 2010. From July 1996 to March 2006, Mr. Sun served as a Department Manager of BDO Shanghai Zhonghua Certified Public Accountants, engaging in the auditing works for the listed companies. Since April 2006, Mr. Sun has been a Finance Manager of Shanghai Chemical Industrial Park Investment Enterprise Company Limited ("SCIPI"). Mr. Sun is familiar with the operational rules for listed companies and has good calibre in finance professions. Mr. Sun also has excellent capability of finance management, especially in accounting standards and budget management.

Mr. Sun graduated from the Accounting Department of Shanghai University of Finance and Economics in July 1996.

Mr. SHEN Qitang

Mr. Shen Qitang, aged 58, is a Supervisor of the third session of the Supervisory Committee.

Mr. Shen has been a Supervisor of the 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.

Ms. CHEN Yan

Ms. Chen Yan, aged 36, is a Supervisor of the third session of the Supervisory Committee.

Ms. Chen has been a Supervisor of the 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 Jiao Tong 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, aged 51, is a Supervisor of the third session of the Supervisory Committee.

Mr. Guo has been a Supervisor of the Supervisory Committee since 2 March 2007. 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 and the Party Secretary of Shanghai Belling. Mr. Guo is currently the Executive Vice President of Shanghai Belling. 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. 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. PAN Guojin

Mr. Pan Guojin, aged 56, is a Supervisor of the third session of the Supervisory Committee.

Mr. Pan 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, aged 39, 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 finance management, 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.

Profiles of Directors, Supervisors and Senior Management

Mr. NGAI Wai Fung

Mr. Ngai Wai Fung, aged 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 member of HKICS and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Ngai holds a Master of Corporate Finance degree from the Hong Kong Polytechnic University, a Master of Business Administration degree 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 undertaking a PhD (thesis stage) in Finance at the Shanghai University of Finance and Economics.

SENIOR MANAGEMENT

Mr. SUN Zhen

Mr. Sun Zhen, aged 42, is the Chief Operation Officer of the Company.

Mr. Sun has been the Chief Operation Officer of the Company since 25 March 2009. 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 served as the Chief Executive Officer of Shanghai Belling Microelectronics Manufacturing Company Limited from 2008 to 2009. Mr. Sun was a Non-executive Director of the Board from 3 November 2008 to 25 March 2009. Mr. Sun graduated with a Bachelor of Electrical Engineering degree from Fudan University in 1991.

Dr. WANG Qingyu

Dr. Wang Qingyu, aged 51, is the Vice President of Operations of the Company.

Dr. Wang has been the Vice President of Operations of the Company since 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 United Kingdom, Harvard University and University of Minnesota.

Report of the Directors

The directors of the Company are pleased to present their report and the audited financial statements of the Company for the year ended 31 December 2009.

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 2009.

Segment information

The Company's revenue and loss for the year ended 31 December 2009 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 2009 and the state of affairs of the Company at that date are set out in the financial statements on pages 49 to 100.

The Board does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2009.

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 33 to 34. 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 2009 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 2009 are set out in note 27 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.

Report of the Directors

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 2009.

Reserves

Details of movements in the reserves of the Company during the year ended 31 December 2009 are set out in note 28 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 PRC statutory financial statements and International Financial Reporting Standards ("IFRSs"). As at 31 December 2009, the Company does not have distributable reserves available for distribution.

Charitable donation

The Company did not make any charitable donation during the year ended 31 December 2009.

Major customers and suppliers

In the year ended 31 December 2009, 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 22%. Purchases from the Company's five largest suppliers accounted for 28% of the total purchases for the year and purchases from the largest supplier accounted for 9%.

None of the directors of the Company or any of their associates or any shareholders of the Company (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.

Report of the Directors

DIRECTORS

The directors of the Company during the year ended 31 December 2009 and up to the date of this annual report were:

Executive Directors

Mr. ZHOU Weiping
Ms. CHENG Jianyu

Non-executive Directors

Dr. CHEN Jianming, Chairman
Mr. ZHU Jian
Mr. YEH Yi Liang
Mr. Christopher Paul BELDEN (retired on 1 March 2010)
Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN (appointed on 2 March 2010)
Mr. ZHU Peiyi
Mr. SUN Zhen (resigned on 25 March 2009)
Mr. LI Zhi (appointed on 21 May 2009)

Independent Non-executive Directors

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

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

Subsequent to the balance sheet date, the directors for the second session of the Board served terms until 1 March 2010. Mr. ZHOU Weiping, Ms. CHENG Jianyu, Dr. CHEN Jianming, Mr. ZHU Jian, Mr. YEH Yi Liang, Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN, Mr. ZHU Peiyi, Mr. LI Zhi, Mr. Thaddeus Thomas BECZAK, Mr. James Arthur WATKINS and Dr. SHEN Weijia were elected as directors of the third session (from 2 March 2010 to 1 March 2013) of the Board at the Company's extraordinary general meeting held on 28 January 2010.

Directors' and senior management's biographies

Biographical details of the directors and the senior management of the Company are set out on pages 14 to 22 of this 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 Board 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 2009, none of the directors, supervisors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Apperdix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Substantial shareholders' interests and short positions

As at 31 December 2009, the interests and short positions of the following persons 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 2009, the Company had no share option scheme within the meaning of Chapter 17 of the Listing Rules.

Directors', supervisors' and chief executive's rights to acquire H shares

During the year ended 31 December 2009, none of the directors, supervisors or chief executive of the Company was granted options to subscribe for H Shares of the Company. During the year ended 31 December 2009, none of the directors or supervisors or chief executive nor their spouses or minor children had any right to acquire H Shares of 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 2009

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 (having the meanings ascribed to them in the Listing Rules) ("NXP Group") during the year ended 31 December 2009:

Types of Transactions	Actual 2009 RMB'000	Approved annual caps 2009 (disclosed in the Company's Announcements) RMB'000
Sales	81,248	373,800
Technology transfer	4,094	20,200
Information technology ("IT") related services	2,098	2,900

Specific disclosure for the continuing connected transactions conducted during the year ended 31 December 2009

As stated in the Company's announcements dated 18 September 2008 and 12 December 2008 respectively (the "Announcements"), the Company entered into the following agreements in respect of the continuing connected transactions conducted during the year ended 31 December 2009:

(A) Sales

(i) NXP Foundry Services Agreement

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, the former title of the NXP Foundry Services Agreement, whereby the Company manufactured and sold licensed products and identification products to the NXP Group (previously Philips Group) by using the manufacturing process and other design rules and proprietary information provided by the buyer. Pursuant to the agreement, 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. The current term of the agreement will expire on 31 December 2011.

