

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Advanced Semiconductor Manufacturing Corporation Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



ADVANCED SEMICONDUCTOR MANUFACTURING CORPORATION LIMITED

上海先進半導體製造股份有限公司

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

(Stock Code: 3355)

**GENERAL MANDATE TO ISSUE SHARES
AND
NOTICE OF ANNUAL GENERAL MEETING**

A notice convening an annual general meeting of the Company to be held at 11 a.m. on 16 May 2007 at Mercurius Room, 3rd Floor, Galaxy Hotel, No. 888, West Zhong Shan Road, Shanghai, the People's Republic of China ("AGM") is set out in this circular.

If you intend to appoint a proxy to attend the AGM, you are required to complete and return the accompanying proxy form in accordance with the instructions printed thereon. For holder of H-Shares, the proxy form should be returned to Computershare Hong Kong Investor Services Limited and for holder of non-H-Shares, the proxy form should be returned to the Company's Board Secretariat in person or by post as soon as possible and in any event not less than 24 hours before the time appointed for holding the AGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the AGM or at any adjourned meeting should you so wish.

If you intend to attend the AGM in person or by proxy, you are required to complete and return the reply slip to Computershare Hong Kong Investor Services Limited for holder of H-shares or to the Company's Board Secretariat for holder of non-H-shares on or before 26 April 2007.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:-

“AGM”	the annual general meeting of the Company to be held at 11 a.m. on 16 May 2007 at Mercurius Room, 3rd Floor, Galaxy Hotel, No. 888, West Zhong Shan Road, Shanghai, the People’s Republic of China
“AGM Notice”	the notice of AGM
“Articles of Association”	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“Company”	Advanced Semiconductor Manufacturing Corporation Limited, a joint stock company incorporated in the People’s Republic of China with limited liability, the H-Shares of which are listed on the Stock Exchange
“Director(s)” or “Board”	the director(s) of the Company
“Domestic Share(s)”	the Shares which are subscribed for and/or credited as paid up in Renminbi by PRC nationals and/or PRC corporate entities
“General Mandate”	a general mandate proposed to be granted to the Directors at AGM to issue Domestic Shares and H-Shares representing up to the limit of 20% of each of the aggregate nominal values of the Domestic Shares and H-Shares respectively in issue on the date of passing the related resolution
“H-Share(s)”	the Share(s) which have been admitted for listing on the Stock Exchange, for the purpose of this circular, including those held by Philips Electronics China B.V. and SCIP (HK) Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, but for the purposes of this circular only, excludes Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of PRC
“Shareholder(s)”	holder(s) of the Shares in the registers of members of the Company as from time to time
“Share(s)”	ordinary share(s) of RMB one (1) yuan each in the share capital of the Company, including both the H-Shares and the non-H-Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



ADVANCED SEMICONDUCTOR MANUFACTURING CORPORATION LIMITED

上海先進半導體製造股份有限公司

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

(Stock Code: 3355)

Executive Directors:

Mr. Tony Yuhai LIU
Ms. CHENG Jianyu

Registered Office:

385 Hong Cao Road,
Shanghai 200233, PRC

Non-executive Directors:

Mr. RUAN Yanhua
Mr. ZHU Jian
Mr. Petrus Antonius Maria VAN BOMMEL
Mr. Ajit MANOCHA
Mr. ZHU Peiyi
Mr. XIAO Yongji

Principal Office in Hong Kong:

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

Independent Non-executive Directors:

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

29 March 2007

To the Shareholders

Dear Sir or Madam,

**GENERAL MANDATE TO ISSUE SHARES
AND
NOTICE OF ANNUAL GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to give you the AGM Notice and provide you with all the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM.

LETTER FROM THE BOARD

At the AGM, among other things, a special resolution will be proposed to approve the grant of the General Mandate to the Directors to enable them to allot, issue and otherwise deal with additional Domestic Shares and H-Shares of the Company up to the limit of 20% of each of the aggregate nominal values of the Domestic Shares and H-Shares of the Company respectively in issue on the date of passing such resolution.

GENERAL MANDATE TO ISSUE SHARES

To ensure flexibility and discretion to the Directors to issue new Shares when it becomes desirable, the Company proposes to grant the General Mandate to the Directors to allot, issue and otherwise deal with additional Domestic Shares and H-Shares of the Company up to the limit of 20% of each of the aggregate nominal values of the Domestic Shares and H-Shares of the Company respectively in issue on the date of passing such resolution. The mandate shall be effective until the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or other applicable laws to be held; or (iii) the revocation or variation of the authority given under this resolution by a special resolution of the Company in general meeting. Any exercise of the power by the Directors under the General Mandate shall comply with the relevant requirements of the Listing Rules, the Articles of Association and the applicable laws and regulations of the PRC. The Board has no plan to issue new Shares pursuant to the General Mandate at present.

FORMS OF PROXY

Any Shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (whether such person is a Shareholder or not) as his proxies to attend and vote on his behalf.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a legal entity, either under seal or under the hand of a director or an authorised person or a duly authorised attorney of the legal entity. The letter of authorisation shall contain the number of the Shares to be represented by the proxy. If several persons are authorised as the proxies of the Shareholder, the letter of authorisation shall specify the number of Shares to be represented by each proxy.

The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority shall be deposited at Computershare Hong Kong Investor Services Limited (in respect of holders of H-Shares) or at the Company's Board Secretariat (in respect of holders of non-H-Shares) in person or by post not less than 24 hours before the time fixed for holding the AGM or any adjournment thereof (as the case may be). The address of Computershare Hong Kong Investor Services Limited is 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. The address of the Company's Board Secretariat is 385 Hong Cao Road, Shanghai 200233, PRC.

LETTER FROM THE BOARD

REPLY SLIP

If you intend to attend the AGM in person or by proxy, you are required to complete and return the reply slip to Computershare Hong Kong Investor Services Limited for holder of H-Shares or to the Company's Board Secretariat for holder of non-H-Shares on or before 26 April 2007.

RIGHT TO DEMAND A POLL

Pursuant to the Company's Articles of Association, at any Shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded:

- (1) by the chairman of the meeting;
- (2) by at least two (2) Shareholders present in person or by proxy entitled to vote thereat;
- (3) by one (1) or more Shareholders (including proxies) representing 10% or more of Shares (held solely or in aggregate) carrying the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact that such resolution has been passed. There is no need to provide evidence of the number or proportion of votes in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.

RECOMMENDATION

The Board considers that the special resolution in relation to the proposed grant of the General Mandate is in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions to be proposed at the AGM as set out in the AGM Notice.

Yours faithfully,

By Order of the Board

Advanced Semiconductor Manufacturing Corporation Limited

Tony Yuhai Liu

Executive Director & President

**ADVANCED SEMICONDUCTOR MANUFACTURING CORPORATION LIMITED****上海先進半導體製造股份有限公司**

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

(Stock Code: 3355)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting of Advanced Semiconductor Manufacturing Corporation Limited (the “Company”) for the year ended 31 December 2006 will be held at Mercurius Room, 3rd Floor, Galaxy Hotel, No. 888, West Zhong Shan Road, Shanghai, the People’s Republic of China at 11 a.m. on 16 May 2007 (the “AGM”) to consider and, if thought fit, pass the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 29 March 2007 (the “Circular”).

ORDINARY RESOLUTIONS:

1. To consider and approve the report of the Board of Directors (the “Board”) of the Company for the year ended 31 December 2006.
2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2006.
3. To consider and approve the audited financial statements of the Company and the report of the auditors for the year ended 31 December 2006.
4. To consider and approve the profit distribution proposal of the Company (i.e., no dividend being proposed) for the year ended 31 December 2006.
5. To consider and approve the appointment of Ernst & Young Hua Ming and Ernst & Young as the PRC and international auditors of the Company to hold office until the conclusion of the next annual general meeting, and to authorise the Board of Directors to fix their remuneration.

SPECIAL RESOLUTION:

6. To give a general mandate to the Board of Directors to issue, allot and deal with additional Domestic Shares not exceeding 20% of the Domestic Shares of the Company in issue and additional H-Shares not exceeding 20% of the H-Shares of the Company in issue and authorise

the Board of Directors to make corresponding amendments to the Articles of Association as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares:

“THAT:

- (A) (a) subject to paragraph (c) and in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Articles of Association of the Company and the applicable laws and regulations of the People’s Republic of China, the exercise by the Board of Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with, either separately or concurrently, additional Domestic Shares and H-Shares of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the Board of Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);
- (c) each of the aggregate nominal amounts of Domestic Shares and H-Shares authorized to be allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Board of Directors pursuant to the approval granted in paragraph (a) shall not exceed 20% of each of the aggregate nominal amounts of Domestic Shares and H-Shares of the Company respectively in issue at the date of passing this resolution, otherwise than pursuant to (i) a Rights Issue or (ii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or other applicable laws to be held; or
- (iii) the revocation or variation of the authority given to the Board of Directors under this resolution by passing of a special resolution of the Company in a general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) and an offer, allotment or issue of shares by way of rights shall be construed accordingly.

- (B) The Board of Directors be authorised to make corresponding amendments to the Articles of Association of the Company as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares as provided in sub-paragraph (a) of paragraph (A) of this resolution.”

By order of the Board

Advanced Semiconductor Manufacturing Corporation Limited

Tony Yuhai Liu

Executive Director & President

Shanghai, the PRC, 29 March 2007

Notes:

(1) Closure of register of members and eligibility for attending the AGM

To determine the list of Shareholders who have the right to attend the AGM, the register of members will be closed from 17 April 2007 to 16 May 2007 (both days inclusive) during which period, no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on 16 May 2007 are entitled to attend the AGM.

