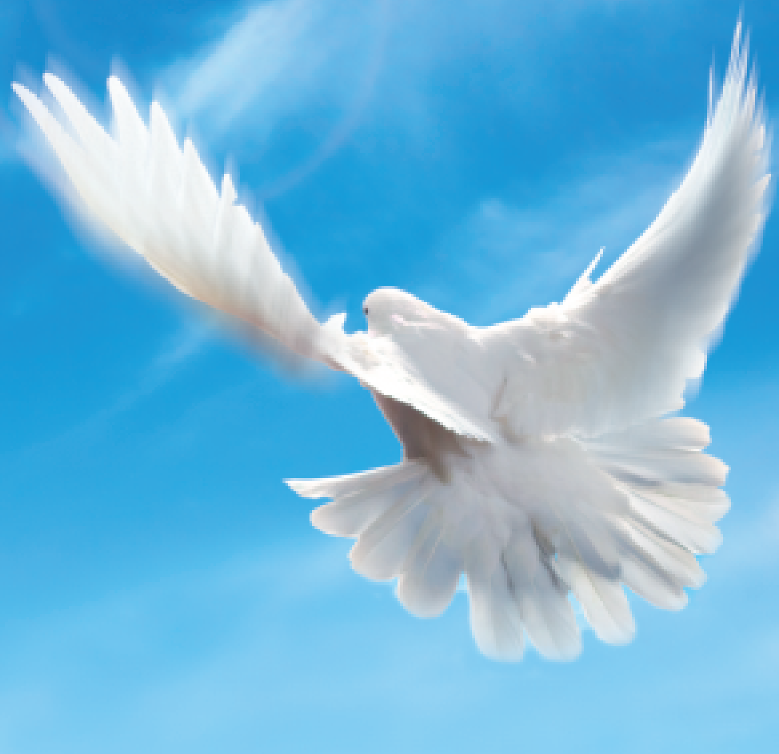
# ANNUAL REPORT 2010



**asmc**

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)

# Contents

# Corporate Information

## DIRECTORS

### *Executive Directors*

Mr. ZHOU Weiping
Ms. CHENG Jianyu

### *Non-executive Directors*

Dr. CHEN Jianming *(Chairman)*
Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN *(Vice Chairman)*
Ms. SHEN Qing *(Vice Chairman)*
Mr. ZHU Jian
Mr. LI Zhi
Mr. Winfried Lodewijk PEETERS

### *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
Ms. SHEN Qing

### *Remuneration Committee*

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

### *Nomination Committee*

Dr. SHEN Weijia *(Chairman)*
Mr. Winfried Lodewijk PEETERS
Mr. ZHU Jian
Ms. SHEN Qing
Mr. James Arthur WATKINS

### *Strategic Development Committee*

Mr. LI Zhi *(Chairman)*
Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN
Mr. ZHU Jian
Ms. SHEN Qing
Dr. SHEN Weijia

## SUPERVISORS

Mr. David Siu Kee KIANG *(Chairman)*
Mr. SHEN Qitang
Mr. SUN Biyuan
Ms. CHEN Yan
Mr. XU Ding
Mr. PAN Guojin

## JOINT COMPANY SECRETARIES

Mr. JING Wei
Ms. MA Sau Kuen Gloria

## AUTHORIZED REPRESENTATIVES

Ms. CHENG Jianyu
Mr. JING Wei

## EXTERNAL AUDITORS

Ernst & Young

# Corporate Information

## REGISTERED OFFICE

### *Place of Business in the PRC*

385 Hong Cao Road
Shanghai 200233
PRC

### *Place of Business in Hong Kong*

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

## SHAREHOLDERS' ENQUIRIES

### *Contact Information*

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 2010:
published on 18 August 2010
Annual Results for 2010:
published on 9 March 2011

### *Annual General Meeting*

11.00 a.m. on Tuesday, 17 May 2011

# 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 2010.

2010 was not only a remarkable year for the semiconductor industry, but also a special year for the Company as well. Under the gradual recovery of the global economy, the semiconductor industry enjoyed a continued meaningful cyclical growth momentum, representing strong order demand in the first half of the year. Nonetheless, end-product makers were still committed to controlling their side of the supply/demand equation by keeping inventory at agile and manageable levels amid concerns about economic conditions in the U.S. and Europe, coupled with seasonal patterns. As such, supply constraints in the semiconductor industry ended in the second quarter as order patterns softened, which resulted in the Company's lower order intake numbers from some of the major customers in the fourth quarter of the year. In an overall positive market environment, the Company, relying on high proficient management, strict cost control and good business exploring ability, finally achieved strong revenue growth and returned to profitability in the year under review. As such, the Company's revenue for the year ended 31 December 2010 increased by 51.6% to RMB978.5 million from RMB645.6 million for the year ended 31 December 2009. Its production output of 8-inch equivalent wafers increased by 54.6% from 285,499 pieces in the preceding year to 441,511 pieces in the year ended 31 December 2010. The shipment of 8-inch equivalent wafers was 442,147 pieces in the year ended 31 December 2010, an increase of 55.4% from 284,486 pieces in the previous year.

In 2010, the Company recorded an operating profit of RMB124.4 million, compared to a loss of RMB82.8 million from operating activities in 2009, primarily attributable to a significant increase in sales as a result of the continued market growth in the semiconductor industry. As a result of the foregoing, the Company achieved a significant turnaround in profitability with RMB119.7 million in net profit for the year ended 31 December 2010, compared to a net loss of RMB102.8 million for the year ended 31 December 2009. Basic earnings per share were RMB0.08 for the year ended 31 December 2010, compared to net loss of RMB0.07 per share for the year ended 31 December 2009.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

During the year under review, the Company has also made tremendous efforts to grasp new business opportunity and improve its overall competitiveness. As part of its efforts to support sustainable growth and development, the Company, after the completion of final qualification, has been successfully putting some newly developed automotive-related products into mass production in the first half of the year and generating smooth production ramp-up in the latter part of the year. Moreover, the Company also launched Micro-Electro-Mechanical Systems ("MEMS") project construction and entered into a frame purchase agreement with a major foreign player in the latter part of the year with a view to establishing MEMS process manufacturing platform.

# Chairman's Statement

Looking ahead to 2011, the global economy is likely to show slow improvement given the speed of recovery starting in the middle of 2009 began to decelerate in the middle of 2010 particularly owing to weakness in the major developed economies. The semiconductor industry is anticipated to enter into phase of moderated growth and return to normal seasonal pattern. On the other hand, the Company will also face challenges from uncertain economic conditions in the major developed counties, high and persistent inflation rate in the PRC and the gradual appreciation of the Chinese currency against the US dollar. In view of a slow-to-moderate growth environment, the Company will internally further streamline production line to maximize productivity, reinforce a stringent cost control and strictly implement production management measures as well as strengthen the quality control practice to ensure product quality with the objective to improve production efficiency and overall competitiveness. Meanwhile, the Company will continue to focus on production ramp-up of some newly developed products, in particular automotive chips, which are anticipated to generate additional revenue streams in the coming year, whilst expediting the process of establishing MEMS process manufacturing platform by working closely with a major foreign player in this sector, which will become another new driving force for high valued-added products production going forward. Moreover, the Company has been consciously strengthening the research and development capacities to develop or jointly develop new high margin product series with competitive pricing and improve product mix for broadening customer and revenue base.

With this opportunity, I would like to express my deepest appreciation to our distinguished customers, business partners and suppliers for their continued faithfulness and supports. My sincere appreciation also goes to the management and all staff who put in their endeavors and efforts to achieve remarkable revenue growth and a turnaround with a net profit of RMB119.7 million in 2010. Lastly, I would also like to thank every member of the Board for their efforts and invaluable and professional opinions given to the Company in order to achieve its sustainable growth and maximize shareholder value for 2010 and beyond.

**Chen Jianming**
*Chairman*

9 March 2011

# Management Discussion and Analysis

In respect of the year 2010, we are proud of the remarkable accomplishment achieved by the Company through the dedicated employees' hardwork to seize the cyclical growth momentum presented by the semiconductor industry. As a result, the Company achieved a turnaround in the financial year of 2010 by recording a net profit of RMB119.7 million against a net loss of RMB102.8 million in 2009.

During the year under review, the Company, after the completion of final qualification, has been successfully putting some newly developed products, specially based on the special automotive-related manufacturing technology and process, into mass production in the first half of the year, and generating smooth production ramp-up in the latter part of the year. Moreover, the Company continued to emphasize on new business development both at home and abroad. As part of those efforts, the Company also initiated MEMS project construction and entered into a frame purchase agreement with a major foreign player in this sector with a view to establishing MEMS process manufacturing platform. These initiatives will further help pave the way for a more sustainable, profitable and competitive development model.

## COMPARISON BETWEEN 2009 AND 2010 ENDED 31 DECEMBER

### *Sales*

The sales of the Company increased by 51.6% from RMB645.6 million in 2009 to RMB978.5 million in 2010, resulting in a higher overall utilization rate increased from 43% in 2009 to 65% in 2010. The Company's throughput of 8-inch equivalent wafers increased by 54.6% from 285,499 pieces for the year ended 31 December 2009 to 441,511 pieces for the year ended 31 December 2010 and correspondingly the Company's shipment of 8-inch equivalent wafers improved by 55.4% from 284,486 pieces to 442,147 pieces.