(ii) NXP Cooperation Agreement

On 29 May 2002, the Company (as the seller) and Philips Semiconductors (as the buyer), the predecessor of a NXP Group member, entered into the Philips Cooperation Agreement, the former title of the NXP Cooperation Agreement, whereby the Company manufactured and sold licensed products to the NXP Group by using the technology and know-how transferred to the Company by the buyer. Pursuant to the agreement, prices for the licensed products and identification products sold by the Company under the NXP Cooperation Agreement and the payment terms were determined in accordance with the provisions of the NXP Foundry Services Agreement. The current term of the agreement will expire on 31 December 2011.

(B) Technology Transfer

(i) Technology Transfer and Cooperation Agreement

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 the supplier agreed (a) to transfer to the Company the relevant knowledge and experience relating to foundry manufacturing service, (b) to grant to the Company a license to manufacture at its production facility in the People's Republic of China and to sell the licensed products, (c) to provide the Company with technical assistance for the manufacture, testing and assembly of the licensed products and (d) to provide technical trainings to the Company's engineers. The Company agreed to pay a consideration equivalent to 3% of the net selling price of each product the Company sold to the supplier and its other customers.

(ii) NXP Identification Licensing Agreement

On 29 May 2002, the Company (as the buyer) and Royal Philips (as the supplier) entered into the Philips Identification Licensing Agreement, the former title of the NXP Identification Licensing Agreement, whereby Royal Philips agreed to grant 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. On 28 September 2006, Royal Philips assigned all its rights and obligations under the agreement to a NXP Group member. Pursuant to the agreement, the Company agreed to pay 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. The current term of the agreement will expire on 31 December 2011.

(C) IT Related Services

(i) (Open) ERIC Software License Agreement

On 6 July 1998, the Company (as the licensee) and Philips Semiconductors (as the licensor), the predecessor of a NXP Group member, entered into the (Open) ERIC Software License Agreement whereby the licensor 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 and was terminated on 31 August 2009. For the year ended 31 December 2009, the total consideration paid/payable by the Company under the agreement was US$50,000 (approximately equivalent to RMB341,500).

(ii) 2009 Service Level Agreement

On 10 November 2008, the Company (as the buyer) and a NXP Group member (as the supplier) entered into the 2009 Service Level Agreement pursuant to which the supplier provided the Company with regular maintenance service for the (Open) ERIC software used by the Company for a period of 8 months from 1 January 2009 to 31 August 2009. For the year ended 31 December 2009, the total consideration paid/payable by the Company under the agreement was Euro95,000 (approximately equivalent to RMB914,300).

(iii) 2009 dataPower Services Agreement

On 10 December 2008, the Company (as the buyer) and a NXP Group member (as the supplier) entered into the 2009 dataPower Services Agreement pursuant to which the supplier provided the Company with regular maintenance service for dataPower software used by the Company for a period of one year from 1 January 2009 to 31 December 2009. For the year ended 31 December 2009, the total consideration paid/payable by the Company under the agreement was Euro70,000 (approximately equivalent to RMB680,600).

(iv) Corporate IT Services Agreement

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 the supplier 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 2009. For the year ended 31 December 2009, the total consideration paid/payable by the Company under the agreement was US$23,600 (approximately equivalent to RMB161,500).

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 performed certain agreed-upon procedures on the continuing connected transactions for the year ended 31 December 2009 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;

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

3. the values of the continuing connected transactions have not exceeded the relevant annual caps set out in the relevant paragraphs in the Announcements.

Directors' interests in competing businesses

During the year ended 31 December 2009 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 was a Non-executive Director of the second session of the Board from 30 September 2008 to 1 March 2010. He is currently the Executive Vice President of NXP Operations, which is engaged in the development, design and manufacture of semiconductor products. During his tenure of service with the Company, he was 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.

Report of the Directors

Mr. YEH Yi Liang has been a Non-executive Director and the Vice Chairman of the Board since 30 September 2008. He is currently the Senior Vice President and Regional Executive of NXP Semiconductors (Greater China).

Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN has been a Non-executive Director of the Board since 2 March 2010. He is currently the Vice President of NXP Operations.

Mr. SUN Zhen was a Non-executive Director of the second session of the Board from 3 November 2008 to 25 March 2009. He was the Chief Executive Officer of Shanghai Belling Microelectronics Manufacturing Company Limited ("SBMMC") until 25 March 2009. SBMMC is engaged in the design and manufacture (processing) of silicon wafers and the sale of integrated circuits.

Mr. LI Zhi has been a Non-executive Director of the Board since 21 May 2009. He is currently a director and the Acting General Manager of Shanghai Belling, which is engaged in the design and manufacture (processing) of silicon wafers and the sale of integrated circuits.

Since Mr. BELDEN, Mr. YEH, Mr. JOSQUIN, Mr. SUN and Mr. LI were not directly involved in managing the Company during the period for which they were the directors of the Company, the Board is of the view that the Company is capable of carrying on its businesses independent of, and at arm's length from, the competing businesses. When making decisions on the matters related to the Company, Mr. BELDEN, Mr. YEH, Mr. JOSQUIN, Mr. SUN and Mr. LI have acted and, where applicable, will continue to act in the best interest of the Company.

Auditors

The financial statements of the Company have been audited by Ernst & Young. A resolution for their reappointment as auditors of the Company for the year ending 31 December 2010 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 of the Company as at the date of this annual report, the Company has complied with the public float requirements of the Listing Rules throughout the year ended 31 December 2009.

BY ORDER OF THE BOARD

CHEN Jianming
Chairman

Shanghai, the PRC
10 March 2010

Five Years Financial Summary

SUMMARY OF STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**645,638**	932,581	1,183,076	1,355,193	931,583
Cost of sales	**(630,097)**	(955,000)	(1,201,706)	(1,214,253)	(860,626)
Gross profit/(loss)	**15,541**	(22,419)	(18,630)	140,940	70,957
Selling and distribution costs	**(5,436)**	(6,814)	(8,006)	(9,016)	(7,377)
General and administrative expenses	**(51,071)**	(60,979)	(80,786)	(75,914)	(77,640)
Research and development costs	**(41,842)**	(32,284)	(40,829)	(32,001)	(74,931)
Other income and gains	**5,067**	48,628	25,470	37,106	37,397
Other expenses	**(15,913)**	(146,393)	(674,181)	(224)	0
Finance costs	**(9,253)**	(16,952)	(35,220)	(57,922)	(33,427)
Profit/(loss) before income tax	**(102,907)**	(237,213)	(832,182)	2,969	(85,021)
Income tax credit/(expenses)	**92**	130	(8,017)	974	9,991
Net profit/(loss) for the year	**(102,815)**	(237,083)	(840,199)	3,943	(75,030)
Other comprehensive income for the year	**—**	—	—	—	—
Total comprehensive profit/(loss) for the year attributable to ordinary equity holders of the Company	**(102,815)**	(237,083)	(840,199)	3,943	(75,030)
Earnings/(loss) per share (RMB)					
– Basic	**(6.70) cents**	(15.45) cents	(54.76) cents	0.28 cents	(6.77) cents