Holders of H-Shares who wish to attend the AGM but have not registered the transfer documents are required to deposit the transfer document together with the relevant share certificates at the H-Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong no later than 4:00 p.m. on 16 April 2007.

(2) Proxy

Any Shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (whether such person is a Shareholder or not) as his proxies to attend and vote on his behalf.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a legal entity, either under seal or under the

hand of a director or an authorised person or a duly authorised attorney of the legal entity. The letter of authorization shall contain the number of the shares to be represented by the proxy. If several persons are authorised as the proxies of the Shareholder, the letter of authorization shall specify the number of shares to be represented by each proxy.

The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority shall be deposited at Computershare Hong Kong Investor Services Limited (in respect of holders of H-Shares) or at the Company's Board Secretariat (in respect of holders of non-H-Shares) in person or by post not less than 24 hours before the time fixed for holding the AGM or any adjournment thereof (as the case may be). The address of Computershare Hong Kong Investor Services Limited is 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. The address of the Company's Board Secretariat is 385 Hong Cao Road, Shanghai 200233, PRC.

(3) Reply Slip

If you intend to attend the AGM in person or by proxy, you are required to complete and return the reply slip to Computershare Hong Kong Investor Services Limited for holder of H-Shares or to the Company's Board Secretariat for holder of non-H-Shares on or before 26 April 2007.

(4) Other business

The AGM is expected to last for half a day. Shareholders (in person or by proxy) attending the AGM are responsible for their own transportation and accommodation expenses. Shareholders or their proxies attending the AGM shall produce their identity documents. The Company is entitled to deny attendance by any shareholders or their proxies who fail to produce their identity documents.

The directors present their first report and the audited financial statements of the Company for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the manufacture and sale of semiconductor products. There were no significant changes in the nature of the Company's principal activities during the year.

SEGMENT INFORMATION

The Company's revenue and profit for the year ended 31 December 2006 were mainly derived from the manufacture and sale of 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 2006 and the state of affairs of the Company at that date are set out in the financial statements on pages 27 and 28.

The Board of directors does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2006.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

Details of the use of proceeds from the Company's initial public offering (the "IPO") are disclosed as follows:

Net proceeds from the IPO, after deducting relevant listing expenses, amounted to approximately RMB630.47 million.

During the year ended 31 December 2006, net proceeds from the IPO were applied in accordance with the plans set out in the prospectus of the Company dated 27 March 2006 (the “Prospectus”) as follows:

	Year ended 31 Dec 2006	
	Application of proceeds as planned in the prospectus RMB' million	Actual application of proceeds RMB' million
Bank loan repayment	280.70	366.75
Equipment refinement for 8 inch	<u>256.51</u>	<u>—</u>
Total	<u>537.21</u>	<u>366.75</u>
Actual proceeds received	<u>630.47</u>	<u>630.47</u>
Additional funds raised/proceeds not yet utilised	<u>93.26</u>	<u>263.72</u>

Since April 2006, the Company’s management has been actively reviewing the plans set out in the Prospectus for the use of the remaining proceeds of the IPO following the application of approximately US\$47 million in the repayment of borrowings. It has been the Board’s intention to apply the balance in further expansion of the Company’s 8-inch production facilities, as stated in the Prospectus. However, the Board is also mindful of its responsibility to shareholders to ensure that the Company’s value be preserved and enhanced. The business environment in the semiconductor industry has deteriorated since the fourth quarter of 2006, although it is expected that the weak business cycle may come to an end in the second half of 2007. Under these circumstances, the Board believes that it is not now the right time to apply the remaining proceeds from the IPO in the expansion of the 8-inch production facilities. The Board has therefore decided that the most suitable application of these funds at the present time is in the reduction of the Company’s long-term debt in order to reduce its current finance costs. The Board intends that, as and when it is appropriate to incur the capital expenditure required to expand the 8-inch production facilities, the Company will utilise its borrowing capacity released by the debt repayment now planned.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Company for the last four financial years, as extracted from the audited financial statements, is set out on pages 21 and 22. 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 are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 24 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.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

In accordance with the Company's Articles of Association, the Company is permitted to distribute dividends based on the lower of the Company's distributable reserves determined under the PRC GAAP and the International Financial Reporting Standards ("IFRSs").

As at 31 December 2006, the Company's reserves available for distribution determined under the PRC GAAP is RMB38,904,000.

CHARITABLE DONATION

The Company made charitable contributions totaling HK\$500,000 to the Community Chest of Hong Kong for its corporate and employee contribution programme in April 2006.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Company's five largest customers accounted for 56% of the total sales for the year and sales to the largest customer included therein amounted to 18%. Purchases from the Company's five largest suppliers accounted for 42% of the total purchases for the year and purchases from the largest supplier accounted for 22%.

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

DIRECTORS

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

Executive directors:

Mr. Tony Yuhai Liu
Ms. Cheng Jianyu

Non-executive directors:

Mr. Ruan Yanhua
Mr. Zhu Jian
Mr. Anthony Lear (retirement on 1 March 2007)
Mr. Petrus Antonius Maria Van Bommel (appointment with effect from 15 March 2006)
Mr. Ajit Manocha (appointment with effect from 2 March 2007)
Mr. Zhu Peiyi
Mr. Zhou Weiping (retirement on 1 March 2007)
Mr. Xiao Yongji (appointment with effect from 2 March 2007)

Independent Non-executive Directors:

Mr. James Arthur Watkins
Mr. Thaddeus Thomas Beczak
Mr. Shen Weijia

The Company has received annual confirmations of independence from Mr. James Arthur Watkins, Mr. Thaddeus Thomas Beczak and Mr. Shen Weijia on 28 February 2007 and considers them to be independent.

CHANGES IN THE BOARD BETWEEN THE BALANCE SHEET DATE AND DATE OF REPORT

Subsequent to the balance sheet date, the above-mentioned directors for the first session of the Board of Directors of the Company served terms until 1 March 2007. Mr. Tony Yuhai LIU, Ms. CHENG Jianyu, Mr. Thaddeus Thomas BECZAK, Mr. James Arthur WATKINS, Mr. SHEN Weijia, Mr. RUAN Yanhua, Mr. ZHU Jian, Mr. Petrus Antonius Maria VAN BOMMEL, Mr. Ajit MANOCHA, Mr. ZHU Peiyi and Mr. XIAO Yongji were elected as Directors of the second session (from 2 March 2007 to 1 March 2010) of the Board of Directors of the Company at the Company's extraordinary general meeting held on 29 January 2007.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Company are set out in the Company's 2006 annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTEREST IN CONTRACTS

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

DIRECTORS', SUPERVISORS', AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 2006, none of the directors or supervisors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKEx") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the HKEx (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2006, the interests and short positions of the following persons (other than directors, supervisors and the chief executive) in the shares or underlying shares of the Company were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage in the relevant class of issued share capital	Percentage in total issued share capital
Koninklijke Philips Electronics N.V.	H shares	408,806,888 (Long position) (Note 1)	Beneficial owner	36.13%	26.65%
Shanghai Chemical Industrial Park Development Co., Ltd	H shares	254,866,584 (Long position) (Note 2)	Beneficial owner	22.53%	16.61%
Fidelity International Limited	H shares	92,250,000	Investment manager	8.15%	6.01%
JPMorgan Chase & Co.	H shares	68,725,958 (Long Position) 68,725,958 (Lending pool) (Note 3)	Custodian corporation/ approved lending	6.07%	4.48%
Schroder Investment Management (Hong Kong) Limited	H shares	67,896,000 (Long position)	Investment manager	6%	4.43%
The Capital Group Companies, Inc	H shares	57,024,000 (Long position) (Note 4)	Investment manager	5.04%	3.72%
China Orient Asset Management Corporation	Domestic shares	172,648,520 (Long position)	Beneficial owner	46.71%	11.25%
Shanghai Chemical Industrial Park Development Co., Ltd	Domestic shares	110,908,000 (Long position) (Note 5)	Beneficial owner	30.01%	7.23%
Shanghai Belling Co. Ltd	Domestic shares	86,064,608 (Long position)	Beneficial owner	23.28%	5.61%

Notes:

1. All of these 408,806,888 H shares (long position) are deemed corporate interests indirectly held through Philips Electronics China B.V..
2. All of these 254,866,584 H shares (long position) are deemed corporate interests indirectly held through Shanghai Chemical Industrial Park Investment Enterprise Company Limited and SCIP (HK) Limited.
3. All of these 68,725,958 H shares (long position) are deemed corporate interests indirectly held through JPMorgan Chase Bank, N.A..
4. All of these 57,024,000 H shares (long position) are deemed corporate interests indirectly held through Capital Research and Management Company.
5. All of these 110,908,000 (long position) are deemed corporate interests indirectly held through Shanghai Chemical Industrial Park Investment Enterprise Company Limited.

SHARE OPTION SCHEME

As at 31 December 2006, the Company had no share option scheme within the meaning of Chapter 17 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, during the year ended 31 December 2006, none of the directors or supervisors or the chief executive of the Company was granted options to subscribe for H Shares of the Company. During the year ended 31 December 2006, none of the directors or supervisors or the chief executive nor their spouses or minor children had any right to acquire H Shares in the Company or had exercised any such right.