### *Cost of sales and gross profit*

The cost of sales was RMB758.1 million in 2010, an increase of 20.3% from RMB630.1 million in 2009. The gross profit was RMB220.4 million in 2010 compared to RMB15.5 million in 2009, while the Company's gross margin in 2010 was 22.5% compared to 2.4% in 2009. The improvement in gross profit and margin was mainly due to higher level of capacity utilization rate, which generated higher sales volume in 2010 and to a lesser extent, the decrease in depreciation charges as a result of certain assets being fully depreciated.

### *Other income and gains*

Other income and gains was RMB12.9 million in 2010, compared to RMB5.1 million in 2009. In 2010, the Company's other income and gains mainly derived from interest income and subsidy income, sale of scrap materials and others. In 2009, the Company's other income and gains mainly comprised interest income and subsidy income.

# Management Discussion and Analysis

### *Selling and distribution expenses*

Selling and distribution expenses decreased by 9.3% from RMB5.4 million in 2009 to RMB4.9 million in 2010, 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 increased by 21.3% from RMB51.1 million in 2009 to RMB62.0 million in 2010, primarily due to an increase in payroll related costs, partially offset by the reduction in doubtful debt.

### *Research and development costs*

Research and development costs were RMB29.2 million in 2010, down 30.1% from RMB41.8 million in 2009. Such decrease reflected lower cost of engineering wafers as a result of the increase of the overall wafer input, and to a lesser extent, the relative low levels of development activities related to 6-inch wafers.

### *Other expenses*

Other expenses amounted to RMB10.7 million in 2010, compared to RMB15.9 million in 2009. Other expenses in 2010 were primarily comprised of net foreign exchange loss, while in 2009, other expenses were mainly composed of loss arising from a leakage incident, loss on interest rate swap, net foreign exchange loss and others.

### *Finance costs*

Finance costs decreased by 26.9% from RMB9.3 million in 2009 to RMB6.8 million in 2010. 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 income of RMB119.7 million for the year ended 31 December 2010, compared to a net loss of RMB102.8 million for the year ended 31 December 2009.

### *Liquidity and capital resources*

The Company's cash and cash equivalents were RMB403.4 million as at 31 December 2010, compared to RMB318.0 million as at 31 December 2009. The Company's net cash inflow from operating activities showed an increase of 204.1% from RMB61.1 million for the year ended 31 December 2009 to RMB185.8 million for the year ended 31 December 2010.

The Company's net cash outflow from investing activities was RMB28.1 million in 2010, which represented the net effect of RMB35.4 million for purchase of items of property, plant and equipment, and construction in progress and intangible assets, and receipt of government grants of RMB7.3 million, compared to net cash inflow of RMB5.3 million from investing activities in 2009. The total capital expenditures amounted to RMB63.2 million for the year ended 31 December 2010, compared to RMB17.8 million for the year ended 31 December 2009. The automotive chip business related projects accounted for the majority of the capital expenditure spending in 2010.

The Company's net cash outflow from financing activities amounted to RMB62.1 million in 2010, compared to net cash outflow of RMB10.3 million in 2009. The net cash outflow of RMB62.1 million represented the net effect of RMB229.3 million for the repayment of bank loans and the new bank loans of RMB167.3 million in 2010.

As at 31 December 2010, the Company's short-term interest-bearing borrowings were RMB116.2 million, of which approximately 43% was denominated in Renminbi ("RMB"), and the remaining 57% was denominated in US dollars.

As at 31 December 2010, the Company's current ratio was 2.11 when compared to 1.44 as at 31 December 2009. The Company's debt to equity ratio as at 31 December 2010 was 45.6%, compared to 54.9% as at 31 December 2009.

### *Employees*

As at 31 December 2010, the Company had 1,548 employees. The remuneration and employment benefits were provided for and paid in accordance with PRC law and regulations.

### *Interest rate risks*

The Company's exposure to market risk for changes in interest rate relates primarily to its interest-bearing bank borrowings. As at 31 December 2010, the Company's total borrowings were working capital loans. The interest rate on the Company's US dollar-denominated loans is linked to LIBOR. The Company has not executed interest rate swaps to hedge its exposure to interest rate risk since 1 April 2010.

### *RMB fluctuation risks*

RMB is the Company's functional and reporting currency. A large amount of the Company's revenue and expenditures are now denominated in foreign currency. In the event that the Company's RMB revenue is not sufficient to meet its RMB expenditure, the Company will be required to meet the difference by conversion of its foreign currencies deposit into RMB, which might result in exchange loss, ultimately leading to a negative impact on its cash flow. Whilst the Company did not engage in forward foreign exchange transactions or other hedging activities, it took steps to minimise its exposure to exchange risk by the early sale of foreign exchange balances.

# Management Discussion and Analysis

### *Capital commitment*

As at 31 December 2010, the Company had capital commitments for property, plant and equipment amounting to RMB199.5 million, of which RMB61.8 million was contracted but not provided for, while the remaining balance of RMB137.8 million was authorized but not contracted for.

## OPERATING RESULTS FOR THE THREE MONTHS ENDED 31 DECEMBER 2010

Sales for the three months ended 31 December 2010 were RMB270.1 million, down 2.3% from RMB276.5 million for the three months ended 30 September 2010, due mainly to the lower wafer shipments as a result of decreased order intake from the Company's major customers.

Gross profit decreased from RMB73.7 million for the three months ended 30 September 2010 to RMB58.3 million for the three months ended 31 December 2010. Gross margin for the three months ended 31 December 2010 was 21.6%, compared to 26.7% for the three months ended 30 September 2010. The decline in gross margin was primarily attributable to the lower level of capacity utilization rate and the increase in labor costs.

Other income and gains for the three months ended 31 December 2010 were RMB3.5 million, compared to RMB5.7 million for the third quarter of 2010. Other income and gains in the third quarter and the fourth quarter of 2010 were primarily comprised of subsidy income, interest income, sale of scrap materials and others.

Selling and distribution costs for the three months ended 31 December 2010 amounted to RMB1.3 million, compared to RMB1.0 million for the three months ended 30 September 2010, primarily attributable to the increase in payroll related costs.

General and administrative expenses for the three months ended 31 December 2010 were RMB20.2 million, compared to RMB16.0 million for the three months ended 30 September 2010, which were primarily due to the increase in payroll related costs and logistics charges associated with purchase of fixed assets.

Research and development costs for the three months ended 31 December 2010 were RMB8.6 million, compared to RMB6.2 million for the three months ended 30 September 2010. This was largely due to the increase in research and development activities.

Other expenses for the three months ended 31 December 2010 were RMB3.7 million, compared to RMB5.4 million for the three months ended 30 September 2010. Other expenses in the third quarter and the fourth quarter of 2010 were only comprised of net foreign exchange loss.

Finance costs for the three months ended 31 December 2010 amounted to RMB1.3 million, compared to RMB1.8 million for the three months ended 30 September 2010.

Collectively, the Company recorded a net income of RMB26.7 million for the three months ended 31 December 2010, compared to a net income of RMB49.1 million for the three months ended 30 September 2010.

# Management Discussion and Analysis

## 1. Revenue Analysis

For the three months ended 31 December 2010, sales from communication, computer and consumer products were basically in line with the prior quarter.

| By Application | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| Communication | 33% | 34% | 32% |
| Computer | 33% | 32% | 33% |
| Consumer | 34% | 34% | 35% |

For the three months ended 31 December 2010, sales to the USA, Europe and Asia Pacific accounted for 58%, 27% and 15% of total revenue respectively, compared to 56%, 26% and 18% in the previous quarter.

| By Geography | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| USA | 58% | 56% | 58% |
| Europe | 27% | 26% | 24% |
| Asia Pacific | 15% | 18% | 18% |

For the three months ended 31 December 2010, sales to IDM and fabless customers accounted for 28% and 72% of total revenue respectively, and remained almost flat sequentially.

| By Customer Type | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| IDM | 28% | 27% | 27% |
| Fabless | 72% | 73% | 73% |

For the three months ended 31 December 2010, sales as a percentage of total revenue from 5-inch, 6-inch and 8-inch wafer were 19%, 42% and 38% respectively, compared to 21%, 40% and 39% in the previous quarter.

| By Product | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| 5" wafers | 19% | 21% | 22% |
| 6" wafers | 42% | 40% | 46% |
| 8" wafers | 38% | 39% | 31% |
| Others[1] | 1% | 0% | 1% |

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

## 2. Utilization and Capacity (8" equivalent)

### 2-1 Utilization

Overall capacity utilization decreased by three percentage points from 75% in the previous quarter to 72% for the three months ended 31 December 2010.

| Fab | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| Fab 1/2 | | | |
| 5-inch wafers | 63% | 73% | 47% |
| 6-inch wafers | 65% | 67% | 37% |
| Fab 3 | | | |
| 8-inch wafers | 83% | 84% | 51% |
| Overall Capacity Utilization Rate | 72% | 75% | 44% |

Notes: 1. The capacity utilization rate represents the percentage of the actual number of processing steps (measured by the number of masks used) for the number of semiconductor wafers shipped in the reporting period divided by the total number of processing steps a fab is capable to produce during the corresponding period.

2. The capacity utilization rates stated in the table are calculated on the basis of the theoretical capacity of the Company's fabrication facilities, as discussed in Note 2 to paragraph 2-2 below. In consequence, the utilization rates of actual operating capacity are higher than the figures stated in the above table.

3. After taking into account 6-inch wafers produced using equipment consigned under arrangements with a customer, the utilization rate of the Company's total 6-inch wafers equipment in the fourth quarter of 2010 was 59%, compared to 61% in the third quarter of 2010. As a result, the overall capacity utilization rate of the Company's total equipment in the fourth quarter of 2010 was 69%, compared to 72% in the third quarter of 2010.