Five Years Financial Summary

SUMMARY OF STATEMENT OF FINANCIAL POSITION

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**983,275**	1,139,214	1,581,938	2,858,819	2,641,903
Total liabilities	**348,649**	401,773	607,414	1,044,096	1,461,594
Net assets / shareholders' equity	**634,626**	737,441	974,524	1,814,723	1,180,309

Report on Corporate Governance

CORPORATE GOVERNANCE PRACTICES

The Board 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") as set out in Appendix 14 to the Listing Rules 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.

The Company has fully complied with the code provisions of the Governance Code for the year ended 31 December 2009 (the "Reporting Period").

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 Stock Exchange 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.

SECURITIES TRANSACTIONS

The Company has adopted the Model Code 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 2008, the three months ended 31 March 2009, the six months ended 30 June 2009 and the nine months ended 30 September 2009 respectively, the company secretary 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.

Report on Corporate Governance

BOARD OF DIRECTORS

Board Process and Effectiveness

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 five 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 on page 41 of this annual 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.

In particular, 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.

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 the continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance therewith.

Report on Corporate Governance

Board Composition

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

Executive Directors

Mr. ZHOU Weiping
Ms. CHENG Jianyu

Non-executive Directors

Dr. CHEN Jianming, Chairman
Mr. ZHU Jian
Mr. YEH Yi Liang
Mr. Christopher Paul BELDEN
Mr. ZHU Peiyi
Mr. SUN Zhen (resigned on 25 March 2009)
Mr. LI Zhi (appointed on 21 May 2009)

Independent Non-executive Directors

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

Mr. SUN Zhen resigned as a Non-executive Director of the Company with effect from 25 March 2009 due to the change of job duties. Mr. LI Zhi was elected as a Non-executive Director of the second session of the Board by the Company's annual general meeting held on 21 May 2009.

The Non-executive Directors bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Company. Their participation in the Board promote critical review and control of the management process.

Biographic details of all directors in office are given on pages 14 to 22 of this 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. The Company has received from each Independent Non-Executive Director a confirmation of his independence, and the Company considers such directors to be independent in accordance with each and every guideline set out in Rule 3.13 of the Listing Rules.

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 an annual general meeting on 21 May 2009 for the purpose of, amongst other things, election of filling the vacancies caused by the resignation of Mr. SUN Zhen.

The Board has not established any nomination committee and nominated candidates for the second session of the Board and the Supervisory Committee by reference to the following criteria: requirements of applicable laws and the Listing Rules concerning composition of the Board and the 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 Dr. CHEN Jianming and the post of the president (as head of the executive management) was held by Mr. ZHOU Weiping. 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

During the Reporting Period, the members of the Audit Committee comprised Mr. James Arthur WATKINS (Chairman), Mr. Thaddeus Thomas BECZAK, Dr. SHEN Weijia, Mr. Christopher Paul BELDEN 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 the Company's relationship with its 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 on page 41 of this annual report.

Work of the Audit Committee

During the Reporting Period, the Audit Committee met on five 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 2008, for the three months ended 31 March 2009, for the six months ended 30 June 2009 and for the nine months ended 30 September 2009, 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 reports from the management concerning finance matters, internal control, risk management and compliance.

Membership of the Remuneration Committee

During the Reporting Period, the members of the Remuneration Committee comprised Dr. CHEN Jianming (Chairman), 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 making recommendations on the Company's policy and structure for remuneration of the directors, supervisors and management, determining specific remuneration packages of the senior officers, and reviewing and approving 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 on page 41 of this annual report.

Work of the Remuneration Committee

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

(1) review and approval of the year 2009 performance appraisal targets and management bonuses ranges for senior officers;

(2) review and approval of specific remuneration packages for three newly appointed or re-appointed senior officers; and

(3) review and approval of the proposed terms of the service contracts for the directors and supervisors of the third session of the Board and the Supervisory Committee, including the provision regarding remuneration, with recommendations to the Board for approval.

Table 1

	Meetings Attended / Held		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. ZHOU Weiping	5/5		
Ms. CHENG Jianyu	5/5		
Non-executive Directors			
Dr. CHEN Jianming	5/5		4/4
Mr. ZHU Jian	4/5		
Mr. Christopher Paul BELDEN	2/5	2/5	
Mr. YEH Yi Liang	4/5		
Mr. ZHU Peiyi	5/5	3/5	
Mr. SUN Zhen	1/1		
Mr. LI Zhi	4/4		
Independent Non-executive Directors			
Mr. Thaddeus Thomas BECZAK	5/5	5/5	
Mr. James Arthur WATKINS	5/5	5/5	4/4
Dr. SHEN Weijia	4/5	2/5	4/4

EXTERNAL AUDITORS' REMUNERATION

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

During the Reporting Period, total remuneration paid or payable to Ernst & Young, amounting to RMB1,600,000, was related to their audit services.

Table 2

Audit services	RMB1,600,000
Non-audit services	—
Total	RMB1,600,000

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 to 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 respect of 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 the Audit Committee with its findings and recommendations for improving 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 of the Company 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 are reviewed by the Audit Committee and are 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. The Audit Committee also has conducted a review to consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. 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 2009, all members of 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 2009 and up to the date of this annual report were:

Shareholder Representative Supervisors

Mr. David Siu Kee KIANG, Chairman
Mr. SHEN Qitang
Mr. YANG Yanhui (retired on 1 March 2010)
Mr. SUN Biyuan (appointed on 2 March 2010)
Ms. CHEN Yan
Mr. GUO Yiwu

Employee Representative Supervisor

Mr. PAN Guojin

The supervisors for the second session of the Supervisory Committee served terms until 1 March 2010. Mr. David Siu Kee KIANG, Mr. SHEN Qitang, Mr. SUN Biyuan, Ms. CHEN Yan and Mr. GUO Yiwu were elected as shareholder representative supervisors of the third session (from 2 March 2010 to 1 March 2013) of the Supervisory Committeee at the Company's extraordinary general meeting held on 28 January 2010. Mr. PAN Guojin was elected as employee representative supervisor of the third session (from 2 March 2010 to 1 March 2013) of the Supervisory Committeee by employees democratically on 2 December 2009.