CONTINUING CONNECTED TRANSACTIONS

The Company was previously under the significant influence of Koninklijke Philips Electronics N.V. ("Royal Philips") through its wholly-owned subsidiary, Philips Electronics China B.V. On 3 August 2006, Royal Philips announced that it had signed an agreement with Kohlberg Kravis Roberts & Co., Sliver Lake Partners and AlplInvest Partners N.V. (the "Consortium") whereby the Consortium will acquire an 80.1% stake in Philips' Semiconductors business, with Royal Philips retaining a 19.9% stake in this business. The shares in the Company currently held by Royal Philips through Philips Electronics China B.V. will be ultimately held by the stand-alone NXP B.V. (formerly known as "Philips Semiconductor International B.V."). However, such shares may not be transferred until the expiry of the existing shareholder's lock up period, i.e, one year after 7 April 2006 when the Company's shares were listed on the Hong Kong Stock Exchange and except with approval from the PRC Ministry of Commerce. Consequently, the Company was considered to be under significant influence of NXP B.V. controlled by the Consortium effective from 1 September 2006. The Companies controlled by or under the significant influence of Royal Philips and NXP B.V. are considered to be the Company's connected persons during the year.

During the year ended 31 December 2006, the Company had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules:

- a. provision of IT services to the Company by the Company's connected persons amounting to RMB2,613,398.70 with details as follows:

	<i>RMB</i>
Philips International B.V.	2,012,161.20
NXP Semiconductors B.V.	<u>601,237.50</u>
	<u><u>2,613,398.70</u></u>

- b. purchase on normal commercial terms from the Company's connected person being Philips Communication System (Suzhou) Co., Ltd amounting to RMB1,016,140.00 (equivalent to HK\$984,125.48);
- c. transfer and Licensing of Information and Technology to the Company by the Company's connected persons being NXP B.V. amounting to RMB21,529,877.03. The information and technology transfer relationship between the NXP Group and the Company allows the Company to manufacture, sell and develop analog semiconductors of international standards of quality with competitive price; and

- d. sales of Philips Licensed Products and Identification Products by the Company to the NXP Group amounting to RMB245,450,275.53 with details as follows:

	2006
	<i>RMB</i>
NXP Semiconductors Netherlands B.V. (CSN)	12,472,815.76
NXP Semiconductors France SAS (CSC)	595,332.83
NXP Semiconductors Germany GmbH	8,703,247.27
NXP Semiconductors Switzerland AG	23,046,019.19
NXP Semiconductors Taiwan Ltd	7,409,006.84
NXP Semiconductors Netherlands B.V. (AA)	18,788,147.45
NXP Semiconductors Netherlands B.V. (SA)	292,447.63
NXP Semiconductors France SAS (PM)	10,142,403.48
NXP Semiconductors USA, Inc. (MCA)	52,670,911.88
NXP Semiconductors USA, Inc. (BLC)	12,653,326.77
NXP Semiconductors Netherlands B.V. (ABL)	6,651,647.94
NXP Semiconductors Austria GmbH	2,012,014.98
NXP Semiconductors USA, Inc. (IP)	8,489,027.41
NXP Semiconductors Netherlands B.V. (CS)	81,408,667.30
NXP Semiconductor (Suzhou) Co., Ltd	<u>115,258.80</u>
	<u>245,450,275.53</u>

The directors consider that sales of Philips Licensed Products and Identification Products to the NXP Group form an important part of our sales strategy. Under the Philips Cooperation Agreement, NXP Semiconductors B.V. supports the Company in providing design services to authorized PRC-based manufacturers of national identification cards for Chinese citizens.

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

The transactions would normally be subject to the announcement and/or independent shareholders' approval requirements under R.14A.34/R.14A.35. In this regard, the HKEx has granted the Company a waiver from strict compliance with the announcement and/or the independent shareholders' approval requirements in relation to the transactions. For the

year ended 31 December 2006, the total amount of the connected transactions and the approved caps are as follows:

Connected transactions	2006 Actual	Approved caps 2006 (disclosed in the Company's prospectus)
Provision of IT services	RMB2.6 million	RMB4.6 million
Transfer and licensing of information and technology	RMB21.5 million	RMB25 million
Sales of Philips licensed products and identification products	RMB245.5 million	RMB409.3 million

The connected transactions for the year ended 31 December 2006 are within the approved caps stipulated in the Company's prospectus.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

Mr. Ajit MANOCHA has been appointed as a non-executive director of the second session of the Board of directors with effect from 2 March 2007 to 1 March 2010. He is currently executive vice president, chief manufacturing officer and a member of the Executive Management Team of the NXP group of companies (the "NXP Group"), the newly independent semiconductors group founded by Koninklijke Philips Electronics N.V. He is responsible for all divisional manufacturing and integral supply chain strategies including purchasing of the NXP Group. Mr. MANOCHA has also been a director of Systems on Silicon Manufacturing Company Pte Ltd ("SSMC") since 17 June 2003.

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

Mr. Anthony LEAR was a non-executive director and vice chairman of the first session of the Board of directors from 2 March 2004 to 1 March 2007. He is currently senior vice president & regional executive of the NXP Group. He has been an alternate director of SSMC since 1 March 2004.

The NXP Group engages in, among other things, the development, design and manufacturing of semiconductor products. Fabs owned by the NXP Group currently dedicate their foundry capacity to

the needs of the NXP Group. These fabs may compete with the Company as they supply wafers to the NXP Group, which has been one of the Company's top five customers for the year ended 31 December 2006. However, since they are dedicated to serve the NXP Group, they do not currently compete with the Company's sales to other customers.

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

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

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

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

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

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company are set out in note 29 to the financial statements.

AUDITORS

The financial statements have been audited by Ernst & Young. A resolution for their reappointment as auditors of the Company for the year ended 31 December 2007 will be proposed at the forthcoming annual general meeting.

PUBLIC FLOAT

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

By order of Board of Directors

Ruan Yanhua

Chairman

Shanghai, the PRC, 19 March 2007

Advanced Semiconductor Manufacturing Corporation Limited
Four Years Financial Summary

Income Statement

	Year ended 31 December			
	2006	2005	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,355,193	931,583	1,147,367	784,428
Cost of sales	<u>(1,214,253)</u>	<u>(860,626)</u>	<u>(827,247)</u>	<u>(526,144)</u>
Gross Profit	140,940	70,957	320,120	258,284
Selling and distribution costs	(9,016)	(7,377)	(11,128)	(10,467)
General and administrative expenses	(75,914)	(77,640)	(78,164)	(60,062)
Research and development costs	<u>(32,001)</u>	<u>(74,931)</u>	<u>(52,041)</u>	<u>(49,870)</u>
Profit/(loss) from operating activities	24,009	(88,991)	178,787	137,885
Other income	36,882	37,397	6,632	7,993
Finance costs	<u>(57,922)</u>	<u>(33,427)</u>	<u>(4,934)</u>	<u>(748)</u>
Profit/(loss) before income tax	2,969	(85,021)	180,485	145,130
Income tax (expenses)/credit or refund, net	<u>974</u>	<u>9,991</u>	<u>2,165</u>	<u>(12,025)</u>
Net profit/(loss) attributable to shareholders	<u>3,943</u>	<u>(75,030)</u>	<u>182,650</u>	<u>133,105</u>
Dividends	<u>—</u>	<u>—</u>	<u>35,109</u>	<u>—</u>
Earnings/(loss) per share				
- Basic	<u>0.28 cents</u>	<u>(6.77) cents</u>	<u>16.47 cents</u>	<u>12.00 cents</u>

Advanced Semiconductor Manufacturing Corporation Limited
Four Years Financial Summary

Balance Sheet

	Year ended 31 December			
	2006	2005	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	<u>2,858,819</u>	<u>2,641,903</u>	<u>1,951,902</u>	<u>1,503,979</u>
Total liabilities	<u>1,044,096</u>	<u>1,461,594</u>	<u>696,563</u>	<u>396,181</u>
Net assets / shareholders' equity	<u>1,814,723</u>	<u>1,180,309</u>	<u>1,255,339</u>	<u>1,107,798</u>

During the year ended 31 December 2006 (the “Reporting Period”), all members of the supervisory committee of the Company (the “Supervisory Committee”) discharged their duties in compliance with the applicable requirements of the Company Law of the PRC, the Securities Law of the PRC, the Rules Governing the Listing of Securities on the main board of the Stock Exchange of Hong Kong Limited (the “HKEx”), and the Articles of Association of the Company and proactively protected the interests of the Company and its shareholders.

During the Reporting Period, the Supervisory Committee consisted of seven supervisors, including six shareholder representative supervisors, namely, Mr. CHANG Yueh, Mr. Ajit MANOCHA, Mr. SHEN Qitang, Mr. YANG Yanhui, Ms. WANG Xiangqun, and Mr. HUANG Jihua, and one employee representative supervisor, Mr. XU Songneng.

Subsequent to the balance sheet date, the above-mentioned supervisors for the first session of the Supervisory Committee served their respective terms until 1 March 2007. In the Company’s extraordinary general meeting held on 29 January 2007, Mr. Anthony LEAR, Mr. SHEN Qitang, Mr. YANG Yanhui, Mr. GUO Yiwu, Ms. WANG Xiangqun, and Mr. MANG Waikin were elected as shareholder representative supervisors of the second session of the Supervisory Committee. Mr. PAN Guojin was elected as an employee representative supervisor of the second session of the Supervisory Committee by the Company’s employees in a democratic manner on 28 December 2006. The term of the second session of the Supervisory Committee took effect from 2 March 2007 through 1 March 2010.

During the Reporting Period, the Supervisory Committee held two meetings as follows.

At the fifth meeting of the first session of the Supervisory Committee held on 7 March 2006, the Supervisory Committee reviewed and approved the audited financial statement for the year ended 31 December 2005 prepared in accordance with PRC GAAP, the profit distribution plan for the year ended 31 December 2005 and work report of the Supervisory Committee for the year ended 31 December 2005.