**2-2 Capacity (8" Equivalent)**

The capacity for the three months ended 31 December 2010 was 154,000 8-inch equivalent wafers, which was the same as that of the previous quarter and that of the fourth quarter of 2009.

| Fab (wafers in thousand) | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| 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 |

Notes: 1. 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.

2. The installed capacity of the Company's fabrication facilities is calculated assuming continuous production of an optimum product mix, which in practice is unlikely ever to be achieved. In consequence, the actual operating capacity is less than the figures stated in the table.

3. After taking into account the 6-inch wafers equipment consignment arrangement with a customer described above, the installed capacity of 6-inch wafers of the Company's total equipment for the fourth quarter and third quarter of 2010 was 94K 8-inch equipment wafers respectively. As a result, total installed quarterly capacity of the Company's total equipment of the fourth and third quarter of 2010 was 163K 8-inch equivalent wafers.

### 3. Receivable/Inventory Turnover

Receivable turnover for the three months ended 31 December 2010 was 35 days, which was the same as that in the third quarter of 2010.

Inventory turnover increased from 80 days for the three months ended 30 September 2010 to 84 days for the three months ended 31 December 2010.

| | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| Trade & Notes Receivables Turnover (days) | 35 | 35 | 45 |
| Inventory Turnover (days) | 84 | 80 | 75 |

### 4. Capital Expenditure

The capital expenditure for the three months ended 31 December 2010 amounted to RMB35.1 million, which was mainly spent in automotive chip business related projects and to a lesser extent, in operational efficiency improvement associated with production facilities.

| (Amount: RMB'000) | 4Q10 | 3Q10 | 4Q09 |
|---|---|---|---|
| Capex | 35,078 | 11,433 | 4,071 |

# Management Discussion and Analysis

## PROSPECTS AND FUTURE PLANS

The semiconductor industry is expected to enter into phase of moderated growth and return to normal seasonal patterns. The main challenges to the growth momentum are likely to come from different factors including the slow improvement in the global economy, high and persistent inflation rate in the People's Republic of China, as well as continuing appreciation of RMB against the US dollar, which in turn could cause some volatility in market sentiment.

In view of a slow-to-moderated growth environment, the Company is endeavoring to further maximize productivity and improve overall competitiveness by streamlining the production line, strengthening the quality control practice and reinforcing a cost control of variable costs. Moreover, the Company will address the following key initiatives attain further growth and development:

- Continue to expand total investment in automotive chip related business, an important driving force for the Company's medium- and long-term growth;
- Further increase production of automotive-related chips in cooperation with one of its strategic partners to create a new additional revenue stream;
- Accelerate the construction of MEMS process manufacturing platform, and successfully migrate from prototype to risk production, eventually beginning volume production; and
- Improve the product mix for broadening customer and revenue base by strengthening its research and development capabilities to develop new high-margin products.

In conclusion, the Company will not rest on past achievements but well address new challenges. Moreover, the Company, by leveraging the automotive industry designated as a pillar industry in the China's economy, combined with an accelerating IDM shift to the fab-lite business model, will continue to pursue strategic growth through meeting the needs of its customers and the provision of excellent levels of service and ultimately deliver quality earnings and sustainable growth for its shareholders in the coming year.

# Profiles of Directors, Supervisors and Senior Management

## EXECUTIVE DIRECTORS

### *Mr. ZHOU Weiping*

Mr. Zhou Weiping, aged 44, 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 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 53, 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 57, 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 36, 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) Limited 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.

# Profiles of Directors, Supervisors and Senior Management

### *Ms. SHEN Qing*

Ms. Shen Qing, aged 50, is a Non-executive Director of the third session of the Board.

Ms. Shen has been a Non-executive Director of the Board since 1 November 2010. From 1983 to 1993, Ms. Shen served as an instructor of the Computer and Micro-electronics Department of the School of Engineering of Shanghai University. From 1993 to 1995, Ms. Shen served as an instructor of the Computer Application Department of the School of Engineering of Shanghai University. From 1995 to 2000, Ms. Shen served as the Deputy Director of the Teaching and Research Centre of International Financial Research Institute of Bank of China. From May 2000 to November 2005, Ms. Shen took various management roles and moved to the Manager of the Treasury and Accounting Department of Shanghai Branch of China Orient Asset Management Corporation ("COAMC"). From December 2005 to November 2006, Ms. Shen was appointed as the Manager of the Accounting Department of Dongxing Investment Development Holding Company and the General Manager of Shanghai Ruijin Building Company Limited. From November 2006 to April 2008, Ms. Shen was appointed as the Assistant General Manager of the Treasury and Accounting Department of COAMC. In April 2008, Ms. Shen was promoted to the current position of Deputy General Manager of Shanghai Branch of COAMC.

Ms. Shen graduated with a Bachelor of Engineering degree from School of Electronic Instruments of East China Normal University in 1983 and received a Master of Business Administration degree from Shanghai Jiao Tong University in 2000.

### *Mr. LI Zhi*

Mr. Li Zhi, aged 48, 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. In June 2009, Mr. Li was appointed as a director and the Acting General Manager of Shanghai Belling, and was promoted to the current position as a director and the General Manager of Shanghai Belling in January 2011.

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

# Profiles of Directors, Supervisors and Senior Management

### *Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN*

Mr. Wilhelmus Jacobus Maria Joseph Josquin, aged 58, 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. Winfried Lodewijk PEETERS*

Mr. Winfried Lodewijk Peeters, aged 56, is a Non-executive Director of the third session of the Board.

Mr. Peeters has been a Non-executive Director of the Board since 1 November 2010. Mr. Peeters joined Philips in 1978 as a research scientist in the field of development of media for re-writable optical recording. In 1983, Mr. Peeters was appointed as the quality and efficiency consultant for product creation processes. In this role, he improved and implemented product creation processes and procedures for the Business Group Television of Philips. From then onwards he held various management functions with Philips in various countries, mainly in the field of operations and supply chain management.

In 2004, Mr. Peeters was appointed as the Vice President Operations in the business unit of multi market semiconductors. He managed the integrated supply chain in the production units for discrete semiconductors. Thereafter he was appointed as the chairman of the NXP Front End Sourcing Board, managing internal and external front end factory loading.

In January 2010, Mr. Peeters was promoted to the current position of Vice President Operations and Quality in the business unit of high performance mixed signal (application specific components with a mixed use of analogue and digital technologies). The Operations and Quality function focuses on driving the integrated sales and operations planning and taking care of sourcing and allocation for the NXP high performance mixed signal product portfolio.

Mr. Peeters received a master degree in chemistry from Leiden University, the Netherlands.

# Profiles of Directors, Supervisors and Senior Management

## *INDEPENDENT NON-EXECUTIVE DIRECTORS*

### *Mr. James Arthur WATKINS*

Mr. James Arthur Watkins, aged 65, 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., 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 60, 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.

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 Phoenix Satellite Television, Pacific Online Limited and Singapore Exchange 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.

### *Dr. SHEN Weijia*

Dr. Shen Weijia, aged 57, 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 57, 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 senior member of the Australian Computer Society.

# Profiles of Directors, Supervisors and Senior Management

### *Mr. SUN Biyuan*

Mr. Sun Biyuan, aged 36, 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. From April 2006 to October 2009, Mr. Sun served as a Finance Manager of Shanghai Chemical Industrial Park Investment Enterprise Company Limited ("SCIPI"). In October 2009, Mr. Sun was promoted to the current position of Finance Director of SCIPI.

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

### *Mr. SHEN Qitang*

Mr. Shen Qitang, aged 59, 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 37, 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. From December 2007 to November 2010, Ms. Chen served as the Manager of the Investment Department of Shanghai Dongxing Investment Holding Company. In November 2010, Ms. Chen was appointed as the Senior Manager of the Administration and Risk Management Department of Shanghai Branch of COAMC.

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.

# Profiles of Directors, Supervisors and Senior Management

### *Mr. XU Ding*

Mr. Xu Ding, aged 48, is a Supervisor of the third session of the Supervisory Committee.

Mr. Xu has been a Supervisor of the Supervisory Committee since 1 November 2010. From 1996 to 1998, Mr. Xu served as the Manager of Product Engineering Department of Shanghai Belling Microelectronics Manufacturing Co., Ltd.. From 1998 to 2001, Mr. Xu served as the Manager of Product Engineering Department of Shanghai Belling Co., Ltd. ("Shanghai Belling"). From 2002 to 2003, Mr. Xu served as the General Manager of Communication Business Unit of Shanghai Belling. From 2003 to 2008, Mr. Xu was appointed as the Vice President & General Manager of Communication Business Unit of Shanghai Belling. From 2009 to 2010, Mr. Xu was appointed as the Vice President of Marketing of Shanghai Belling. Since 2010, Mr. Xu has been appointed as the Vice President of Marketing & Operation of Shanghai Belling.

Mr. Xu received an Executive Master of Business Administration degree from Fudan University in 2000.

### *Mr. PAN Guojin*

Mr. Pan Guojin, aged 57, 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 40, 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 13 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.

### *Ms. MA Sau Kuen Gloria*

Ms. Ma Sau Kuen Gloria, aged 52, is a joint company secretary of the Company.

Ms. Ma is a director and Head of Registration and Compliance Services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Ms. Ma has almost 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on the Stock Exchange of Hong Kong Limited, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ma was appointed as the joint company secretary of the Company on 20 November 2010.

## SENIOR MANAGEMENT

### *Mr. SUN Zhen*

Mr. Sun Zhen, aged 43, 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 52, 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 19 years semiconductor research and manufacturing experience with 8 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 2010.