During the year ended 31 December 2009, the Supervisory Committee held two meetings as follows:

At the third meeting of the second session of the Supervisory Committee held on 25 March 2009, the Supervisory Committee reviewed and approved the audited financial statements for the year ended 31 December 2008 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 2008, the profit distribution proposal for the year ended 31 December 2008, and the proposed appointment and terms of engagement of the Company's PRC and international auditors for 2009.

At the fourth meeting of the second session of the Supervisory Committee held on 18 August 2009, the Supervisory Committee reviewed and approved the financial statements, the preliminary results announcement and interim report for the six months ended 30 June 2009.

Report of the Supervisory Committee

The independent opinions of the Supervisory Committee on its work during the year ended 31 December 2009 are summarised as follows:

1. The Supervisory Committee reviewed the Company's financial statements and interim report for the six months ended 30 June 2009 and financial statements and annual report for the year ended 31 December 2008 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 of the Company and is of the view that during the year ended 31 December 2009, all the directors and managers 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.

BY ORDER OF THE SUPERVISORY COMMITTEE

David Siu Kee KIANG
Chairman

Shanghai, the PRC
10 March 2010

Independent Auditor's Report

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

We have audited the financial statements of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") set out on pages 49 to 100, which comprise the statement of financial position as at 31 December 2009 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 2009, 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
10 March 2010

Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	5	**645,638**	932,581
Cost of sales		**(630,097)**	(955,000)
Gross profit/(loss)		**15,541**	(22,419)
Selling and distribution costs		**(5,436)**	(6,814)
General and administrative expenses		**(51,071)**	(60,979)
Research and development costs		**(41,842)**	(32,284)
Other income and gains	6	**5,067**	48,628
Other expenses	6	**(15,913)**	(146,393)
Finance costs	7	**(9,253)**	(16,952)
Loss before income tax	7	**(102,907)**	(237,213)
Income tax	10	**92**	130
Net loss for the year		**(102,815)**	(237,083)
Other comprehensive income for the year		**—**	—
Total comprehensive loss for the year attributable to ordinary equity holders of the Company		**(102,815)**	(237,083)
Loss per share attributable to ordinary equity holders of the Company			
– Basic	12	**(6.70) cents**	(15.45) cents

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

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

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	13	**436,511**	579,405
Construction in progress	14	**646**	731
Prepaid land lease payments	15	**33,543**	34,316
Intangible assets	16	**10,017**	10,687
Total non-current assets		**480,717**	625,139
Current assets			
Inventories	17	**92,680**	156,220
Accounts and notes receivables	18	**63,444**	41,168
Prepayments, deposits and other receivables	19	**12,880**	16,358
Other financial asset	20	**—**	10,000
Due from related companies	21	**15,558**	28,442
Cash and cash equivalents	22	**317,996**	261,887
Total current assets		**502,558**	514,075
Total assets		**983,275**	1,139,214
Current liabilities			
Accounts payable	23	**86,329**	122,108
Other payables and accruals		**45,656**	47,519
Due to related companies	21	**25,282**	43,456
Government grants	24	**13,100**	—
Interest-bearing bank borrowings	25	**178,282**	188,598
Total current liabilities		**348,649**	401,681
Net current assets		**153,909**	112,394
Non-current liability			
Deferred tax liability	26	**—**	92
Net assets		**634,626**	737,441
Equity			
Share capital	27	**1,534,227**	1,534,227
Reserves	28	**(899,601)**	(796,786)
Shareholders' equity		**634,626**	737,441

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 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
Share capital	27		
Ordinary shares of RMB1.00 each:			
At beginning and end of year		**1,534,227**	1,534,227
Capital reserve	28 (a)		
At beginning and end of year		**205,363**	205,363
Statutory surplus reserve	28 (b)		
At beginning and end of year		**19,353**	19,353
Accumulated losses	28 (c)		
At beginning of year		**(1,021,502)**	(784,419)
Total comprehensive loss for the year		**(102,815)**	(237,083)
At end of year		**(1,124,317)**	(1,021,502)
Reserves		**(899,601)**	(796,786)
Shareholders' equity		**634,626**	737,441

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

Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Loss before income tax		**(102,907)**	(237,213)
Adjustments for:			
Depreciation	7	**157,371**	222,973
Amortisation of intangible assets	7	**4,066**	3,843
Recognition of prepaid land lease payments	7	**773**	769
(Gain)/loss on disposal of property, plant and equipment	7	**(5)**	835
Impairment loss on property, plant and equipment	7	**—**	145,143
(Reversal of allowance)/allowance for doubtful debts	7	**(1,789)**	9,056
(Reversal of allowance)/allowance for inventories	7	**(20,397)**	16,609
Reversal of welfare payable	7	**(7,831)**	—
Loss on interest rate swaps		**250**	750
Finance costs		**9,253**	16,952
Subsidy income		**(3,930)**	(977)
Interest income		**(1,137)**	(4,635)
Operating profit before working capital changes		**33,717**	174,105
(Increase)/decrease in accounts and notes receivables		**(20,487)**	33,554
Decrease in inventories		**83,937**	61,678
Decrease in prepayments, deposits and other receivables		**3,168**	25,816
(Decrease)/increase in balances due to related companies		**(5,290)**	46,661
Decrease in accounts payable		**(35,779)**	(49,572)
Increase/(decrease) in other payables and accruals		**6,399**	(30,868)
Cash generated from operations		**65,665**	261,374
Interest paid		**(9,292)**	(19,915)
Interest received		**1,447**	4,258
Subsidy received		**3,930**	977
Payments on interest rate swaps		**(642)**	(145)
Net cash flows from operating activities		**61,108**	246,549

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

Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from investing activities			
Purchase of items of property, plant and equipment, construction in progress and intangible assets		**(17,789)**	(19,964)
Proceeds from disposal of items of property, plant and equipment		**6**	—
Receipt of government grants		**13,100**	—
Decrease/(increase) in other financial asset		**10,000**	(10,000)
Net cash flows from/(used in) investing activities		**5,317**	(29,964)
Cash flows from financing activities			
New bank loans		**178,314**	205,038
Repayment of bank loans		**(188,630)**	(366,731)
Net cash flows used in financing activities		**(10,316)**	(161,693)
Net increase in cash and cash equivalents		**56,109**	54,892
Cash and cash equivalents at beginning of year		**261,887**	206,995
Cash and cash equivalents at end of year		**317,996**	261,887
Analysis of balances of cash and cash equivalents			
Cash and bank balances	22	**59,460**	71,659
Non-pledged time deposits	22	**258,536**	190,228
		317,996	261,887

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

Notes to Financial Statements

31 December 2009

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. 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. The financial statements 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 2009 have been prepared on a going concern basis because the Company believes that it has sufficient cash flows from operations and sufficient 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 end of the reporting period.