At the sixth meeting of the first session of the Supervisory Committee held on 10 August 2006, the Supervisory Committee reviewed and approved the interim report and preliminary announcement of interim results for the six months ended 30 June 2006.

In addition, the Supervisors exercised oversight over major decisions of the Company, such as capital expenditure, connected transactions, etc. by attending meetings of the Directors.

To sum up, set out below are the independent opinions of the Supervisory Committee on its work in the Reporting Period:

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

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.

The Supervisory Committee reviewed the use of proceeds of the Company from the IPO and is satisfied that during the year ended 31 December 2006, the proceeds were utilised in a manner consistent with the disclosures in the Prospectus of the Company.

The Supervisory Committee also noted the Board's intention to apply the remaining funds of the IPO in the reduction of the Company's long-term debt in order to reduce its current finance costs and believes that such intended change of the use of proceeds is appropriate for preserving and enhancing the Company's value and therefore is in the best interests of the shareholders.

The Supervisory Committee monitored the discharge of duties by the Directors and managers and is of the view that during the Reporting Period, 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 and been dedicated to promoting the development of the Company. The Supervisory Committee was not aware of any act of the Directors or managers during their discharge of duties that were in contradiction to the laws or regulations of the PRC or Articles of Association or detrimental to the interests of shareholders of the Company.

The Supervisory Committee believes that the shareholding structure of the Company has been diversified and internationalised since its listing on the HKEx, laying down a robust foundation for further improvement of corporate governance structure and acceleration of business growth of the Company. In the coming year, the Supervisory Committee will further seek innovation to better deliver its supervisory functions and protect the interests of shareholders as a whole.

By order of the Supervisory Committee
Anthony LEAR
Chairman

Shanghai, the PRC, 19 March 2007



**TO THE SHAREHOLDERS OF
ADVANCED SEMICONDUCTOR MANUFACTURING CORPORATION LIMITED**
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

We have audited the financial statements of Advanced Semiconductor Manufacturing Corporation Limited (the "Company") set out on pages 27 to 65, which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2006, and of its 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*

Hong Kong

19 March 2007

Income Statement*Year ended 31 December 2006*

	<i>Note</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Revenue	5	1,355,193	931,583
Cost of sales		<u>(1,214,253)</u>	<u>(860,626)</u>
Gross profit		140,940	70,957
Selling and distribution costs		(9,016)	(7,377)
General and administrative expenses		(75,914)	(77,640)
Research and development costs		<u>(32,001)</u>	<u>(74,931)</u>
Profit/(loss) from operating activities		24,009	(88,991)
Other income	5	36,882	37,397
Finance costs	6	<u>(57,922)</u>	<u>(33,427)</u>
Profit/(loss) before income tax	6	2,969	(85,021)
Income tax credit, net	9	<u>974</u>	<u>9,991</u>
Net profit/(loss) attributable to ordinary equity holders of the Company		<u><u>3,943</u></u>	<u><u>(75,030)</u></u>
Dividends	10	<u>—</u>	<u>—</u>
Earnings/(loss) per share attributable to ordinary equity holders of the Company			
-Basic	11	<u><u>0.28 cents</u></u>	<u><u>(6.77) cents</u></u>

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

Balance Sheet

31 December 2006

	<i>Note</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	12	1,941,434	1,946,316
Construction in progress	13	1,929	175,937
Land lease prepayments	14	35,854	36,623
Intangible assets	15	17,559	18,569
Deferred tax assets	16	<u>7,795</u>	<u>6,821</u>
Total non-current assets		<u>2,004,571</u>	<u>2,184,266</u>
Current assets			
Inventories	17	261,829	171,799
Accounts and notes receivables	18	137,802	124,264
Prepayments, deposits and other receivables	19	21,736	23,743
Due from related companies	20	35,894	31,945
Cash and cash equivalents	21	<u>396,987</u>	<u>105,886</u>
Total current assets		<u>854,248</u>	<u>457,637</u>
Total assets		<u>2,858,819</u>	<u>2,641,903</u>
Current liabilities			
Accounts payable	22	194,344	196,200
Accrued liabilities and other payables		95,433	64,745
Due to related companies	20	12,492	14,330
Interest-bearing borrowings	23	<u>286,451</u>	<u>1,186,319</u>
Total current liabilities		<u>588,720</u>	<u>1,461,594</u>
Net current assets/(liabilities)		<u>265,528</u>	<u>(1,003,957)</u>
Non-current liabilities			
Interest-bearing borrowings	23	<u>455,376</u>	<u>—</u>
Net assets		<u>1,814,723</u>	<u>1,180,309</u>
Capital and reserves			
Registered and paid-up capital	24	1,534,227	1,109,080
Reserves	25	<u>280,496</u>	<u>71,229</u>
Shareholders' equity		<u>1,814,723</u>	<u>1,180,309</u>

Tony Yuhai Liu*Director***Cheng Jianyu***Director*

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

Statement of Changes in Equity*Year ended 31 December 2006*

	<i>Note</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Registered and paid-up capital	24		
Ordinary shares of RMB1.00 each:			
At beginning of year		1,109,080	1,109,080
Global offering of shares		<u>425,147</u>	<u>—</u>
At end of year		<u>1,534,227</u>	<u>1,109,080</u>
Capital reserve	25 (a)		
At beginning of year		39	39
Global offering of shares		<u>205,324</u>	<u>—</u>
At end of year		<u>205,363</u>	<u>39</u>
Statutory surplus reserve	25 (b)		
At beginning of year		12,902	12,902
Increase: Transferred from statutory public welfare fund		<u>6,451</u>	<u>—</u>
At end of year		<u>19,353</u>	<u>12,902</u>
Statutory public welfare fund	25 (c)		
At beginning of year		6,451	6,451
Decrease: Transferred to statutory surplus reserve		<u>(6,451)</u>	<u>—</u>
At end of year		<u>—</u>	<u>6,451</u>
Retained earnings	25(d)		
At beginning of year		51,837	126,867
Net profit/(loss) for the year		<u>3,943</u>	<u>(75,030)</u>
At end of year		<u>55,780</u>	<u>51,837</u>
Reserves		<u>280,496</u>	<u>71,229</u>
Shareholders' equity		<u>1,814,723</u>	<u>1,180,309</u>

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

Cash Flow Statement*Year ended 31 December 2006*

	<i>Note</i>	2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities			
Profit/(loss) before income tax		2,969	(85,021)
Adjustments for:			
Depreciation		382,801	284,888
Amortisation of intangible assets		3,491	—
Amortisation of land lease prepayments		769	769
Loss on disposal of property, plant and equipment		1,392	2,068
Construction in progress written off		10	—
(Reversal of)/provision of impairment loss on construction in progress		(1,299)	2,337
Reversal of allowance for bad and doubtful debts		(22)	—
Allowance for inventories		13,186	7,056
Fair value loss/(gain) on interest rate swap		224	(2,840)
Interest expenses		57,922	33,427
Interest income		<u>(11,104)</u>	<u>(393)</u>
Operating profit before working capital changes		450,339	242,291
Increase in accounts and notes receivables		(13,516)	(68,860)
Increase in inventories		(101,917)	(44,635)
Decrease/(increase) in prepayments, deposits and other receivables		9,750	(1,724)
Increase in balances with related companies		(5,787)	(7,123)
Increase/(decrease) in accounts payable		8,144	(26,521)
Increase/(decrease) in accrued liabilities and other payables		<u>29,992</u>	<u>(11,833)</u>
Cash flows from operations		377,005	81,595
Interest paid		(57,922)	(33,427)
Interest received		3,733	393
Refund of prepaid income tax		<u>—</u>	<u>7,441</u>
Net cash inflow from operating activities		<u>322,816</u>	<u>56,002</u>

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

	<i>Note</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Cash flows from investing activities			
Acquisition of property, plant and equipment, construction in progress and intangible assets		(208,943)	(788,148)
Interest capitalised attributable to construction of qualifying assets		<u>(231)</u>	<u>(5,550)</u>
Total additions of property, plant and equipment, construction in progress and intangible assets		(209,174)	(793,698)
Payment of land lease prepayment		(10,000)	—
Proceeds from disposal of property, plant and equipment		<u>784</u>	<u>323</u>
Net cash outflow from investing activities		<u>(218,390)</u>	<u>(793,375)</u>
Cash flows from financing activities			
Proceeds from issue of new shares	24	775,776	—
Share issue expenses	24	(81,910)	—
Payment of proceeds from Sale H shares to National Social Security Fund	24	(62,699)	—
New bank loans		159,912	1,663,941
Repayment of bank loans		<u>(604,404)</u>	<u>(866,618)</u>
Net cash inflow from financing activities		<u>186,675</u>	<u>797,323</u>
Net increase in cash and cash equivalents		291,101	59,950
Cash and cash equivalents at beginning of year		<u>105,886</u>	<u>45,936</u>
Cash and cash equivalents at end of year		<u><u>396,987</u></u>	<u><u>105,886</u></u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances	21	149,546	105,886
Non-pledged time deposits	21	<u>247,441</u>	—
		<u><u>396,987</u></u>	<u><u>105,886</u></u>

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

Notes to the Financial Statements*31 December 2006***1. CORPORATE INFORMATION**

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

On 2 March 2004, the Company was re-registered as a foreign invested joint stock company with limited liability by the issuance of 1,109,080,000 fully paid shares with a nominal value of RMB1.00 each to the then shareholders. The tenure of operation of the Company was revised to infinite. On 7 April 2006, the Company’s H shares were successfully listed on the Hong Kong Stock Exchange.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Interpretations of the Standing Interpretation Committee approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except as disclosed in this summary of significant accounting policies.