### *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 2010.

### *Segment information*

The Company's revenue and profit for the year ended 31 December 2010 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 profit for the year ended 31 December 2010 and the state of affairs of the Company at that date are set out in the financial statements on pages 51 to 102.

The Board does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2010.

### *Summary financial information*

A summary of the published results and assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements is set out on pages 35 to 36. This summary does not form part of the audited financial statements.

### *Property, plant and equipment*

Details of movements in the property, plant and equipment of the Company during the year ended 31 December 2010 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 2010 are set out in note 26 to the financial statements.

### *Pre-emptive rights*

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

### *Purchase, redemption or sale of listed securities of the Company*

The Company did not purchase, redeem or sell any of the Company's listed securities during the year ended 31 December 2010.

### *Reserves*

Details of movements in the reserves of the Company during the year ended 31 December 2010 are set out in note 27 to the financial statements.

### *Distributable reserves*

In accordance with the Company's Articles of Association, the Company is entitled to distribute dividends based on the lower of the Company's distributable reserves determined under PRC statutory financial statements and International Financial Reporting Standards ("IFRSs"). As at 31 December 2010, 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 2010.

### *Major customers and suppliers*

During the year ended 31 December 2010, sales to the Company's five largest customers accounted for 69% of the total sales for the year and sales to the largest customer included therein amounted to 20%. Purchases from the Company's five largest suppliers accounted for 9% of the total purchases for the year and purchases from the largest supplier accounted for 5%.

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 2010 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. Christopher Paul BELDEN (retired on 1 March 2010)
Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN (appointed on 2 March 2010)
Mr. YEH Yi Liang (resigned on 31 October 2010)
Mr. Winfried Lodewijk PEETERS (appointed on 1 November 2010)
Mr. ZHU Peiyi (resigned on 31 October 2010)
Ms. SHEN Qing (appointed on 1 November 2010)
Mr. LI Zhi

*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*

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

## *Directors' and senior management's biographies*

Biographical details of the directors and the senior management of the Company are set out on pages 15 to 24 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 executives' interests and short positions*

As at 31 December 2010, the interests and short positions of the directors, supervisors and chief executives of the Company 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 Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

| Name of supervisor | Name of company/ associated corporation | Class of shares | Number of shares | Capacity | Percentage in the relevant class of issued share capital | Percentage in total issued share capital |
|---|---|---|---|---|---|---|
| XU Ding | The Company | H-shares | 200,000 (Long position) | Beneficial owner | 0.02% | 0.01% |

### *Substantial shareholders' interests and short positions*

As at 31 December 2010, the interests and short positions of the following persons (not being a director, supervisor or chief executive of the Company) in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) 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 the total issued share capital |
|---|---|---|---|---|---|
| NXP B. V. *(Note 1)* | H-shares | 408,806,888 (Long position) | Beneficial owner | 36.13% | 26.65% |
| | Unlisted foreign shares | 12,643,512 (Long position) | Beneficial owner | 100% | 0.82% |
| SCIP (HK) Limited ("SCIP (HK)") *(Note 2)* | H-shares | 254,866,584 (Long position) | Beneficial owner | 22.53% | 16.61% |
| Shanghai Chemical Industrial Park Investment Enterprise Company Limited ("SCIPI") *(Note 2)* | Domestic shares | 122,220,616 (Long position) | Beneficial owner | 31.32% | 7.97% |
| China Orient Asset Management Corporation | Domestic shares | 179,303,000 (Long position) | Beneficial owner | 45.95% | 11.69% |
| Shanghai Belling Co., Limited | Domestic shares | 88,726,400 (Long position) | Beneficial owner | 22.74% | 5.78% |

*Notes:*

1. NXP B.V. is a wholly-owned subsidiary of NXP Semiconductors N. V. (formerly known as Kaslion Acqusition B.V.) which is held as to 69% by a private equity consortium consists of funds advised by Kravis Roberts & Co. L.P., Bain Capital Partners, LLC, Silver Lake Management Company, L.L.C., Apax Partners LLP and AlpInvest Partners N.V. as well as smaller investors (the "Private Equity Consortium"). Accordingly, NXP Semiconductors N. V. and the Private Equity Consortium are taken as interested in the 408,806,888 H-shares and the 12,643,512 unlisted foreign shares of the Company which are beneficially held by NXP B.V..

2. SCIP (HK) is a wholly-owned subsidiary of SCIPI which in turn is 100% controlled by Shanghai Chemical Industrial Park Development Co., Ltd. ("SCIPD"). Accordingly, SCIPI and SCIPD are taken as interested in the 254,866,584 H-shares of the Company which are beneficially held by SCIP (HK), and SCIPD is taken as interested in the 122,220,616 domestic shares of the Company which are beneficially held by SCIPI.

### *Share option scheme*

As at 31 December 2010, the Company had no share option scheme within the meaning of Chapter 17 of the Listing Rules.

### *Directors', supervisors' and chief executives' rights to acquire H-shares*

During the year ended 31 December 2010, none of the directors, supervisors or chief executives of the Company was granted options to subscribe for H-shares of the Company. During the year ended 31 December 2010, none of the directors or supervisors or chief executives 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 2010*

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 2010:

| Types of Transactions | Actual 2010 RMB'000 | Approved annual caps 2010 (disclosed in the Company's Announcement) RMB'000 |
|---|---|---|
| Sales | 149,109 | 363,000 |
| Technology transfer | 7,120 | 19,600 |

*Specific disclosure for the continuing connected transactions conducted during the year ended 31 December 2010*

As stated in the Company's announcement dated 18 September 2008 (the "Announcement"), the Company entered into the following agreements in respect of the continuing connected transactions conducted during the year ended 31 December 2010:

**(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.

*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 auditors of the Company have carried out procedures on the continuing connected transactions that have been disclosed by the auditors of the Company in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The work consisted of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures and testing transactions on a sample basis where the auditors of the Company considered appropriate. The work was substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditors of the Company to obtain assurance that the auditors of the Company would become aware of all significant matters that might be identified in an audit. Accordingly, the auditors of the Company do not express an audit opinion on the disclosed continuing connected transactions.

Furthermore, due to the nature of connected persons and transactions, it was not practicable for the auditors of the Company to determine whether the disclosed continuing connected transactions and the books and records of the Company include all continuing connected transactions. It was impracticable for the auditors of the Company to quantify the potential impact of this on the disclosures of continuing connected transactions in the Company's annual report. Accordingly, the auditors' report on continuing connected transactions relates solely to the continuing connected transactions that have been disclosed to the auditors of the Company and in the books and records of the Company made available to the auditors of the Company.

Based on the foregoing, in respect of the disclosed continuing connected transactions:

a. nothing has come to the attention of the auditors of the Company that causes the auditors of the Company to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Company, nothing has come to the attention of auditors of the Company that causes the auditors of the Company to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

c. nothing has come to the attention of the auditors of the Company that causes the auditors of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the attention of the auditors of the Company that causes the auditors of the Company to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value approved by the shareholders of the Company in the Extraordinary General Meeting held on 16 December 2008.

### *Directors' interests in competing businesses*

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

Mr. YEH Yi Liang was a Non-executive Director and the Vice Chairman of the Board from 30 September 2008 to 31 October 2010. During his tenure of service with the Company, he was 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, responsible for industrial strategy and innovation.

Mr. Winfried Lodewijk PEETERS has been a Non-executive Director of the Board since 1 November 2010. He is currently the Vice President of NXP Operations in the business unit of high performance mixed signal.

Mr. LI Zhi has been a Non-executive Director of the Board since 21 May 2009. He is currently a director and the 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. PEETERS 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. PEETERS 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 2011 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 2010.

**BY ORDER OF THE BOARD**

**CHEN Jianming**
*Chairman*

Shanghai, the PRC
9 March 2011

# Five Years Financial Summary

## SUMMARY OF STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Revenue** | **978,493** | 645,638 | 932,581 | 1,183,076 | 1,355,193 |
| Cost of sales | **(758,095)** | (630,097) | (955,000) | (1,201,706) | (1,214,253) |
| **Gross profit/(loss)** | **220,398** | 15,541 | (22,419) | (18,630) | 140,940 |
| Other income and gains | **12,862** | 5,067 | 48,628 | 25,470 | 37,106 |
| Selling and distribution costs | **(4,882)** | (5,436) | (6,814) | (8,006) | (9,016) |
| General and administrative expenses | **(61,951)** | (51,071) | (60,979) | (80,786) | (75,914) |
| Research and development costs | **(29,153)** | (41,842) | (32,284) | (40,829) | (32,001) |
| Other expenses | **(10,730)** | (15,913) | (146,393) | (674,181) | (224) |
| Finance costs | **(6,846)** | (9,253) | (16,952) | (35,220) | (57,922) |
| **Profit/(loss) before tax** | **119,698** | (102,907) | (237,213) | (832,182) | 2,969 |
| Income tax credit/(expenses) | **—** | 92 | 130 | (8,017) | 974 |
| **Profit/(loss) for the year** | **119,698** | (102,815) | (237,083) | (840,199) | 3,943 |
| Other comprehensive income for the year | **—** | — | — | — | — |
| **Total comprehensive income/(loss) for the year attributable to ordinary equity holders of the Company** | **119,698** | (102,815) | (237,083) | (840,199) | 3,943 |
| **Earnings/(loss) per share (RMB) – Basic** | **7.80 cents** | (6.70) cents | (15.45) cents | (54.76) cents | 0.28 cents |

# Five Years Financial Summary

## SUMMARY OF STATEMENT OF FINANCIAL POSITION

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **1,098,318** | 983,275 | 1,139,214 | 1,581,938 | 2,858,819 |
| Total liabilities | **343,994** | 348,649 | 401,773 | 607,414 | 1,044,096 |
| Net assets / total equity | **754,324** | 634,626 | 737,441 | 974,524 | 1,814,723 |

# 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 2010 (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.

Sixty days before the meeting scheduled to approve the Company's results for the year ended 31 December 2009 and thirty days before each of the three meetings scheduled to approve the Company's results for the three months ended 31 March 2010, the six months ended 30 June 2010 and the nine months ended 30 September 2010 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.