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

Changes in accounting policy and disclosures

The Company has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs and* IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation and* IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC-Int 9 and IAS 39 Amendments	Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement - Embedded Derivatives*
IFRIC-Int 13	*Customer Loyalty Programmes*
IFRIC-Int 15	*Agreements for the Construction of Real Estate*
IFRIC-Int 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to IFRSs (issued in May 2008)*	Amendents to a number of IFRSs

* Except for the amendments to IFRS 5 which is effective for the annual periods on or after 1 July 2009, the Company has adopted other amendments included in Improvements to IFRSs issued in May 2008 in the current year's financial statements.

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

IFRS 8 Operating Segments

IFRS 8, which replaces IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity 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 operates, and revenue from the Company's major customers. The Company concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

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

Changes in accounting policy and disclosures (Continued)

IAS 1 (Revised) Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present one single statement.

Excepted as stated above, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *Additional Exemptions for First-time Adopters*[2]
IFRS 1 Amendment	Amendment to IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[4]
IFRS 2 Amendments	Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendments	Amendments to IAS 32 *Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*[1]
IFRIC-Int 14 Amendments	Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC-Int 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in Improvements to IFRSs issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to Sell the Controlling Interest in a Subsidiary* [1]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issued but not yet effective IFRSs (Continued)

Apart from the above, IASB has issued *Improvements to IFRSs 2009** which sets out amendments to a number of IFRSs resulting from its annual improvements project published in April 2009. Improvements to IFRSs 2009 are effective for annual periods beginning on or after 1 January 2010, unless stated otherwise. There are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013
* Improvements to IFRSs 2009 contain amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Company considers that these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

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.

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale".

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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation.

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

Property, plant and equipment and depreciation (Continued)

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of non-financial assets

The Company assesses at the end of each reporting period 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. An asset's recoverable amount is 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 profit or loss in the period in which it arises.

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

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period 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 profit or loss 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.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently 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 financial year end.

Software

Software are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to ten years, commencing from the date when the products are put into commercial production

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred 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 availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

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, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company did not have financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets at 31 December 2008 and 31 December 2009.

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.

The Company's financial assets include cash and bank balances, trade and other receivables and amounts due from related companies.

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

Financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs.

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 when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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.

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

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment 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 credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, an amount due to related companies and interest-bearing bank borrowings.

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

Financial liabilities *(Continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing bank 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. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, 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.

Cash and cash equivalents

For the purpose of the statement of cash flows, 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 have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents, bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 end of the reporting period 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 profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

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

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

Income tax *(Continued)*

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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a government grant account and is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

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

Revenue recognition

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

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

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

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency transactions

The functional and presentation currency of the Company is RMB.

Foreign currency transactions recorded by the Company are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are recognised in profit or loss. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 end of the reporting period 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 end of the reporting period, 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 the end of each reporting period. 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 profit or loss.

(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:

	2009 **RMB'000**	2008 RMB'000
United States of America	**368,545**	457,381
Europe	**148,162**	297,261
Asia	**128,931**	177,939
	645,638	932,581

4. SEGMENT INFORMATION *(Continued)*

Information about major customers

The Company's revenue of approximately RMB409,841,000 (2008: RMB502,735,000) was derived from sales to four customers (2008: three) which individually accounted for more than 10% of the Company's total revenue during the year. Sales to a particular customer include sales to a group of entities which are known to be under common control with that customer.

5. REVENUE

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year.

An analysis of revenue is as follows:

	2009 **RMB'000**	2008 RMB'000
Sale of goods	**645,184**	932,340
Others	**454**	241
	645,638	932,581

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2009 RMB'000	2008 RMB'000
Other income and gains		
Subsidy income	**3,930**	977
Interest income	**1,137**	4,635
Insurance compensation received for power failure	**—**	33,410
Arbitration settlement received	**—**	5,132
Net foreign exchange gain	**—**	681
Others	**—**	3,793
	5,067	48,628
Other expenses		
Loss arising from an incident [(1)]	**(13,445)**	—
Loss on interest rate swaps	**(250)**	(750)
Impairment loss on property, plant and equipment	**—**	(145,143)
Donation	**—**	(500)
Net foreign exchange loss	**(2,082)**	—
Others	**(136)**	—
	(15,913)	(146,393)

Note:

(1) As a result of the Company's liquid and gas supplier incorrectly replacing and re-connecting one drum of silicon tetrachloride (SiCl4), some of this liquid was inadvertently released into the Company's production area at its 5-inch wafer fabrication facilities (the "Incident").

The loss resulting from wafer scraps, repair of tools and overhaul of the clean room facilities and other incidental costs as a result of the Incident amounting to RMB13,445,000 was recognised as other expenses for the year ended 31 December 2009.

The Company has notified the liquid and gas supplier that it reserves all its rights to claim compensation for all losses resulting from the Incident, which shall not be limited to the losses recognised. The compensation will not be recognised as income until it is received or otherwise there is reasonable assurance that it will be received.

7. LOSS BEFORE INCOME TAX

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

	2009 RMB'000	2008 RMB'000
Cost of inventories sold	**630,097**	955,000
Depreciation	**157,371**	222,973
Amortisation of intangible assets	**4,066**	3,843
Amortisation of prepaid land lease payments	**773**	769
Research and development costs	**41,842**	32,284
Auditors' remuneration	**1,600**	1,700
Employee benefits expense (including directors', supervisors' and senior executives' remuneration as set out in note 8):		
Retirement benefits (note 9)		
- defined contribution fund	**13,214**	10,985
Accommodation benefits (note 9)		
- defined contribution fund	**4,780**	4,009
Salaries and other staff costs	**116,722**	151,936
Reversal of welfare payable [(1)]	**(7,831)**	—
Reversal of retirement benefits payable	**—**	(23,503)
	126,885	143,427
Interest on bank loans	**9,253**	16,952
Impairment loss on property, plant and equipment	**—**	145,143
(Gain)/loss on disposal of property, plant and equipment	**(5)**	835
(Reversal of allowance)/allowance for doubtful debts	**(1,789)**	9,056
(Reversal of allowance)/allowance for inventories	**(20,397)**	16,609

Note:

(1) Reversal of welfare payable

According to the relevant PRC regulations, the Company accrued employees' welfare benefits ("14% welfare") based on the prescribed rate of 14% on the employees' average monthly salary in previous years.