In 2006 the Company adopted the following amended and newly released IFRSs, which are generally effective for accounting periods beginning on or after 1 January 2006 that are relevant to its operations.

IAS 39	Financial Instruments: Recognition and Measurement (amended in 2005)
IFRIC-Int 4	Determining whether an arrangement contains a lease (issued in 2005)

The adoption of the above standards has no material impact on the results and financial position of the Company.

Impact of issued but not yet effective IFRSs

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

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC-Int 10	Interim Financial Reporting and Impairment

The IAS 1 Amendment will affect the disclosures about qualitative information of the Company’s objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of IAS 32.

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

IFRIC-Int 10 addresses the interaction between the requirements of IAS 34, Interim Financial Reporting and the recognition of impairment losses on goodwill under IAS 36, Impairment of Assets and certain financial assets under IAS 39, Financial Instruments: Recognition and Measurement. IFRIC-Int 10 requires that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

IAS 1 Amendment and IFRS 7 are effective for annual periods beginning on or after 1 January 2007. IFRS 8 supersedes IAS14, and is effective for periods beginning on or after 1 January 2009. IFRIC-Int 10 is effective for the annual period beginning on or after 1 November 2006.

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

Property, plant and equipment and depreciation

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of the property, plant and equipment are as follows:

Buildings	30 years
Plant and machinery	5~10 years
Office equipment	5 years
Motor vehicles	5 years

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. Where an indication of impairment exists, or when annual impairment testing for an asset is required, the assets' recoverable amount is estimated.

The recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time, value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Construction in progress (“CIP”)

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which is stated at cost less accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of purchase, construction, installation and testing and capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Land lease prepayments

Land lease prepayments are stated at cost less accumulated amortisation and impairment losses. Land lease prepayments are amortised using the straight-line basis over the unexpired period of the rights.

Intangible assets

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

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

Computer software	2~10 years
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Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost 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 all further costs expected to be incurred to completion and disposal.

Financial assets

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

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

Financial assets at fair value through profit or loss

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

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit and loss.

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

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held- to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

Cash and cash equivalents

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

For the purpose of the cash flow statement and the balance sheet, cash and cash equivalents consist of cash on hand and deposits in banks.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Foreign currency transactions

The functional and presentation currency of the Company is Renminbi (“RMB”).

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Leases

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

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
- (d) There is a substantial change to the asset.

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

Company as a lessee

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services have been rendered; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Retirement benefits

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

Accommodation benefits

Contributions to an accommodation fund administered by the Provident Fund Management Centre are charged to the income statement as incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) *Impairment of assets*

In determining if an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing

- (i) whether an event has occurred that may affect asset value or such event affecting the asset value has not been in existence;
- (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continuing use of the asset or derecognition; and
- (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

(b) *Deferred tax assets*

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

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the Company in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised.

(c) *Provision for obsolete and slow-moving inventories*

The Company's inventories are stated at the lower of cost and net realisable value. The Company makes provisions based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for obsolescence provisions, if appropriate.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below:

(a) *Impairment test of assets*

Management determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires management to make an

estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(b) *Deferred tax assets*

The carrying amount of deferred tax assets and related financial models and budgets are reviewed by management at each balance sheet date. To the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow the utilisation of the tax losses carried forward, the asset balance will be reduced and charged to the income statement.

(c) *Provision for slow-moving inventories*

Provision for slow-moving inventories is made based on the age and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which such estimate has been changed.

(d) *Provision for doubtful debts*

Provision for doubtful debts is made based on assessment of the recoverability of the trade receivables and other receivables. The identification of doubtful debts 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 doubtful debt expenses/write-back in the period in which such estimate has been changed.

4. SEGMENT INFORMATION

The Company's revenue and profit were mainly derived from the sale of wafers. The Company has only one business segment.

The principal assets employed by the Company are located in Shanghai, the PRC. Therefore, no segment information based on the geographical location of the Company's assets is presented.

The Company's revenue is attributed to geographical areas based on the location of customers. Revenue regarding geographical segments based on the location of customers is presented as follows:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
United States of America	696,869	542,143
Europe	347,337	169,556
Asia	<u>310,987</u>	<u>219,884</u>
	<u>1,355,193</u>	<u>931,583</u>

5. REVENUE AND OTHER INCOME

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Sale of goods	1,354,399	929,711
Others	<u>794</u>	<u>1,872</u>
	<u>1,355,193</u>	<u>931,583</u>
Other income		
Interest income	11,104	393
Government subsidies:		
Refund of Value-added Tax ("VAT")	—	7,314
Technology service income	—	4,656
Scrap sales	7,622	—
Compensation received	4,801	—
Net foreign exchange gains and others	13,579	22,194
Fair value (loss)/gain on interest rate swap	<u>(224)</u>	<u>2,840</u>
	<u>36,882</u>	<u>37,397</u>
	<u>1,392,075</u>	<u>968,980</u>

6. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs (including Directors', supervisors' and senior executives' emoluments as set out in note 7):		
Retirement benefits (note 8)		
- defined contribution fund	13,180	9,679
Accommodation benefits (note 8)		
- defined contribution fund	4,055	3,057
Salaries and other staff costs	<u>146,377</u>	<u>126,396</u>
	<u>163,612</u>	<u>139,132</u>
Interest on bank loans	58,153	38,977
Less: Interest capitalised	<u>(231)</u>	<u>(5,550)</u>
Finance costs	<u>57,922</u>	<u>33,427</u>
<i>Average interest rate capitalised</i>	4.93%	4.93%
Depreciation	382,801	284,888
Amortisation of intangible assets	3,491	—
Amortisation of land lease prepayments	769	769
Auditors' remuneration	2,400	1,000
Loss on disposal of property, plant and equipment	1,392	2,068
(Reversal of)/provision of impairment loss on construction in progress	(1,299)	2,337
Reversal of allowance for bad and doubtful debts	(22)	—
Foreign exchange losses	—	1,730
Construction in progress written off	10	—
Provision for inventories	<u>13,186</u>	<u>7,056</u>

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

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

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Fees	3,122	3,187
Other emoluments for executive directors and supervisors:		
- Basic salaries and other benefits	4,736	4,788
- Non-discretionary bonuses paid and payable	590	630
- Retirement contributions	<u>36</u>	<u>33</u>
	<u>5,362</u>	<u>5,451</u>
	<u><u>8,484</u></u>	<u><u>8,638</u></u>

(a) Independent non-executive directors

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

	2006	2005
	RMB'000	RMB'000
James Arthur Watkins	250	238
Thaddeus Thomas Beczak	250	238
Shen Weijia	<u>250</u>	<u>238</u>
	<u><u>750</u></u>	<u><u>714</u></u>

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

(b) Executive directors and non-executive directors

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

	Fees	Basic salaries and other benefits	Performance related bonuses	Retirement contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2005					
Executive directors:					
Mr. Tony Yuhai Liu	—	2,881	404	—	3,285
Ms. Cheng Jianyu	—	1,435	168	16	1,619
	<u>—</u>	<u>4,316</u>	<u>572</u>	<u>16</u>	<u>4,904</u>
Non-executive directors:					
Mr. Ruan Yanhua	208	—	—	—	208
Mr. Zhu Jian	208	—	—	—	208
Mr. Anthony Lear	208	—	—	—	208
Mr. Mang Wai Kin	208	—	—	—	208
Mr. Zhu Peiyi	208	—	—	—	208
Mr. Ma Mai	35	—	—	—	35
Mr. Zhou Weiping	150	—	—	—	150
Mr. Petrus Antonius Maria Van Bommel	—	—	—	—	—
	<u>1,225</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,225</u>
Supervisors:					
Mr. Shen Qitang	208	—	—	—	208
Mr. Yang Yanhui	208	—	—	—	208
Mr. Zhang Yueh	208	—	—	—	208
Mr. Ajit Manocha	208	—	—	—	208
Ms. Wang Xiangqun	208	—	—	—	208
Mr. Huang Jihua	208	—	—	—	208
Mr. Xu Songneng	—	472	58	17	547
	<u>1,248</u>	<u>472</u>	<u>58</u>	<u>17</u>	<u>1,795</u>
	<u>2,473</u>	<u>4,788</u>	<u>630</u>	<u>33</u>	<u>7,924</u>

The five highest paid individuals in the Company include two executive directors for the years ended 31 December 2005 and 2006, details of whose emoluments have been disclosed above.

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

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and other benefits	3,552	3,629
Non-discretionary bonuses paid and payable	483	605
Retirement contributions	<u>53</u>	<u>49</u>
	<u><u>4,088</u></u>	<u><u>4,283</u></u>

The number of the three highest paid employees, whose remuneration fell within the following bands, is as follows:

	2006	2005
HK\$1,000,001 - HK\$1,500,000	2	2
HK\$1,500,001 - HK\$2,000,000	<u>1</u>	<u>1</u>
	<u><u>3</u></u>	<u><u>3</u></u>

During the years ended 31 December 2005 and 2006, no director or supervisor waived or agreed to waive any emolument and no emoluments were paid by the Company to the directors, supervisors or five highest paid employees of the Company as an inducement to join or upon joining the Company or as compensation for loss of office.

8. RETIREMENT BENEFITS AND ACCOMMODATION

Retirement benefits

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

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

Accommodation benefits

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

9. 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 2005 and 2006.

The Company is located at Caohejing High-Tech Park of Shanghai, the PRC, and its applicable corporate income tax rate is 15%. In accordance with the prevailing tax laws in the PRC, the Company is entitled to full exemption from corporate income tax for the first and second profitable years (after offsetting accumulated tax losses, which can be carried forward for utilisation for a maximum period of five years), and a further 50% exemption for the succeeding three years.