## 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 four Board meetings. Details of directors' attendance at the meetings of the Board and its committees held during the Reporting Period are set out in Table 1 on page 43 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. Christopher Paul BELDEN (retired on 1 March 2010)
Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN (appointed on 2 March 2010)
Mr. YEH Yi Liang (resigned on 31 October 2010)
Mr. Winfried Lodewijk PEETERS (appointed on 1 November 2010)
Mr. ZHU Peiyi (resigned on 31 October 2010)
Ms. SHEN Qing (appointed on 1 November 2010)
Mr. LI Zhi

### *Independent Non-executive Directors*

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

Mr. ZHOU Weiping, Ms. CHENG Jianyu, Mr. Thaddeus Thomas BECZAK, Mr. James Arthur WATKINS, Dr. SHEN Weijia, Dr. CHEN Jianming, Mr. ZHU Jian, Mr. YEH Yi Liang, Mr. Christopher Paul BELDEN, Mr. ZHU Peiyi and Mr. LI Zhi retired from the Board upon expiry of the second session of the Board on 1 March 2010. Except Mr. Christopher Paul BELDEN, all the directors of the second session offered themselves for re-election for the third session.

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

Mr. YEH Yi Liang and Mr. ZHU Peiyi each resigned as a Non-executive Director of the Company with effect from 31 October 2010 due to the change of their job duties. Mr. Winfried Lodewijk PEETERS and Ms. SHEN Qing each was elected as a Non-executive Director of the third session of the Board by the Company's extraordinary general meeting held on 1 November 2010.

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 15 to 24 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 at the Company's general meetings each for a term of three years and upon expiry of their term, may offer themselves for re-election.

To comply strictly with this statutory requirement and safeguard the shareholders' right in this respect, during the Reporting Period, the Company convened two extraordinary general meetings on 28 January 2010 and 1 November 2010 respectively, for the purpose of election of the third session of the Board and Supervisory Committee and for filling the vacancies caused by the resignation of Mr. YEH Yi Liang and Mr. ZHU Peiyi.

The Company established a Nomination Committee on 18 August 2010. Pursuant to the terms of reference of the Nomination Committee, the Nomination Committee is responsible for studying the selection criteria and procedure for the nomination of Directors and senior management; evaluating the suitability of candidates; and making relevant proposals to the Board. Please refer to the section entitled "Nomination Committee" for the details of the functions of the committee.

## 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.

# Report on Corporate Governance

## BOARD COMMITTEES

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

### Audit Committee

#### *Membership*

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 (prior to 1 March 2010), Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN (subsequent to 2 March 2010), Mr. ZHU Peiyi (prior to 31 October 2010) and Ms. SHEN Qing (subsequent to 1 November 2010).

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*

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 43 of this annual report.

#### *Work*

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

(1) review of the Company's financial results, respectively, for the year ended 31 December 2009, for the three months ended 31 March 2010, for the six months ended 30 June 2010 and for the nine months ended 30 September 2010, 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.

## Remuneration Committee

### *Membership*

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*

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 43 of this annual report.

### *Work*

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

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

(2) review and approval of remuneration package for a senior officer.

**Table 1**

| | Meetings Attended / Held | | |
|---|---|---|---|
| **Directors** | **Board** | **Audit Committee** | **Remuneration Committee** |
| *Executive Directors* | | | |
| Mr. ZHOU Weiping | 4/4 | | |
| Ms. CHENG Jianyu | 4/4 | | |
| *Non-executive Directors* | | | |
| Dr. CHEN Jianming | 3/4 | | 2/2 |
| Mr. ZHU Jian | 4/4 | | |
| Mr. Christopher Paul BELDEN | 0/0 | 0/0 | |
| Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN | 4/4 | 4/4 | |
| Mr. YEH Yi Liang | 2/3 | | |
| Mr. Winfried Lodewijk PEETERS | 1/1 | | |
| Mr. ZHU Peiyi | 3/3 | 3/3 | |
| Ms. SHEN Qing | 1/1 | 1/1 | |
| Mr. LI Zhi | 4/4 | | |
| *Independent Non-executive Directors* | | | |
| Mr. Thaddeus Thomas BECZAK | 4/4 | 4/4 | |
| Mr. James Arthur WATKINS | 4/4 | 4/4 | 2/2 |
| Dr. SHEN Weijia | 4/4 | 3/4 | 2/2 |

## Nomination Committee

The Board established a Nomination Committee on 18 August 2010 pursuant to a resolution of the Board. Members of the Nomination Committee included both Independent Non-executive Directors and Non-executive Directors, namely Dr. SHEN Weijia (Chairman), Mr. YEH Yi Liang (prior to 31 October 2010), Mr. Winfried Lodewijk PEETERS (subsequent to 1 November 2010), Mr. ZHU Jian, Mr. ZHU Peiyi (prior to 31 October 2010), Ms. SHEN Qing (subsequent to 1 November 2010) and Mr. James Arthur WATKINS.

The terms of reference of the Nomination Committee are aligned with those set out in the code provisions of the Governance Code, including studying the selection criteria and procedure for the nomination of Directors and senior management and making proposals to the Board; establishing proper succession plans for Directors and senior management and regularly reviewing the plans to meet the needs of the Company; as well as evaluating the suitability of candidates for Directors and senior management and making proposals to the Board. The detailed terms of reference are disclosed on the Company's website.

### Strategic Development Committee

The Board established a Strategic Development Committee on 18 August 2010 pursuant to a resolution of the Board. Members of the committee included both Independent Non-executive Directors and Non-executive Directors, namely Mr. LI Zhi (Chairman), Mr. Wilhelmus Jacobus Maria Joseph JOSQUIN, Mr. ZHU Jian, Mr. ZHU Peiyi (prior to 31 October 2010), Ms. SHEN Qing (subsequent to 1 November 2010) and Dr. SHEN Weijia.

The terms of reference of the Strategic Development Committee have been formulated under the authorization of the Board, including studying and reviewing the Company's proposals on major projects such as investment, capital deployment, operation of assets and financing plans and providing opinions thereon which shall be approved by the Board in accordance with the Articles of Association of the Company; investigating, studying and reviewing the Company's long-term development strategy; and providing proposals on major issues that will affect the Company's development. The detailed terms of reference are disclosed on the Company's website.

## 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 RMB1,620,000, was related to their audit services.

**Table 2**

| | |
|---|---|
| Audit services | RMB1,620,000 |
| Non-audit services | — |
| Total | RMB1,620,000 |

## 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; to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and to ensure compliance with the relevant legislations and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss; 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, including 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 was 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 an annual risk assessment at the beginning of each year.

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 cooperation 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 2010, 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 2010 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 (resigned on 29 April 2010)
Mr. XU Ding (appointed on 1 November 2010)

## *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.

On 29 April 2010, Mr. GUO Yiwu resigned as a supervisor of the Supervisory Committee due to change of his job. At the Company's extraordinary general meeting held on 1 November 2010, Mr. XU Ding was elected as shareholder representative supervisor of the third session of the Supervisory Committee to fill the vacancy caused by the resignation of Mr. GUO Yiwu.

During the year ended 31 December 2010, the Supervisory Committee held two meetings as follows:

At the first meeting of the third session of the Supervisory Committee held on 10 March 2010, the Supervisory Committee reviewed and approved the audited financial statements for the year ended 31 December 2009 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 2009, the profit distribution proposal for the year ended 31 December 2009, and the proposed appointment and terms of engagement of the Company's PRC and international auditors for 2010.

At the second meeting of the third session of the Supervisory Committee held on 18 August 2010, the Supervisory Committee reviewed and approved the financial statements, the preliminary results announcement and interim report for the six months ended 30 June 2010.

# Report of the Supervisory Committee

The independent opinions of the Supervisory Committee on its work during the year ended 31 December 2010 are summarised as follows:

1. The Supervisory Committee reviewed the Company's financial statements and interim report for the six months ended 30 June 2010 and financial statements and annual report for the year ended 31 December 2009 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 2010, 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
9 March 2011

# Independent Auditor's Report

ERNST & YOUNG
安 永

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

We have audited the accompanying financial statements of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") set out on pages 51 to 102, which comprise the statement of financial position as at 31 December 2010 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 information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about 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 of financial statements that give a true and fair view 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.