According to the circular Guoshuihan (1999) No. 709 on foreign-invested enterprise social welfare provision released in 1999, the Company is no longer required to make the accrual for the 14% welfare. However, the circular does not specify the usage of the remaining balance. The management of the Company decided to keep the 14% welfare balance accrued in previous years, with a plan to set up special assistance fund for employees.

In 2009, management decided to reverse the remaining welfare balance amounting to RMB7,831,000 to general and administrative expenses due to the cancellation of the plan according to the current economic condition.

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

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009 **RMB'000**	2008 RMB'000
Fees	**1,855**	2,728
Other emoluments for executive directors and supervisors:		
- Salaries, allowance and other benefits	**1,970**	3,467
- Bonuses	**291**	426
- Retirement contributions	**75**	52
- Compensation for loss of office	**—**	1,396
	2,336	5,341
	4,191	8,069

(a) Independent non-executive directors

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

	2009 **RMB'000**	2008 RMB'000
Mr. James Arthur Watkins	**220**	220
Mr. Thaddeus Thomas Beczak	**220**	220
Dr. Shen Weijia	**220**	220
	660	660

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

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

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries and other benefits RMB'000	Bonuses RMB'000	Retirement contributions RMB'000	Total remuneration RMB'000
2009					
Executive directors:					
Mr. Zhou Weiping	—	851	72	25	948
Ms. Cheng Jianyu	—	947	208	25	1,180
	—	1,798	280	50	2,128
Non-executive directors:					
Dr. Chen Jianming	110	—	—	—	110
Mr. Zhu Jian	110	—	—	—	110
Mr. Zhu Peiyi	110	—	—	—	110
Mr. Sun Zhen*	41	—	—	—	41
Mr. Li Zhi**	54	—	—	—	54
Mr. Christopher Paul Belden	110	—	—	—	110
Mr. Yeh Yi Liang	110	—	—	—	110
	645	—	—	—	645
Supervisors:					
Mr. Shen Qitang	110	—	—	—	110
Mr. Yang Yanhui	110	—	—	—	110
Mr. David Siu Kee Kiang	110	—	—	—	110
Mr. Guo Yiwu	110	—	—	—	110
Ms. Chen Yan	110	—	—	—	110
Mr. Pan Guojin	—	172	11	25	208
	550	172	11	25	758
	1,195	1,970	291	75	3,531

* The director resigned during the year ended 31 December 2009.

** The director was appointed during the year ended 31 December 2009.

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

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

	Fees RMB'000	Salaries and other benefits RMB'000	Bonuses 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
Dr. 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
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 resigned during the year ended 31 December 2008.

** These directors and supervisor were appointed during the year ended 31 December 2008.

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

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

(c) *Five highest paid employees*

The five highest paid individuals in the Company include two (2008: two) executive directors for the year ended 31 December 2009, details of whose emoluments have been disclosed above.

The details of the emoluments of the remaining three (2008: three) highest paid individuals are as follows:

	2009	2008
	RMB'000	RMB'000
Salaries and other benefits	**3,302**	3,455
Bonuses	**532**	880
Compensation for loss of office	**—**	1,532
	3,834	5,867

The number of the three (2008: three) non-director, highest paid employees, whose remuneration fell within the following bands, is as follows:

	2009	2008
HK$1,000,001 - HK$1,500,000	**2**	—
HK$1,500,001 - HK$2,000,000	**1**	2
HK$2,000,001 - HK$2,500,000	**—**	—
HK$2,500,001 - HK$3,000,000	**—**	1
	3	3

During the years ended 31 December 2008 and 2009, no emoluments were paid by the Company to any of directors, supervisors and non-director highest paid employees of the Company as an inducement to join or upon joining the Company. During the year ended 31 December 2009, no compensations for loss of office were paid by the Company to any of directors, supervisors and non-director highest paid employees of the Company (2008: RMB2,928,000).

9. RETIREMENT BENEFITS AND ACCOMMODATION

Retirement benefits

As stipulated by the PRC law and regulations, the Company participates in a defined contribution retirement plan. All local Chinese employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company is required to make contributions to the Labour and Social Security Bureau of the Shanghai Government at a rate of 22.5% of the employees' salaries and wages of the previous year, limited to a ceiling amount of three times of the previous year's average basic salaries within the geographical area where the local Chinese employees are under employment with the Company.

The Company has no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Shanghai Government as set out above. The retirement benefits do not apply to expatriate employees.

Accommodation benefits

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

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 2008 and 2009.

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.

Major components of income tax are as follows:

	2009 **RMB'000**	2008 RMB'000
Provision for income tax in respect of profit for the year	**—**	—
Deferred tax credit	**(92)**	(130)
Income tax credit	**(92)**	(130)

10. INCOME TAX *(Continued)*

A numerical reconciliation between income tax credit and loss before income tax multiplied by the applicable tax rate is as follows:

	2009 **RMB'000**	2008 RMB'000
Loss before income tax	**(102,907)**	(237,213)
Tax at the applicable tax rate of 15%	**(15,436)**	(35,582)
Tax effect of:		
- Expenses not deductible for tax purpose	**154**	34
- Temporary difference not recognised for the current period	**(27,073)**	3,970
- Taxable loss not recognised for the current period	**42,263**	31,448
Income tax credit	**(92)**	(130)

11. DIVIDENDS

The Board does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2009 (31 December 2008: Nil).

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

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

	2009	2008
Total comprehensive loss attributable to ordinary equity holders of the Company (RMB'000)	**(102,815)**	(237,083)
Weighted average number of ordinary shares in issue ('000)	**1,534,227**	1,534,227

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

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 2009:					
Cost:					
At 1 January 2009	156,297	3,651,309	72,426	3,328	3,883,360
Additions	—	1,549	675	—	2,224
Transferred from construction in progress	—	10,308	1,946	—	12,254
Disposals	—	(1,766)	(1,953)	—	(3,719)
At 31 December 2009	156,297	3,661,400	73,094	3,328	3,894,119
Accumulated depreciation:					
At 1 January 2009	39,045	2,409,345	54,923	2,871	2,506,184
Charge for the year	5,210	144,066	7,900	195	157,371
Disposals	—	(1,766)	(1,952)	—	(3,718)
At 31 December 2009	44,255	2,551,645	60,871	3,066	2,659,837
Accumulated impairment losses:					
At beginning and end of year	—	797,771	—	—	797,771
Net book value:					
At 31 December 2009	112,042	311,984	12,223	262	436,511

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 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

The Company's buildings, plant and machinery with a net book value of RMB561,445,000 at 31 December 2008 were pledged to banks as security for the bank loans amounting to US$25,502,800. The Company has repaid such bank loans during the year ended 31 December 2008, and the pledge of buildings, plant and equipment was released by the banks in 2009.