As an integrated circuits manufacturer capable of manufacturing wafers with line widths equal to or below 0.25 micron, and pursuant to an approval document of the relevant tax authorities dated 17 June 2004, the Company is entitled to a 50% reduction in corporate income tax for an additional five years from 2004 to 2008. Accordingly, the Company was subject to PRC corporate income tax at an applicable income tax rate of 7.5% for the years ended 31 December 2005 and 2006.

Major components of income tax credit are as follows:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for income tax in respect of profit for the year	—	—
Over provision of income tax in respect of prior years	—	(4,936)
	<u>—</u>	<u>(4,936)</u>
Deferred tax credit	(974)	(5,055)
	<u>(974)</u>	<u>(9,991)</u>
Income tax credit	<u>(974)</u>	<u>(9,991)</u>

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

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/ (loss) before income tax	2,969	(85,021)
Tax at applicable tax rate of 7.5%	223	(6,377)
Tax effect of:		
- Expenses not deductible for tax purpose	3	906
- Additional deductible expenses for tax purpose	(1,200)	—
- Others	—	416
Over provision in prior year	—	(4,936)
	<u>—</u>	<u>(4,936)</u>
Income tax credit, net	<u>(974)</u>	<u>(9,991)</u>

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

10. DIVIDENDS

The Board of Directors does not recommend the payment of dividend to the ordinary equity holders of the Company for the year ended 31 December 2006 (31 December 2005: Nil).

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

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

	2006	2005
Profit/(loss) attributable to ordinary equity holders of the Company (RMB'000)	<u>3,943</u>	<u>(75,030)</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,421,800</u>	<u>1,109,080</u>

Diluted earnings/(loss) per share has not been disclosed as there were no dilutive options and other potential dilutive ordinary shares in issue during the years ended 31 December 2005 and 2006.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2006:					
Cost:					
At 1 January 2006	104,222	3,318,453	50,433	3,391	3,476,499
Additions	40	25,080	7,496	473	33,089
Transferred from CIP	53,932	278,974	14,562	—	347,468
Disposals	<u>(1,953)</u>	<u>(2,902)</u>	<u>(1,308)</u>	<u>(124)</u>	<u>(6,287)</u>
At 31 December 2006	<u>156,241</u>	<u>3,619,605</u>	<u>71,183</u>	<u>3,740</u>	<u>3,850,769</u>
Accumulated depreciation:					
At 1 January 2006	24,140	1,474,006	29,280	2,757	1,530,183
Charge for the year	4,903	369,548	8,104	246	382,801
Disposals	<u>(415)</u>	<u>(1,802)</u>	<u>(1,308)</u>	<u>(124)</u>	<u>(3,649)</u>
At 31 December 2006	<u>28,628</u>	<u>1,841,752</u>	<u>36,076</u>	<u>2,879</u>	<u>1,909,335</u>
Net book value:					
At 31 December 2006	<u>127,613</u>	<u>1,777,853</u>	<u>35,107</u>	<u>861</u>	<u>1,941,434</u>
31 December 2005:					
Cost:					
At 1 January 2005	101,823	2,536,873	43,384	3,379	2,685,459
Additions	—	58,951	3,324	35	62,310
Transferred from CIP	2,399	734,876	4,974	—	742,249
Disposals	<u>—</u>	<u>(12,247)</u>	<u>(1,249)</u>	<u>(23)</u>	<u>(13,519)</u>
At 31 December 2005	<u>104,222</u>	<u>3,318,453</u>	<u>50,433</u>	<u>3,391</u>	<u>3,476,499</u>
Accumulated depreciation:					
At 1 January 2005	20,726	1,208,324	24,854	2,519	1,256,423
Charge for the year	3,414	275,542	5,671	261	284,888
Disposals	<u>—</u>	<u>(9,860)</u>	<u>(1,245)</u>	<u>(23)</u>	<u>(11,128)</u>
At 31 December 2005	<u>24,140</u>	<u>1,474,006</u>	<u>29,280</u>	<u>2,757</u>	<u>1,530,183</u>
Net book value:					
At 31 December 2005	<u>80,082</u>	<u>1,844,447</u>	<u>21,153</u>	<u>634</u>	<u>1,946,316</u>

The Company's buildings, plant and machinery with a net book value of RMB1,905,466,000 at 31 December 2006 (31 December 2005: RMB1,924,529,000) were pledged to banks as security for the bank loans amounting to US\$92 million (equivalent to approximately RMB 718,401,000) at 31 December 2006 (31 December 2005: RMB742,458,000).

The proceeds receivable in respect of disposal of property, plant and equipment amounting to RMB596,000 at 31 December 2006 was included in sundry debtors disclosed in Note 19 to the financial statements.

13. CONSTRUCTION IN PROGRESS

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Net book value:		
At beginning of year	175,937	207,704
Additions	173,470	712,819
Transferred to property, plant and equipment	(347,468)	(742,249)
Transferred to inventory	(1,299)	—
Written off	(10)	—
Impairment loss reversed/(provided)	<u>1,299</u>	<u>(2,337)</u>
At end of year	<u><u>1,929</u></u>	<u><u>175,937</u></u>
Cost	1,929	178,274
Accumulated impairment loss	<u>—</u>	<u>(2,337)</u>
Net book value at end of year	<u><u>1,929</u></u>	<u><u>175,937</u></u>

The Company's construction in progress with a net book value of RMB1,929,000 at 31 December 2006 (31 December 2005: RMB175,937,000) was pledged to banks as security for the bank loans amounting to US\$92 million (equivalent to approximately RMB718,401,000) at 31 December 2006 (31 December 2005: RMB742,458,000).

During the year ended 31 December 2006, an impairment loss of RMB1,299,000 in respect of the equipment for the 6-inch production line was reversed as the equipment was dismantled and used as spare parts for other production lines. In addition, an impairment loss of RMB1,038,000 was written off as the related equipment with cost amounting to RMB1,048,000 were disposed during the year.

14. LAND LEASE PREPAYMENTS

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount:		
At beginning of year	37,392	38,161
Amortisation for the year	<u>(769)</u>	<u>(769)</u>
At end of year	36,623	37,392
Current portion included in prepayments, deposits and other receivables	<u>(769)</u>	<u>(769)</u>
Non-current portion	<u><u>35,854</u></u>	<u><u>36,623</u></u>

The Company's land lease prepayments with a net book value of RMB36,623,000 at 31 December 2006 (31 December 2005: RMB37,392,000) were pledged to banks to secure the bank loans amounting to US\$92 million (equivalent to approximately RMB718,401,000) at 31 December 2006 (31 December 2005: RMB742,458,000).

15. INTANGIBLE ASSETS

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year	18,569	—
Addition	2,615	18,569
Disposal	<u>(134)</u>	<u>—</u>
At end of year	<u>21,050</u>	<u>18,569</u>
Accumulated amortisation:		
At beginning of year	—	—
Amortisation for the year	<u>(3,491)</u>	<u>—</u>
At end of year	<u>(3,491)</u>	<u>—</u>
Net book value	<u><u>17,559</u></u>	<u><u>18,569</u></u>

The intangible assets are computer software.

16. DEFERRED TAX ASSETS

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets/(liabilities) in respect of		
- Depreciation charges	(562)	(782)
- Fair value gain on interest rate swap	(196)	(213)
- Unutilised tax losses	4,291	5,684
- Provisions	<u>4,262</u>	<u>2,132</u>
	<u><u>7,795</u></u>	<u><u>6,821</u></u>

Under the relevant tax laws of the PRC, the Company is able to carry forward the unutilised tax losses for five years. Subject to the agreement by the Tax Bureau, the Company has recognised the temporary difference on unutilised tax losses amounting to approximately RMB57,217,000 (31 December 2005: RMB75,786,000) as a deferred tax asset at 31 December 2006 as the Directors are confident that the Company is able to generate sufficient taxable profits to utilise the tax losses before the expiry of the five years period.

17. INVENTORIES

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	78,340	43,726
Spare parts and consumables	73,467	54,508
Work in progress	123,946	79,071
Finished goods	<u>27,686</u>	<u>22,918</u>
	303,439	200,223
Less: Allowance for inventories	<u>(41,610)</u>	<u>(28,424)</u>
	<u>261,829</u>	<u>171,799</u>
Represented by:		
Inventories carried at cost	177,193	129,654
Inventories carried at net realisable value	<u>84,636</u>	<u>42,145</u>
	<u>261,829</u>	<u>171,799</u>
Analysis of allowance for inventories:		
At beginning of year	28,424	21,368
Provided for the year	25,793	15,028
Utilised for the year	<u>(12,607)</u>	<u>(7,972)</u>
At end of year	<u>41,610</u>	<u>28,424</u>

18. ACCOUNTS AND NOTES RECEIVABLES

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable	137,802	117,645
Notes receivables	<u>—</u>	<u>6,619</u>
	<u>137,802</u>	<u>124,264</u>

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

An ageing analysis of the accounts receivable as at 31 December 2006 is as follows:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ageing:		
Within 30 days	79,462	68,840
Between 31 days and 90 days	57,567	47,997
Between 91 days and 180 days	557	113
Between 181 days and 365 days	<u>216</u>	<u>717</u>
	137,802	117,667
Less: Allowance for bad and doubtful debts	<u>—</u>	<u>(22)</u>
	<u><u>137,802</u></u>	<u><u>117,645</u></u>

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	1,641	7,639
Prepaid expense	453	—
Deposits	340	295
VAT refundable	2,261	2,261
Held for trading financial assets		
- Interest rate swap	2,616	2,840
Interest income receivable	7,371	—
Sundry debtors		
- Proceeds from disposal of property, plant and equipment	596	—
- Others	<u>6,458</u>	<u>10,708</u>
	<u><u>21,736</u></u>	<u><u>23,743</u></u>

20. BALANCES WITH RELATED COMPANIES

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

On 3 August 2006, Royal Philips announced that it had signed an agreement with Kohlberg Kravis Roberts & Co., Sliver Lake Partners and AlplInvest Partners N.V. (the “Consortium”) whereby the Consortium will acquire an 80.1% stake in Philips’ Semiconductors business, with Royal Philips retaining a 19.9% stake in this business. The shares in the Company currently held by Royal Philips through Philips Electronics China B.V. will be ultimately held by the stand-alone NXP B.V. (formerly known as “Philips Semiconductor International B.V.”). However, such shares may not be transferred until the expiry of the existing shareholder’s lock-up period, i.e. one year after 7 April 2006 when the Company’s shares were listed on the Hong Kong Stock

Exchange, except with approval from the PRC Ministry of Commerce. Consequently, the Company was considered to be under significant influence of NXP B.V. controlled by the Consortium effective from 1 September 2006. The companies controlled by or under the significant influence of Royal Philips and NXP B.V. are considered to be the Company's related parties during the year.