# Independent Auditor's Report

## 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 2010, and of the Company's profit 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

9 March 2011

# Statement of Comprehensive Income

*Year ended 31 December 2010*

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **978,493** | 645,638 |
| Cost of sales | | **(758,095)** | (630,097) |
| **Gross profit** | | **220,398** | 15,541 |
| Other income and gains | 6 | **12,862** | 5,067 |
| Selling and distribution costs | | **(4,882)** | (5,436) |
| General and administrative expenses | | **(61,951)** | (51,071) |
| Research and development costs | | **(29,153)** | (41,842) |
| Other expenses | 6 | **(10,730)** | (15,913) |
| Finance costs | 7 | **(6,846)** | (9,253) |
| **Profit/(loss) before tax** | 7 | **119,698** | (102,907) |
| Income tax | 10 | **—** | 92 |
| **Profit/(loss) for the year** | | **119,698** | (102,815) |
| Other comprehensive income for the year | | **—** | — |
| **Total comprehensive income/(loss) for the year attributable to ordinary equity holders of the Company** | | **119,698** | (102,815) |
| **Earnings/(loss) per share attributable to ordinary equity holders of the Company – Basic** | 12 | **7.80 cents** | (6.70) 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 2010*

| | Notes | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **337,681** | 436,511 |
| Construction in progress | 14 | **26,161** | 646 |
| Prepaid land lease payments | 15 | **32,774** | 33,543 |
| Intangible assets | 16 | **6,968** | 10,017 |
| Total non-current assets | | **403,584** | 480,717 |
| **Current assets** | | | |
| Inventories | 17 | **161,832** | 92,680 |
| Accounts and notes receivables | 18 | **72,931** | 63,444 |
| Prepayments, deposits and other receivables | 19 | **25,393** | 12,880 |
| Due from related companies | 20 | **31,201** | 15,558 |
| Cash and cash equivalents | 21 | **403,377** | 317,996 |
| Total current assets | | **694,734** | 502,558 |
| Total assets | | **1,098,318** | 983,275 |
| **Current liabilities** | | | |
| Accounts payable | 22 | **157,265** | 86,329 |
| Other payables and accruals | | **46,899** | 45,656 |
| Due to related companies | 20 | **4,795** | 25,282 |
| Government grants | 23 | **4,772** | 13,100 |
| Interest-bearing bank borrowings | 24 | **116,227** | 178,282 |
| Total current liabilities | | **329,958** | 348,649 |
| **Net current assets** | | **364,776** | 153,909 |
| **Non-current liabilities** | | | |
| Government grants | 23 | **14,036** | — |
| **Net assets** | | **754,324** | 634,626 |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 26 | **1,534,227** | 1,534,227 |
| Reserves | 27 | **(779,903)** | (899,601) |
| **Total equity** | | **754,324** | 634,626 |

**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 2010*

| | Notes | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|---|
| **Share capital** | 26 | | |
| *Ordinary shares of RMB1.00 each:* | | | |
| At beginning and end of year | | **1,534,227** | 1,534,227 |
| **Capital reserve** | 27 (a) | | |
| At beginning and end of year | | **205,363** | 205,363 |
| **Statutory surplus reserve** | 27 (b) | | |
| At beginning and end of year | | **19,353** | 19,353 |
| **Accumulated losses** | 27 (c) | | |
| At beginning of year | | **(1,124,317)** | (1,021,502) |
| Total comprehensive income/(loss) for the year | | **119,698** | (102,815) |
| At end of year | | **(1,004,619)** | (1,124,317) |
| **Reserves** | | **(779,903)** | (899,601) |
| **Total equity attributable to equity holders of the Company** | | **754,324** | 634,626 |

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

# Statement of Cash Flows

*Year ended 31 December 2010*

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before tax | | **119,698** | (102,907) |
| Adjustments for: | | | |
| Depreciation | 7 | **133,902** | 157,371 |
| Amortisation of intangible assets | 7 | **5,384** | 4,066 |
| Recognition of prepaid land lease payments | 7 | **769** | 773 |
| Loss/(gain) on disposal of property, plant and equipment | 7 | **237** | (5) |
| Reversal of allowance for doubtful debts | 7 | **(6,710)** | (1,789) |
| Allowance/(reversal of allowance) for inventories | 7 | **525** | (20,397) |
| Reversal of welfare payable | 7 | **—** | (7,831) |
| Loss on interest rate swaps | | **—** | 250 |
| Finance costs | | **6,846** | 9,253 |
| Exchange loss | | **10,193** | — |
| Government grants | | **(5,393)** | (3,930) |
| Interest income | | **(3,270)** | (1,137) |
| **Operating profit before working capital changes** | | **262,181** | 33,717 |
| Increase in accounts and notes receivables | | **(2,777)** | (20,487) |
| (Increase)/decrease in inventories | | **(69,677)** | 83,937 |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(12,070)** | 3,168 |
| Decrease in balances due to/due from related companies | | **(36,130)** | (5,290) |
| Increase/(decrease) in accounts payable | | **43,205** | (35,779) |
| Increase in other payables and accruals | | **1,624** | 6,399 |
| **Cash generated from operations** | | **186,356** | 65,665 |
| Interest paid | | **(6,920)** | (9,292) |
| Interest received | | **2,827** | 1,447 |
| Government grants received | | **3,815** | 3,930 |
| Payments on interest rate swaps | | **(307)** | (642) |
| **Net cash flows from operating activities** | | **185,771** | 61,108 |

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

# Statement of Cash Flows

*Year ended 31 December 2010*

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of items of property, plant and equipment, construction in progress and intangible assets | | **(35,428)** | (17,789) |
| Proceeds from disposal of items of property, plant and equipment | | **—** | 6 |
| Receipt of government grants | | **7,286** | 13,100 |
| Decrease in other financial asset | | **—** | 10,000 |
| **Net cash flows (used in)/from investing activities** | | **(28,142)** | 5,317 |
| **Cash flows from financing activities** | | | |
| New bank borrowings | | **167,255** | 178,314 |
| Repayment of bank borrowings | | **(229,310)** | (188,630) |
| **Net cash flows used in financing activities** | | **(62,055)** | (10,316) |
| **Net increase in cash and cash equivalents** | | **95,574** | 56,109 |
| Cash and cash equivalents at beginning of year | | **317,996** | 261,887 |
| Effect of exchange rate changes on cash and cash equivalents | | **(10,193)** | — |
| **Cash and cash equivalents at end of year** | | **403,377** | 317,996 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | 21 | **69,683** | 59,460 |
| Non-pledged time deposits with original maturity of less than three months | 21 | **333,694** | 258,536 |
| Cash and cash equivalents as stated in the statement of financial position and statement of cash flows | | **403,377** | 317,996 |
| **Investing activities affecting both cash and non-cash items** | | | |
| Addition of property, plant and equipment, construction in progress and intangible assets | | **(63,159)** | (17,789) |
| Increase of the balance of payables for purchase of property, plant and equipment, construction in progress and intangible assets | | **27,731** | — |
| Cash flows used in purchase of item of property, plant and equipment, construction in progress and intangible assets | | **(35,428)** | (17,789) |

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

## 1. CORPORATE INFORMATION

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

On 2 March 2004, the Company was re-registered as a foreign invested joint stock company with limited liability. 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.

## 2.1 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.

## 2.2 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 (Revised) First-time Adoption of International Financial Reporting Standards
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

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

IFRS 1 (Revised) First-time Adoption of International Financial Reporting Standards

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Company is not a first-time adopter of IFRSs, the amendments did not have financial impact on the Company.

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no impact on earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement -Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Company.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

*Issued in May 2008*

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Company.

*Issued in April 2009*

IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the financial position nor financial performance of the Company as the Company does not record any goodwill.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

*Issued in April 2009*

IFRS 2 Share-based Payment
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 8 Operating Segments
IAS 1 Presentation of Financial Statements
IAS 17 Leases
IAS 34 Interim Financial Reporting
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 16 Hedge of a Net Investment in a Foreign Operation

## 2.3 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 7 Financial Instruments: Disclosures - Transfers of Financial Assets (Amendment)

The IFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Company expects to adopt the amendments from 1 January 2012 and comparative disclosures are not required for any period beginning before that date.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Company does not expect any impact on its financial position or performance.

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the financial statements of the Company after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Company.

## 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS *(Continued)*

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Company:

IFRS 3 Business Combinations
IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IAS 27 Consolidated and Separate Financial Statements
IFRIC 13 Customer Loyalty Programmes

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Related parties*

A party is considered to be related to the Company if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Property, plant and equipment and depreciation*

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Construction in progress*

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 is stated at cost less any impairment losses and is 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *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.

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.

### *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, including prepaid land lease payments under 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *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 investments, 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 2009 and 31 December 2010.

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.

*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 by 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 the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Derecognition of financial assets*

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

### *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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Impairment of financial assets* *(Continued)*

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 the statement of comprehensive income.

### *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, amount due to related companies and interest-bearing bank borrowings.

*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 the statement of comprehensive income. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Financial liabilities* (Continued)

*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 the statement of comprehensive income.

### *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.

### *Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask for short positions), without any deduction for transaction costs. For financial Instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

## 2.4 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 the statement of comprehensive income.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *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.

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 of the grant is recorded as deferred government grant and will be amortized over the weighted average useful life of the related assets once all attaching conditions are complied with.

## 2.4 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 evidences. Recognition primarily involves judgement regarding the future performance of the Company. 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 are 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 recognised.