As at 31 December 2009, the Company has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB20,471,000 (2008: RMB21,246,000). Until the receipt of the certificates, the Company has no right to assign or pledge these buildings.

14. CONSTRUCTION IN PROGRESS

	2009 **RMB'000**	2008 RMB'000
At beginning of year	**731**	3,101
Additions	**12,169**	17,267
Transferred to property, plant and equipment	**(12,254)**	(19,637)
At end of year	**646**	731

The Company's construction in progress with a net book value of RMB731,000 at 31 December 2008 was pledged to banks as security for the bank loans amounting to US$25,502,800. The Company has repaid such bank loans during the year ended 31 December 2008, and the pledge of construction in progress was released by the banks in 2009.

15. PREPAID LAND LEASE PAYMENTS

	2009 **RMB'000**	2008 RMB'000
Carrying amount:		
At beginning of year	**35,085**	35,854
Amortisation for the year	**(773)**	(769)
At end of year	**34,312**	35,085
Current portion included in prepayments, deposits and other receivables	**(769)**	(769)
Non-current portion	**33,543**	34,316

The leasehold land is held under a long-term lease and is situated in Shanghai, the PRC.The Company's prepaid land lease payments with a net book value of RMB35,085,000 at 31 December 2008 were pledged to banks to secure the bank loans amounting to US$25,502,800. The Company has repaid such bank loans during the year ended 31 December 2008, and the pledge of prepaid land lease payments was released by the banks in 2009.

16. INTANGIBLE ASSETS

	2009 RMB'000	2008 RMB'000
Cost:		
At beginning of year	**21,858**	21,858
Addition	**3,396**	—
At end of year	**25,254**	21,858
Accumulated amortisation:		
At beginning of year	**(11,171)**	(7,328)
Amortisation for the year	**(4,066)**	(3,843)
At end of year	**(15,237)**	(11,171)
Net book value	**10,017**	10,687

The intangible assets are computer software.

17. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**29,778**	63,933
Spare parts and consumables	**59,803**	71,268
Work in progress	**29,653**	50,626
Finished goods	**8,855**	26,199
	128,089	212,026
Less: Allowance for inventories	**(35,409)**	(55,806)
	92,680	156,220
Represented by:		
Inventories carried at cost	**66,586**	67,999
Inventories carried at net realisable value	**26,094**	88,221
	92,680	156,220
Analysis of allowance for inventories:		
At beginning of year	**55,806**	49,133
(Reversed)/provided for the year	**(20,397)**	16,609
Written off for the year	**—**	(9,936)
At end of year	**35,409**	55,806

18. ACCOUNTS AND NOTES RECEIVABLES

	2009 RMB'000	2008 RMB'000
Accounts receivable	**67,336**	44,859
Notes receivable	**3,375**	5,365
	70,711	50,224
Allowance for accounts and notes receivables	**(7,267)**	(9,056)
	63,444	41,168

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Credit terms granted by the Company to its customers generally range from 30 to 60 days. The Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Accounts receivables are non-interest-bearing.

An aged analysis of the accounts and notes receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2009 RMB'000	2008 RMB'000
Outstanding balances with ageing:		
Within 30 days	**52,165**	38,615
Between 31 and 90 days	**11,154**	408
Between 91 and 180 days	**29**	1,919
Between 181 and 365 days	**14**	226
Over 365 days	**82**	—
	63,444	41,168

18. ACCOUNTS AND NOTES RECEIVABLES *(Continued)*

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

	2009 RMB'000	2008 RMB'000
At beginning of year	**9,056**	—
Impairment losses (reversed)/recognised	**(1,789)**	9,056
At end of year	**7,267**	9,056

As at 31 December 2008 and 2009, the analysis of accounts and notes receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total RMB'000	Neither past due nor impaired RMB'000	<60 days RMB'000	61-180 days RMB'000	181-365 days RMB'000	>365 days RMB'000
31 December 2009	**63,444**	**53,981**	**9,341**	**26**	**14**	**82**
31 December 2008	41,168	35,216	3,699	2,253	—	—

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

	2009 RMB'000	2008 RMB'000
Prepayments	**4,176**	2,352
Deposits	**107**	107
Input value-added tax recoverable	**5,918**	10,083
Sundry debtors	**2,679**	3,816
	12,880	16,358

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 ten months. The investment plan guaranteed a fixed return of 5.9% per annum. In June 2009, the Company received principal and return of the investment upon the end of the investment plan.

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

	2009 RMB'000	2008 RMB'000
Cash and bank balances	**59,460**	71,659
Time deposits	**258,536**	190,228
	317,996	261,887

At the end of the reporting period, the cash and bank balances of the Company denominated in Renminbi ("RMB") amounted to RMB40,027,000 (2008: RMB23,413,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default

23. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	2009 RMB'000	2008 RMB'000
Outstanding balances with ageing:		
Within 30 days	**76,007**	101,868
Between 31 and 90 days	**5,445**	13,245
Between 91 and 180 days	**1,415**	3,278
Between 181 and 365 days	**1,160**	1,302
Over 365 days	**2,302**	2,415
	86,329	122,108

24. GOVERNMENT GRANTS

	2009	2008
	RMB'000	RMB'000
Government grants	**13,100**	—

Government grants represent project-related grants received by the Company. It will be recognised in profit or loss on a systematic basis when the attaching conditions are complied with.

25. INTEREST-BEARING BANK BORROWINGS

		2009	
	Effective interest rate (%)	**Maturity**	**RMB'000**
Unsecured bank loans repayable within one year	**3.66~5.31**	**2010**	**178,282**

		2008	
	Effective interest rate (%)	Maturity	RMB'000
Unsecured bank loans repayable within one year	4.78~6.78	2009	188,598

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 prepaid land lease payments with net book values of RMB561,445,000, RMB731,000 and RMB35,085,000, respectively, at 31 December 2008 were pledged to banks as security for the bank loans amounting to US$25,502,800. The Company has repaid such bank loans during the year ended 31 December 2008, and the pledge of buildings, plant and machinery, construction in progress, and prepaid land lease payments was released by the banks in 2009.