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

21. CASH AND CASH EQUIVALENTS

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	149,546	105,886
Time deposits	<u>247,441</u>	<u>—</u>
	<u><u>396,987</u></u>	<u><u>105,886</u></u>

The non-pledged time deposits of RMB247,441,000 at 31 December 2006 have varying periods between three months to six months depending on the immediate cash requirements of the Company.

22. ACCOUNTS PAYABLE

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ageing:		
Within 30 days	144,646	108,714
Between 31 days and 90 days	33,790	46,737
Between 91 days and 180 days	7,245	10,679
Between 181 days and 365 days	3,461	15,140
Over 365 days	<u>5,202</u>	<u>14,930</u>
	<u><u>194,344</u></u>	<u><u>196,200</u></u>

23. INTEREST-BEARING BORROWINGS

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans:		
- Unsecured	23,426	443,861
- Secured	<u>718,401</u>	<u>742,458</u>
	<u>741,827</u>	<u>1,186,319</u>
Bank loans repayable:		
- Within one year	286,451	1,186,319
- In the second year	234,702	—
- Between the third and fifth years	<u>220,674</u>	<u>—</u>
	<u>741,827</u>	<u>1,186,319</u>
Bank loans:		
- Current portion	286,451	1,186,319
- Non-current portion	<u>455,376</u>	<u>—</u>
	<u>741,827</u>	<u>1,186,319</u>

The bank loans bear interest at rates from 6.17% to 6.58% per annum (2005: 1.97% to 5.25% per annum).

On 9 February 2006, the Company obtained a final unconditional waiver letter from the syndicate of banks (the “Lenders”) for the US\$100 million credit facility term loan agreement (the “Term Loan Agreement”) in respect of the breach of certain financial covenants on testing days as at 30 June 2005 and 30 September 2005, as stipulated in the Term Loan Agreement. Accordingly, the secured bank loan of US\$92,000,000 (equivalent to approximately RMB742,458,000) under the Term Loan Agreement, was classified as short term loan at 31 December 2005 because of the breach of the financial covenants. The Company signed a supplementary agreement with the Lenders on 8 May 2006 to finalise the terms of the final unconditional waiver letter. Accordingly, the short-term portion has been reclassified as long-term loan as at 31 December 2006.

On 31 December 2006, the Company complied with the revised financial covenants as set out in the supplementary agreement dated 8 May 2006.

The principal debt covenants of the Term Loan Agreement are set out below:

- (a) The Company shall comply with certain financial covenants on every testing date of every quarter end;
- (b) The Company shall not engage in any business beyond its business scope as indicated in its business license;
- (c) The Company shall not merge or consolidate with other entities, nor take any step with a view toward dissolution, liquidation or winding-up;
- (d) The Company shall not guarantee, provide security (other than to the Lenders), sell, transfer, lend, lease (as a lessor), or otherwise dispose of any whole or substantial part of its property, assets, or cash flows, whether by a single transaction or a series of transactions, and whether it is a related party transaction or not (other than any guarantee, security, sale, transfer, lending or lease entered into by the Company in the normal course of business);

- (e) The Company shall not incur any additional indebtedness (except clean facility, subordinated loan and trade facilities) without the Lender's prior consent;
- (f) The Company shall maintain the status of all insurance policies that have been assigned to the Lenders;
- (g) No dividend or other distribution shall be made by the Company prior to its listing on any stock exchange. After the Company is listed, up to (and including) 25% of its net profit after tax for any financial year may be declared, made or distributed as a dividend by the Company;
- (h) No decrease or reduction shall be made to the Company's registered capital without prior written consent of the Lenders; and
- (i) The Company shall mortgage in favour of the Lenders all its land lease prepayments, buildings, machinery and equipment. For any of such land lease prepayments, buildings, machinery or equipment that the Company acquires after the first drawdown under the Term Loan Agreement, the Company shall undertake to perfect or register the mortgage once a year after the first drawdown date, over such property or assets that the Company has acquired during the immediate past year.

The Company's buildings, plant and machinery, construction in progress, and land lease prepayments with a net book value of RMB1,905,466,000, RMB1,929,000 and RMB36,623,000, respectively, at 31 December 2006 were pledged to banks as security for the bank loans amounting to US\$92 million (equivalent to approximately RMB718,401,000).

As at 31 December 2006, the Company had unutilised banking facilities of approximately US\$72,887,000 (equivalent to approximately RMB569,153,000), out of which amounts of US\$37,000,000 (equivalent to RMB288,922,000), US\$35,887,000 (equivalent to RMB280,231,000) will expire on 6 December 2007 and 24 November 2008, respectively.

24. REGISTERED AND PAID-UP CAPITAL

		31 December 2006	31 December 2005	31 December 2006	31 December 2005
	<i>Notes</i>	Number of shares	Number of shares	RMB'000	RMB'000
		<i>'000</i>	<i>'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered		<u>1,109,080</u>	<u>1,109,080</u>	<u>1,109,080</u>	<u>1,109,080</u>
Issued and fully paid:					
Non-listed foreign shares	(a)	33,272	696,946	33,272	696,946
Domestic Shares	(b)	369,621	412,134	369,621	412,134
H Shares	(c)	467,660	—	467,660	—
Converted H Shares	(d)	<u>663,674</u>	<u>—</u>	<u>663,674</u>	<u>—</u>
Total		<u>1,534,227</u>	<u>1,109,080</u>	<u>1,534,227</u>	<u>1,109,080</u>

According to the relevant regulations of the PRC, Domestic Shares, Foreign Shares (whether all in the form of Converted H Shares or Non-listed Foreign Shares) and H Shares are ordinary shares in the Company's share capital. The holders of ordinary shares are entitled to receive dividends declared by the Company, and are entitled to voting rights without restriction.

(a) Non-listed Foreign Shares

Although there is at present no applicable PRC laws or regulations governing the rights of such Non-Listed Foreign Shares, and the Company's Articles of Association contain no express provisions as to whether such Non-Listed

Foreign Shares constitute a different class of shares from the H Shares, Jingtian & Gongcheng, the Company's legal advisor as to PRC law, have confirmed that the subsistence of Non-Listed Foreign Shares do not contravene any PRC laws or regulations, and until new laws or regulations are introduced the holders of Non-Listed Foreign Shares shall be treated as being in the same class as the holders of Domestic Shares. The holders of the Non-Listed Foreign Shares enjoy the same rights as the holders of Domestic Shares, plus the following rights:

- to request the Company to pay dividends in foreign currencies;
- to request the Company distribute its assets upon the winding-up of the Company in foreign currencies and remit out of the PRC, subject to the applicable foreign exchange control regulations; and
- may resolve disputes with holders of Domestic Shares or H Shares by way of arbitration.

(b) **Domestic Shares**

Domestic Shares may only be subscribed for by, and traded between, legal or natural persons of the PRC and must be subscribed for and traded in RMB. The Domestic Shares held by Shanghai Chemical Industry Park Investment Enterprise Co., Ltd. ("SCIPI"), Shanghai Belling Co., Ltd. ("Shanghai Belling") and China Orient Asset Management Corporation ("COAMC") are not admitted for listing on any stock exchange and no arrangement has been made for the Domestic Shares to be traded or dealt with on any other authorised trading facility in the Mainland China.

(c) **H Shares**

H Shares may only be subscribed for in Hong Kong dollars by, and traded between, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the Mainland China.

(d) **Converted H Shares**

Converted H Shares are H Shares held by Philips Electronics China B.V. and SCIP (HK) Limited. 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 Converted H Shares may not be transferred (a) until the expiry of the lock-up period, being shortly after the one-year period pursuant to the PRC Company Law commencing from the date on which the Company is listed on the Hong Kong Stock Exchange, and (b) the trading of such Converted H shares on the Hong Kong Stock Exchange upon the expiry of the lock up period will require prior approval from the Ministry of Commerce.

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

The nominal value of 467,660,000 H shares, less 42,513,000 Sale H Shares, issued pursuant to the Global Offering has not been registered as the registered capital of the Company as the registration process had not been completed at 31 December 2006.