*(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 reportable operating 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:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| United States of America | **538,910** | 368,545 |
| Europe | **277,837** | 148,162 |
| Asia | **161,746** | 128,931 |
| | **978,493** | 645,638 |

### *Information about major customers*

Revenue from continuing operations of approximately RMB634,610,000 (2009: RMB409,841,000) was derived from sales to four customers (2009: four) 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:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Sale of goods | **977,982** | 645,184 |
| Others | **511** | 454 |
| | **978,493** | 645,638 |

## 6. OTHER INCOME AND GAINS AND OTHER EXPENSES

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Other income and gains** | | |
| Subsidy income | **5,393** | 3,930 |
| Interest income | **3,270** | 1,137 |
| Sale of scrap materials | **2,702** | — |
| Others | **1,497** | — |
| | **12,862** | 5,067 |
| **Other expenses** | | |
| Loss arising from a leakage incident | **(260)** | (13,445) |
| Loss on interest rate swaps | **—** | (250) |
| Net foreign exchange loss | **(10,470)** | (2,082) |
| Others | **—** | (136) |
| | **(10,730)** | (15,913) |

## 7. PROFIT/(LOSS) BEFORE TAX

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cost of inventories sold | **758,095** | 630,097 |
| Depreciation | **133,902** | 157,371 |
| Amortisation of intangible assets | **5,384** | 4,066 |
| Amortisation of prepaid land lease payments | **769** | 773 |
| Research and development costs | **29,153** | 41,842 |
| Auditors' remuneration | **1,620** | 1,600 |
| Employee benefits expense (including directors', supervisors' and senior executives' remuneration as set out in note 8): | | |
| Retirement benefits (note 9) | | |
| - defined contribution fund | **13,527** | 13,214 |
| Accommodation benefits (note 9) | | |
| - defined contribution fund | **4,367** | 4,780 |
| Salaries and other staff costs | **144,123** | 116,722 |
| Reversal of welfare payable | **—** | (7,831) |
| | **162,017** | 126,885 |
| Interest on bank borrowings | **6,846** | 9,253 |
| Reversal of allowance for doubtful debts | **(6,710)** | (1,789) |
| Allowance/(reversal of allowance) for inventories | **525** | (20,397) |
| Loss/(gain) on disposal of property, plant and equipment | **237** | (5) |

## 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:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Fees | **2,269** | 1,855 |
| Other emoluments for executive directors and supervisors: | | |
| – Salaries, allowance and other benefits | **2,712** | 1,970 |
| – Performance related bonuses | **606** | 291 |
| – Retirement benefits | **84** | 75 |
| | **3,402** | 2,336 |
| | **5,671** | 4,191 |

### *(a) Independent non-executive directors*

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Mr. James Arthur Watkins | **213** | 220 |
| Mr. Thaddeus Thomas Beczak | **213** | 220 |
| Dr. Shen Weijia | **213** | 220 |
| | **639** | 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 | Performance related bonuses RMB'000 | Retirement benefits RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| **Executive directors:** | | | | | |
| Mr. Zhou Weiping | — | 1,430 | 231 | 28 | 1,689 |
| Ms. Cheng Jianyu | — | 1,096 | 352 | 28 | 1,476 |
| | — | 2,526 | 583 | 56 | 3,165 |
| **Non-executive directors:** | | | | | |
| Dr. Chen Jianming | 156 | — | — | — | 156 |
| Mr. Zhu Jian | 156 | — | — | — | 156 |
| Mr. Zhu Peiyi* | 128 | — | — | — | 128 |
| Ms. Shen Qing** | 28 | — | — | — | 28 |
| Mr. Li Zhi | 156 | — | — | — | 156 |
| Mr. Christopher Paul Belden* | 14 | — | — | — | 14 |
| Mr. Yeh Yi Liang* | 128 | — | — | — | 128 |
| Mr. Wilhelmus Jacobus Maria Joseph Josquin** | 142 | — | — | — | 142 |
| Mr. Winfried Lodewijk Peeters** | 28 | — | — | — | 28 |
| | 936 | — | — | — | 936 |
| **Supervisors:** | | | | | |
| Mr. Shen Qitang | 156 | — | — | — | 156 |
| Mr. Yang Yanhui* | 14 | — | — | — | 14 |
| Mr. Sun Biyuan** | 142 | — | — | — | 142 |
| Mr. David Siu Kee Kiang | 156 | — | — | — | 156 |
| Mr. Guo Yiwu* | 42 | — | — | — | 42 |
| Mr. Xu Ding** | 28 | — | — | — | 28 |
| Ms. Chen Yan | 156 | — | — | — | 156 |
| Mr. Pan Guojin | — | 186 | 23 | 28 | 237 |
| | 694 | 186 | 23 | 28 | 931 |
| | 1,630 | 2,712 | 606 | 84 | 5,032 |

* These directors and supervisors resigned or retired during the year ended 31 December 2010.

** These directors and supervisors were appointed during the year ended 31 December 2010.

## 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 | Performance related bonuses RMB'000 | Retirement benefits 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.

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 (2009: two) executive directors for the year ended 31 December 2010, details of whose emoluments have been disclosed above.

The details of the emoluments of the remaining three (2009: three) highest paid individuals are as follows:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Salaries and other benefits | **2,942** | 3,302 |
| Performance related bonuses | **675** | 532 |
| Retirement benefits | **28** | — |
| | **3,645** | 3,834 |

The number of the three (2009: three) non-director, highest paid employees, whose remuneration fell within the following bands, is as follows:

| | **2010** | 2009 |
|---|---|---|
| HK$ nil - HK$1,000,000 | **1** | — |
| HK$1,000,001 - HK$1,500,000 | **—** | 2 |
| HK$1,500,001 - HK$2,000,000 | **2** | 1 |
| HK$2,000,001 - HK$2,500,000 | **—** | — |
| HK$2,500,001 - HK$3,000,000 | **—** | — |
| | **3** | 3 |

During the years ended 31 December 2009 and 2010, 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 or as compensations for loss of office.

## 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 2009 and 2010.

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:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Provision for income tax in respect of profit for the year | **—** | — |
| Deferred tax credit | **—** | (92) |
| Income tax expense/ (credit) | **—** | (92) |

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

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Profit/(loss) before tax | **119,698** | (102,907) |
| Tax at the applicable tax rate of 15% | **17,955** | (15,436) |
| Tax effect of: | | |
| – Expenses not deductible for tax purpose | **188** | 154 |
| – Temporary difference not recognised | **(25,203)** | (27,073) |
| – Tax loss not recognised | **7,060** | 42,263 |
| Income tax expense/ (credit) | **—** | (92) |

## 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 2010 (31 December 2009: Nil).

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

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

| | **2010** | 2009 |
|---|---|---|
| Profit/(loss) attributable to ordinary equity holders of the Company (RMB'000) | **119,698** | (102,815) |
| Weighted average number of ordinary shares in issue ('000) | **1,534,227** | 1,534,227 |

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2010 and 2009 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 2010:** | | | | | |
| **Cost:** | | | | | |
| At 1 January 2010 | 156,297 | 3,661,400 | 73,094 | 3,328 | 3,894,119 |
| Additions | — | 21,239 | 381 | — | 21,620 |
| Transferred from construction in progress | 138 | 12,672 | 879 | — | 13,689 |
| Disposals | — | (15,957) | (189) | — | (16,146) |
| At 31 December 2010 | 156,435 | 3,679,354 | 74,165 | 3,328 | 3,913,282 |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2010 | 44,255 | 2,551,645 | 60,871 | 3,066 | 2,659,837 |
| Charge for the year | 5,211 | 121,541 | 7,020 | 130 | 133,902 |
| Disposals | — | (12,735) | (189) | — | (12,924) |
| At 31 December 2010 | 49,466 | 2,660,451 | 67,702 | 3,196 | 2,780,815 |
| **Accumulated impairment losses:** | | | | | |
| At 1 January 2010 | — | 797,771 | — | — | 797,771 |
| Disposals | — | (2,985) | — | — | (2,985) |
| At 31 December 2010 | — | 794,786 | — | — | 794,786 |
| **Net book value:** | | | | | |
| At 31 December 2010 | 106,969 | 224,117 | 6,463 | 132 | 337,681 |

## 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 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 |

As at 31 December 2010, the Company has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB19,696,000 (2009: RMB20,471,000). Until the receipt of the certificates, the Company has no right to assign or pledge these buildings. The Company believes that it is entitled to lawfully and validly occupy and use the above-mentioned buildings, and therefore the aforesaid matters did not have any significant impact on the Company's financial position as at 31 December 2010.

## 14. CONSTRUCTION IN PROGRESS

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At beginning of year | **646** | 731 |
| Additions | **39,204** | 12,169 |
| Transferred to property, plant and equipment | **(13,689)** | (12,254) |
| At end of year | **26,161** | 646 |

## 15. PREPAID LAND LEASE PAYMENTS

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Carrying amount: | | |
| At beginning of year | **34,312** | 35,085 |
| Amortisation for the year | **(769)** | (773) |
| At end of year | **33,543** | 34,312 |
| Current portion included in prepayments, deposits and other receivables | **(769)** | (769) |
| Non-current portion | **32,774** | 33,543 |

## 16. INTANGIBLE ASSETS

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Cost: | | |
| At beginning of year | **25,254** | 21,858 |
| Addition | **2,335** | 3,396 |
| At end of year | **27,589** | 25,254 |
| Accumulated amortisation: | | |
| At beginning of year | **(15,237)** | (11,171) |
| Amortisation for the year | **(5,384)** | (4,066) |
| At end of year | **(20,621)** | (15,237) |
| Net book value | **6,968** | 10,017 |

The intangible assets are computer software.