26. DEFERRED TAX LIABILITY

	2009	2008
	RMB'000	RMB'000
Deferred tax liability in respect of		
- Depreciation charges	**—**	92

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

	2009	2008
	RMB'000	RMB'000
Tax losses	**702,786**	408,097
Temporary differences due to impairment of plant and machinery	**457,436**	649,321
Temporary differences due to allowance for inventories	**35,409**	55,806
Temporary differences due to provision of sales return	**2,357**	2,350
Temporary differences due to allowance for accounts and notes receivables	**7,267**	9,056
Depreciation difference of plant and machinery between IFRSs and PRC GAAP	**1,056**	—
Fair value loss on interest rate swaps	**152**	639
	1,206,463	1,125,269

The above tax losses are available for offsetting against future taxable profits of the Company before the expiry of the five year 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.

27. SHARE CAPITAL

	Notes	31 December 2009 Number of shares '000	31 December 2008 Number of shares '000	31 December 2009 RMB'000	31 December 2008 RMB'000
Authorised		**1,534,227**	1,534,227	**1,534,227**	1,534,227
Issued and fully paid:					
Non-listed Foreign Shares	(a)	**12,643**	12,643	**12,643**	12,643
Domestic Shares	(b)	**390,250**	390,250	**390,250**	390,250
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 the PRC law, have confirmed that the subsistence of Non-listed Foreign Shares do not contravene any PRC laws or regulations, and until new laws or regulations are introduced. the holders of Non-listed Foreign Shares shall be treated as being in the same class as the holders of Domestic Shares. The holders of the Non-listed Foreign Shares enjoy the same rights as the holders of Domestic Shares, 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.

27. SHARE 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 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 Mainland China.

(d) Converted H Shares

Converted H Shares are H Shares held by NXP B.V. and SCIP (HK) Limited at the end of the reporting period. 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 the 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.

28. 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 authorised 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 authorised share capital.

28. RESERVES *(Continued)*

(c) Retained earnings/ accumulated losses

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

29. COMMITMENTS

The Company had the following capital commitments at the end of the reporting period:

	2009 **RMB'000**	2008 RMB'000
Capital commitments in respect of property, plant and equipment:		
– contracted, but not provided for	**9,810**	10,615
– authorised, but not contracted for	**97,291**	12,322
	107,101	22,937

30. 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:

	Notes	**2009** **RMB'000**	2008 RMB'000
Sales	(i)	**81,248**	219,533
Technology transfer fees	(ii)	**4,094**	7,991
Information technology ("IT") related service fees	(iii)	**2,098**	2,520

30. RELATED PARTY TRANSACTIONS *(Continued)*

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 party 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").

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Loans and receivables	
	2009	2008
	RMB'000	RMB'000
Accounts and notes receivables	**63,444**	41,168
Financial assets included in prepayments, deposits and other receivables	**1,482**	4,852
Other financial asset	**—**	10,000
Due from related companies	**15,558**	28,442
Cash and cash equivalents	**317,996**	261,887
	398,480	346,349

31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

2009

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Accounts payable	—	86,329	86,329
Financial liabilities included in other payables and accruals	152	37,220	37,372
Due to related companies	—	4,377	4,377
Interest-bearing bank borrowings	—	178,282	178,282
	152	306,208	306,360

2008

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Accounts payable	—	122,108	122,108
Financial liabilities included in other payables and accruals	639	41,508	42,147
Due to related companies	—	10,650	10,650
Interest-bearing bank borrowings	—	188,598	188,598
	639	362,864	363,503

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 payable, as well as other payables and accruals. 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 bank 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**
2009		
US$	**+20**	**(18)**
US$	**-15**	**14**
2008		
US$	+20	(28)
US$	-15	21

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 by US dollars and other currencies.

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 Company has no significant foreign currency risk.

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

	Increase/ decrease in US$ rate	Effect on profit before tax RMB'000
2009	**+5%**	**11,368**
	-5%	**(11,368)**
2008	+5%	6,642
	-5%	(6,642)

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:

	2009 RMB'000	2008 RMB'000
Financial assets		
Cash and cash equivalents:		
– US$	**276,340**	237,546
– Others	**1,627**	929
	277,967	238,475
Accounts and notes receivables:		
– US$	**59,746**	38,068
Due from related companies:		
– US$	**15,558**	28,442
Financial liabilities		
Interest-bearing bank borrowings:		
– US$	**68,282**	78,598
Accounts payable:		
– US$	**30,735**	56,096
– Others	**2,099**	5,624
	32,834	61,720
Other payables and accruals:		
– US$	**4,258**	3,034
– Others	**272**	1,120
	4,530	4,154
Due to related companies:		
– US$	**21,009**	33,480
– Others	**179**	1,916
	21,188	35,396

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

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.

At the end of the reporting period, the Company had certain concentrations of credit risk as 33% (2008: 20%) and 82% (2008: 77%) of the Company's trade receivables were due from the Company's largest customer and the five largest customers, respectively.

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 flows 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 receivables and the servicing of financing obligations. If the Company is unable to manage fluctuations in cash flows, 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 RMB110,000,000 and US$10,000,000 (equivalent to approximately RMB68,282,000) that will expire in February 2010 and December 2010, respectively.

The maturity profile of the Company's financial liabilities at 31 December 2008 and 2009 was as follows:

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
2009				
Accounts payable	**4,054**	**69,916**	**12,359**	**86,329**
Other payables and accruals	**37,372**	**—**	**—**	**37,372**
Due to related companies	**329**	**4,048**	**—**	**4,377**
Interest-bearing bank borrowings	**—**	**47,797**	**130,485**	**178,282**
	41,755	**121,761**	**142,844**	**306,360**
2008				
Accounts payable	65,878	55,009	1,221	122,108
Other payables and accruals	42,147	—	—	42,147
Due to related companies	9,974	676	—	10,650
Interest-bearing bank borrowings	—	58,094	130,504	188,598
	117,999	113,779	131,725	363,503

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

Capital management

The primary objectives of the Company's capital management are 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 2009.

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

	2009 **RMB'000**	2008 RMB'000
Interest-bearing bank borrowings	**178,282**	188,598
Less: Cash and bank balances	**(317,996)**	(261,887)
Net debt	**(139,714)**	(73,289)
Tangible net assets	**624,609**	726,754
Net debt over tangible net assets ratio	**(0.22)**	(0.10)

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 the end of the reporting period approximated to their fair values.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 10 March 2010.