There were 467,660,000 H Shares of the Company, which represent 369,693,000 New H Shares and 36,969,000 Sale H Shares, listed on the Main Board of the Hong Kong Stock Exchange on 7 April 2006 and 55,454,000 additional New H Shares and 5,544,000 Sale H Shares, issued upon exercise of an over-allotment option, listed on the Main Board of the Hong Kong Stock Exchange on 11 April 2006. These H Shares, with a nominal value of RMB1.00 each, were issued to the public by way of Global Offering at an offer price of HK\$1.60 per share. After deducting net proceeds of approximately RMB62,699,000 from the sale of the 42,513,000 Sale H Shares, which will be remitted to the NSSF as

explained above, and the share issue expenses of approximately RMB82,606,000, the net proceeds from the Global Offering of approximately RMB630,471,000 were credited to the paid-up capital and capital reserve as RMB425,147,000 and RMB205,324,000, respectively. Share issue expenses payable amounting to RMB696,000 at 31 December 2006 were included in accrued liabilities and other payables of RMB95,433,000.

25. RESERVES

(a) Capital reserve

On 7 April 2006, pursuant to the Global Offering, RMB287,930,000 of share premium was created. Share issue expenses of RMB82,606,000 in relation to the Global Offering had been offset against the share premium.

(b) Statutory surplus reserve

Following the re-registration of the Company as a foreign invested joint stock limited company, and in accordance with the Company Law of the PRC and the Articles of Association of the Company, the Company is required to allocate 10% of its profit after tax to the statutory surplus reserve until such reserve reaches 50% of the registered share capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC, part of this reserve may be converted to increase the share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered share capital.

(c) Statutory public welfare fund

According to Company law of the PRC, the Company is no longer required to make any transfer of profit after tax to the statutory public welfare fund. The balance of statutory public welfare fund as at 31 December 2005 is transferred to statutory surplus reserve.

(d) Retained earnings

The amount which the Company can legally distribute by way of a dividend is determined based on the lower of the Company's profits determined under PRC GAAP and IFRSs.

26. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main financial risks faced by the Company are interest rate risk, foreign currency risk and credit risk. The Company does not hold or issue derivative financial instruments either for hedging or for trading purposes, other than interest rate swaps disclosed in interest rate risk below.

Interest rate risk

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

The Company uses interest rate swaps to hedge its interest rate risk. The interest rate swap contracts that the Company has entered into entitle it to receive interest at floating rates on notional principal amounts and oblige it to pay interest at fixed rates on the same amounts. Under the interest rate swaps, the Company agrees with other parties to exchange, at semi-annual intervals, the differences between the fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The floating rates of the Company's interest rate swap contracts are linked to the US\$-LIBOR-BBAM. The weighted average interest rate of the Company's floating rate borrowings at the balance sheet date was 6.45% per annum. After the interest rate swap, the Company's weighted average interest rate at the balance sheet date was 6.14% per annum.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts of the Company at the balance sheet date, which are denominated in US Dollars ("US\$"), were as follows:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Later than one year and not later than five years	<u>195,218</u>	<u>201,750</u>

The fair value gain of the interest rate swap contracts at 31 December 2006 of RMB2,616,000 has been recorded in note 19 to the financial statements as held for trading financial asset.

Foreign currency risk

The Company has transactional currency exposures. Such exposures arise from the sales, purchases and borrowings of the Company in currencies other than the RMB. The Company does not use derivative financial instruments to hedge its exchange rate risk.

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Financial assets		
Cash and cash equivalents:		
- US\$	378,258	50,781
- Others	<u>7,244</u>	<u>—</u>
	<u><u>385,502</u></u>	<u><u>50,781</u></u>
Accounts and notes receivables:		
- US\$	105,903	84,087
- Others	<u>—</u>	<u>—</u>
	<u><u>105,903</u></u>	<u><u>84,087</u></u>
Due from related companies:		
- US\$	35,894	31,866
- Others	<u>—</u>	<u>—</u>
	<u><u>35,894</u></u>	<u><u>31,866</u></u>
Financial liabilities		
Interest-bearing borrowings:		
- US\$	741,827	1,186,319
- Others	<u>—</u>	<u>—</u>
	<u><u>741,827</u></u>	<u><u>1,186,319</u></u>
Accounts payable:		
- US\$	93,089	120,419
- Others	<u>4,488</u>	<u>8,182</u>
	<u><u>97,577</u></u>	<u><u>128,601</u></u>
Accrued liabilities and other payables:		
- US\$	29,447	1,493
- Others	<u>2,151</u>	<u>3,124</u>
	<u><u>31,598</u></u>	<u><u>4,617</u></u>
Due to related companies:		
- US\$	12,492	1,830
- Others	<u>—</u>	<u>1,249</u>
	<u><u>12,492</u></u>	<u><u>3,079</u></u>

Credit risk

Credit risk arising from the inability of a counterparty to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company. Financial assets of the Company that are potentially subject to significant concentration of credit risk consist principally of cash and cash equivalents, accounts, notes and other receivables and amounts due from related companies. The Company's maximum exposure to credit risk in relation to each class of the recognised financial assets is the carrying amount of these assets. There is no significant concentration of credit risk for the Company's financial assets.

Fair value

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

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

27. RELATED PARTY TRANSACTIONS

As set out in note 20 to the financial statements, the companies controlled by or under the significant influence of Royal Philips and NXP B.V. are considered to be related to the Company.

The Company had the following material transactions with the companies controlled by or under the significant influence of Royal Philips and NXP B.V. during the year ended 31 December 2006:

	<i>Notes</i>	2006 RMB'000	2005 RMB'000
Sales	(i)	245,450	152,258
Purchases	(i)	1,016	6,560
Technology transfer fees	(ii)	21,530	13,757
Information technology ("IT") related service fees	(iii)	2,613	2,641

Notes:

- (i) Sales to and purchases from the related companies were carried out based on normal commercial terms and at market prices.
- (ii) Royalties in the form of technology transfer fees and identification licensing fees paid/payable to a related company were determined at 3% or 10% of the net sales of certain specified products sold by agreement of the parties.
- (iii) IT related service fees were charged by the related companies based on services rendered in accordance with the terms of agreements signed by the parties.

In the opinion of the Directors, all transactions above were carried out in the ordinary course of business of the Company. Such transactions were conducted on an arm's length basis and on normal commercial terms, and will continue as such in the future.

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

28. COMMITMENTS

The Company had the following capital commitments as at 31 December 2006:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Capital commitments in respect of property, plant and equipment:		
- contracted, but not provided for	6,584	163,177
- authorised, but not contracted for	<u>46,182</u>	<u>91,038</u>
	<u>52,766</u>	<u>254,215</u>

29. CONTINGENT LIABILITIES

- (a) On 8 March 2005, the Company received summons issued by the United States District Court, Northern District of California regarding the case known as Monolithic Power Systems, Inc. v. O2 Micro International Limited, in which the Company was identified as one of the counter-defendants and was alleged, by virtue of its manufacture and sale of wafers to Monolithic Power Systems, Inc. ("MPS"), without the permission or license from O2 Micro International Limited ("O2 Micro"), to induce infringement and/or contribute to the infringement of the United States Patent No. 6396722 (the "722 patent").

On 20 April 2005, the Company received summons issued by the United States District Court, Eastern District of Texas regarding the case known as O2 Micro International Limited v. Monolithic Power Systems, Inc., in which the Company was identified as one of the defendants and was alleged, by virtue of its manufacture and sale of wafers to MPS, without permission or license from O2 Micro, to induce infringement and/or contribute to the infringement of US Patent No. 6804129 (the "129 patent"). The case was transferred to the United States District Court, Northern District of California in May 2006. The court subsequently ordered consolidation of the two cases.

Subsequently, O2 Micro dropped its allegations against the Company with respect to the 129 patent, but claimed that it should be entitled to damages from MPS by reason of the latter's infringement of the 722 patent for US\$149 million and that the Company should be jointly liable for the same damages. The Company has denied infringement and has claimed that the 722 patent is invalid and unenforceable. The Company has filed a motion for summary judgment of non-infringement and has also joined a motion for summary judgment seeking to have the 722 patent declared invalid by reason of the inventor's failure to comply with the best mode requirement of the US patent law.

On 8 February 2007, the court granted summary judgement in favour of the Company that O2 Micro had presented no evidence of damages and that the Company should not be stopped from challenging the infringement and validity of the 722 patent. The court denied the Company's other motions for summary judgment. The court also concluded that the Company should not be liable for conduct that had occurred before 6 December 2004, though it might be liable for conduct occurring thereafter. The court previously decided that the trial would begin on 30 April 2007 and last for three weeks. The issues at trial will be limited to whether the 722 patent is invalid, whether the Company and other defendants infringe the 722 patent, and, should the 722 patent be found valid and enforceable, whether O2 Micro is entitled to an injunction.

The Company considered that the liability arising from the 722 patent is possible but not probable and therefore no provision is being made in the financial statements. The Directors are of the opinion that this litigation will not have a material adverse effect on the financial position or operational results of the Company. The revenue derived from the wafers that used the allegedly infringed patent accounted for less than 1% of the total revenue of the Company for the year ended 31 December 2006. The Company believes that it can, if necessary, replace its foundry capacity and/or orders related to the allegedly infringed products from MPS with similar technology and order levels from its other customers (including MPS).

- (b) During the year, the Company received an unsubstantiated allegation amounting to USD1.97 million (equivalent to approximately RMB15.4million) for alleged breaches of certain terms of a foundry agreement dated 22 October 2004. The Company has obtained preliminary legal advice on this allegation. Given the allegation was not reasonably specified and supported by evidence, the Company considered the liability as not probable and therefore no provision is being made in the financial statements of the Company. Should the allegation be subsequently escalated to a legal claim, the Directors will seek further legal advice and consider its provision in the financial statements.

30. COMPARATIVES

Certain comparative figures have been reclassified to conform with current year's presentation.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19 March 2007.