## 17. INVENTORIES

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Raw materials | **47,200** | 36,196 |
| Spare parts and consumables | **42,588** | 24,898 |
| Work in progress | **55,086** | 26,133 |
| Finished goods | **16,958** | 5,453 |
| Total inventories at the lower of cost and net realisable value | **161,832** | 92,680 |

## 18. ACCOUNTS AND NOTES RECEIVABLES

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Accounts receivable | **62,821** | 67,336 |
| Notes receivable | **10,667** | 3,375 |
| | **73,488** | 70,711 |
| Impairment | **(557)** | (7,267) |
| | **72,931** | 63,444 |

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, was as follows:

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Outstanding balances with ageing: | | |
| Within 30 days | **46,547** | 52,165 |
| Between 31 and 90 days | **21,934** | 11,154 |
| Between 91 and 180 days | **4,322** | 29 |
| Between 181 and 365 days | **46** | 14 |
| Over 365 days | **82** | 82 |
| | **72,931** | 63,444 |

## 18. ACCOUNTS AND NOTES RECEIVABLES *(Continued)*

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

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| At beginning of year | **7,267** | 9,056 |
| Impairment losses reversed | **(6,710)** | (1,789) |
| At end of year | **557** | 7,267 |

The analysis of accounts and notes receivables that were past due but not impaired at the end of the reporting period was 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 2010** | **72,931** | **54,950** | **17,577** | **276** | **46** | **82** |
| 31 December 2009 | 63,444 | 53,981 | 9,341 | 26 | 14 | 82 |

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

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Prepayments | **5,237** | 4,176 |
| Deposits | **106** | 107 |
| Input value-added tax | **17,127** | 5,918 |
| Sundry debtors | **2,923** | 2,679 |
| | **25,393** | 12,880 |

## 20. BALANCES WITH RELATED PARTIES

The Company is under the significant influence of NXP B.V., which holds 27.47% of the equity interest of the Company. The companies controlled by NXP B.V. were considered to be the Company's related parties during the year.

The amounts due from/to related companies, which are subsidiaries of NXP B.V., are unsecured and interest-free. All the balances with related companies arose from trade transactions in the ordinary course of business of the Company.

## 21. CASH AND CASH EQUIVALENTS

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Cash and bank balances | **69,683** | 59,460 |
| Non-pledged time deposits with original maturity of less than three months | **333,694** | 258,536 |
| | **403,377** | 317,996 |

At the end of the reporting period, the cash and bank balances of the Company denominated in Renminbi ("RMB") amounted to RMB199,730,000 (2009: RMB40,027,000). 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. Non-pledged short term time deposits with original maturity of less than three months 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 time deposits are deposited with creditworthy banks with no recent history of default.

## 22. ACCOUNTS PAYABLE

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Outstanding balances with ageing: | | |
| Within 30 days | **112,246** | 76,007 |
| Between 31 and 90 days | **30,135** | 5,445 |
| Between 91 and 180 days | **8,531** | 1,415 |
| Between 181 and 365 days | **4,018** | 1,160 |
| Over 365 days | **2,335** | 2,302 |
| | **157,265** | 86,329 |

## 23. GOVERNMENT GRANTS

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At beginning of year | **13,100** | — |
| Received during the year | **11,101** | 17,030 |
| Recognised in the statement of comprehensive income | **(5,393)** | (3,930) |
| At end of year | **18,808** | 13,100 |
| Current | **4,772** | 13,100 |
| Non-current | **14,036** | — |

Various grants have been received from the government to support the Company's operation. 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 of the grant is recorded as deferred government grant and will be amortized over the useful life of the related assets once all attaching conditions are complied with.

## 24. INTEREST-BEARING BANK BORROWINGS

| | 2010 | | |
|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** |
| Unsecured bank borrowings repayable within one year | **2.64~5.31** | **2011** | **116,227** |

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

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

## 25. DEFERRED TAX

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

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Tax losses | **749,853** | 702,786 |
| Temporary differences due to impairment of plant and machinery | **279,096** | 457,436 |
| Temporary differences due to allowance for inventories | **35,934** | 35,409 |
| Temporary differences due to provision for accrual expense | **17,084** | 2,357 |
| Temporary differences due to allowance for accounts and notes receivables | **557** | 7,267 |
| Depreciation difference of plant and machinery between IFRSs and PRC tax regulations | **2,983** | 1,056 |
| Fair value loss on interest rate swaps | **—** | 152 |
| | **1,085,507** | 1,206,463 |

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.

## 26. SHARE CAPITAL

| | Notes | **31 December 2010 Number of shares '000** | 31 December 2009 Number of shares '000 | **31 December 2010 RMB'000** | 31 December 2009 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.

## 26. SHARE CAPITAL *(Continued)*

### *(b) Domestic Shares*

Domestic Shares may only be subscribed for by, and traded between, legal or natural persons of Mainland China and must be subscribed for and traded in RMB. The Domestic Shares held by Shanghai Chemical Industry Park Investment Enterprise Co., Ltd., Shanghai Belling Co., Ltd. and China Orient Asset Management Corporation 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.

## 27. RESERVES

### *(a) Capital reserve*

Capital reserve mainly consists of share premium less share issuance expenses in the Global Offering. 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 determined under PRC statutory financial statements 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.

## 27. 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 retained 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.

## 28 COMMITMENTS

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Capital commitments in respect of property, plant and equipment: | | |
| – contracted, but not provided for | **61,781** | 9,810 |
| – authorised, but not contracted for | **137,766** | 97,291 |
| | **199,547** | 107,101 |

## 29. RELATED PARTY TRANSACTIONS

As set out in note 20 to the financial statements, the companies controlled byNXP B.V. are considered to be related to the Company.

The Company had the following material transactions with the companies controlled by NXP B.V. during the year:

| | | **2010** | 2009 |
|---|---|---|---|
| | Notes | **RMB'000** | RMB'000 |
| Sales | (i) | **149,109** | 81,248 |
| Technology transfer fees | (ii) | **7,120** | 4,094 |
| Information technology ("IT") related service fees | (iii) | **—** | 2,098 |

## 29. 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.

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").

## 30. FINANCIAL INSTRUMENTS BY CATEGORY

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

### *Financial assets*

| | Loans and receivables | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Accounts and notes receivables | **72,931** | 63,444 |
| Financial assets included in prepayments, deposits and other receivables | **1,749** | 1,482 |
| Due from related companies | **31,201** | 15,558 |
| Cash and cash equivalents | **403,377** | 317,996 |
| | **509,258** | 398,480 |

## 30. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### *Financial liabilities*

**2010**

| | **Financial liabilities at fair value through profit or loss RMB'000** | **Financial liabilities at amortised cost RMB'000** | **Total RMB'000** |
|---|---|---|---|
| Accounts payable | **—** | **157,265** | **157,265** |
| Financial liabilities included in other payables and accruals | **—** | **33,806** | **33,806** |
| Due to related companies | **—** | **4,352** | **4,352** |
| Interest-bearing bank borrowings | **—** | **116,227** | **116,227** |
| | **—** | **311,650** | **311,650** |

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 |

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The 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 |
|---|---|---|
| **2010** | | |
| US$ | **+20** | **(318)** |
| US$ | **-15** | **239** |
| 2009 | | |
| US$ | +20 | (18) |
| US$ | -15 | 14 |

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

### *Foreign currency risk*

The Company operates in the PRC and its principal activities are transacted in RMB, being the functional currency of the Company. However, the Company has transactional currency exposures. Such exposure mainly arises from sales by US 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. Whilst the Company did not engage in forward foreign exchange transactions or other hedging activities, it took steps to minimise its exposure to exchange risk by the early sale of foreign exchange balances.

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 |
|---|---|---|
| **2010** | **+5%** | **8,142** |
| | **-5%** | **(8,142)** |
| 2009 | +5% | 11,368 |
| | -5% | (11,368) |

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

### *Foreign currency risk* (Continued)

The foreign currency profile of the financial assets and liabilities denominated in currencies other than the functional currency of the Company at the end of the reporting period was as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Financial assets** | | |
| Cash and cash equivalents: | | |
| US$ | **202,723** | 276,340 |
| Others | **924** | 1,627 |
| | **203,647** | 277,967 |
| Accounts and notes receivables: | | |
| US$ | **57,740** | 59,746 |
| Due from related companies: | | |
| US$ | **31,201** | 15,558 |
| **Financial liabilities** | | |
| Interest-bearing bank borrowings: | | |
| US$ | **66,227** | 68,282 |
| Accounts payable: | | |
| US$ | **56,565** | 30,735 |
| Others | **6,798** | 2,099 |
| | **63,363** | 32,834 |
| Other payables and accruals: | | |
| US$ | **4,817** | 4,258 |
| Others | **429** | 272 |
| | **5,246** | 4,530 |
| Due to related companies: | | |
| US$ | **370** | 21,009 |
| Others | **—** | 179 |
| | **370** | 21,188 |

## 31. 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 24% (2009: 33%) and 68% (2009: 82%) 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.

### *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 21) 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 undrawn revolving short term loan facilities of RMB80,000,000 and RMB50,000,000 that will expire in March 2011 and November 2011, respectively.

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

### *Liquidity risk* *(Continued)*

The maturity profile of the Company's financial liabilities at the end of the reporting period was as follows:

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Accounts payable | **87,419** | **67,685** | **2,082** | **79** | **157,265** |
| Other payables and accruals | **33,806** | **—** | **—** | **—** | **33,806** |
| Due to related companies | **329** | **4,023** | **—** | **—** | **4,352** |
| Interest-bearing bank borrowings | **—** | **46,359** | **69,868** | **—** | **116,227** |
| | **121,554** | **118,067** | **71,950** | **79** | **311,650** |
| 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 |

## 31. 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 2010.

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 was as follows:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Interest-bearing bank borrowings | **116,227** | 178,282 |
| Less: Cash and bank balances | **(403,377)** | (317,996) |
| Net debt | **(287,150)** | (139,714) |
| Tangible net assets | **747,356** | 624,609 |
| Net debt over tangible net assets ratio | **(0.38)** | (0.22) |

### *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.

## 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 9 March 2011.