

Dear Shareholders,

Since the founding of the Group, it is our key focus to target demand for the mainstream segment in Chinese semiconductor market. The Chinese semiconductor market has the unique characteristics of being the second largest market in the world in 2005, and yet, over 90% of semiconductor chips are imported. One of the strategies of the Group is to capitalize on this gap between supply and demand of the Chinese IC market by working closely with local and overseas design houses on the import replacement potential for the Chinese semiconductor market.

2005 was our first year of reporting a net loss of US\$6.84 million after five consecutively profitable years. EBITDA for the year ended 31 December 2005 is US\$17.24 million comparing to US\$27.46 million for the year ended 31 December 2004. It was a difficult year as semiconductor markets worldwide were generally in a slump. This down trend, starting from the fourth quarter of 2004, came at the height of the Group's capacity expansion program. As a result, the Group's low capacity utilization and low average selling price caused the loss in the year. However, the growth of the Chinese semiconductor market is still significantly outpacing that of the worldwide market. Hence, instead of taking a conservative view, the Group embarked on measures in 2005 to expand capacity and completeness of process technology, to improve quality control, and service capabilities in preparation to meet current and future market demands of the mainstream segment in Chinese semiconductor market.

致各股東：

自本集團成立以來，一直專注於中國半導體市場的主流產品的需求。中國半導體市場擁有其獨特性，作為二零零五年全球第二大市場，其超過90%的半導體芯片自外國進口。本集團的策略之一是利用中國IC市場的供求差額，就中國半導體市場的進口替代潛力與國內及海外設計公司緊密合作。

二零零五年為本公司連續五年錄得盈利後首次錄得淨虧損684萬美元的年度。截至二零零五年十二月三十一日止年度的EBITDA為1,724萬美元，而截至二零零四年十二月三十一日止年度的EBITDA則為2,746萬美元。二零零五年是全球半導體市場困難重重的一個年度。市場下滑趨勢於二零零四年第四季開始，適值本集團推行產能擴充計劃的高峰，因此，令到本集團的產能利用率及平均售價降低導致該年度錄得虧損。然而，中國半導體市場的發展遠超於全球市場的發展。因此，本集團放棄保守的策略，取而代之是於二零零五年採取行動，務求擴大產能及製程技術完整性來改善品質監控及服務水平，以迎合中國半導體市場對現有及未來主流產品的需求。

Chairman's Report 主席報告書

We have expanded our capacity in the last two years to better serve the demand of both Chinese semiconductor market and the growing outsourcing demands from overseas. In October 2005, we have signed a co-operation agreement with IMECAS to set up a new fab in Beijing. The Group will upgrade the new fab to a 6-inch foundry with a capacity of 20,000 wafers per month. The total 6-inch capacity of the Group is expected to reach 80,000 wafers per month in early 2007. This will further strengthen the Group's current leading position as the largest 6-inch foundry in China. We have also made important progress in preparing our 8-inch fab by completing construction of the shell for Fab 2 in the New District of Wuxi, China. We are working to form a strategic partnership with our technology partner to set up the 8-inch fab. Fab 2 will focus on 8-inch process technologies of 0.35 to 0.25 micron in continuing our pursuit of serving the mainstream segment in Chinese semiconductor market as it migrates towards the 8-inch technologies.

In 2005, we have focused on supporting applications of power management IC and power discrete in PCs, mobile phones, electric transportation and medical devices by ramping-up processes of 0.6 to 0.5 micron mixed-signal and DMOS. With regard to non-logic products, we focused on more advanced mixed-signal, DMOS and high voltage technologies. Sales contributions from those non-logic processes have been significantly increased from 19.8% in 2004 to 34.4% in 2005. We expect the sales generated from non-logic processes will continue to grow in 2006.

本集團於過去兩年持續擴大產能，以滿足中國半導體市場的需求及海外市場日增的外購需求。於二零零五年十月，本集團與微電子所簽署合作協議，於北京成立一座新的晶圓代工廠。本集團會將新的晶圓代工廠提升至每月產能達20,000片晶圓的6英寸晶圓廠。至二零零七年初，本集團的6英寸晶圓總產能會達到每月80,000片晶圓，將會進一步鞏固本集團作為中國最大6英寸晶圓代工的領導地位。本集團亦為籌備興建8英寸晶圓代工廠取得重大進展，於中國無錫新區興建二廠廠房之工程已接近完成。本集團正籌備與技術合作夥伴組成策略夥伴成立8英寸晶圓代工廠。二廠將會專注於0.35至0.25微米的8英寸製程技術，以繼續應付中國半導體市場主流產品未來向8英寸技術演進的需求。

於二零零五年，本集團加快增產0.6至0.5微米數模混合信號及DMOS的製程技術，集中開發應用於個人計算機、手機、電子傳輸和醫療設備的電源管理積體電路及分立器件。就非邏輯產品而言，本集團專注於更先進的數模混合信號、DMOS及高壓技術。該等非邏輯製程技術的銷售額貢獻已由二零零四年的19.8%大幅增至二零零五年的34.4%。本集團預期，非邏輯製程技術的銷售額將會於二零零六年繼續增長。

In order to reduce market risk of the cyclical nature of the semiconductor industry, we have developed solid relationships with a wide base of customers, which include Chinese design houses, overseas fabless design houses and IDMs. Total number of active customers has increased from 194 in 2004 to 263 in 2005, with the number of IDMs rising to eight. We had also secured 6 out of the top 10 Chinese fabless design houses as our customers. The majority of the Chinese fabless design houses are small-scale operators and most of them rely on the Group to assist in their design process. In 2005, the Group's Chinese customers accounted for 67.8% of its total sales, representing an increase of 13.1% from that of 2004. As the leading mainstream foundry in China, CSMC is committed to being the best foundry partner for Chinese IC design houses.

We have enhanced our strategic focus to deliver an excellent quality assurance and quality control system to meet the requirements of our diverse customers. Besides being certified for QS9000:1998, ISO9001:2000, ISO14001:1996, and OHSAS18001:1999 systems, we are working on achieving TS16949 certification, the highest quality system of the semiconductor industry for automobile applications. To keep a higher standard, reliable and efficient operation, we have enhanced our management systems in 2005 like advanced project management system (APQP) and 6S management system for operation disciplines management. We embarked on improving our IT applications, such as SAP system for logistic, GUI system for web based customer order information system, Real-time SPC system for online monitor, and PM system for equipment calibration.

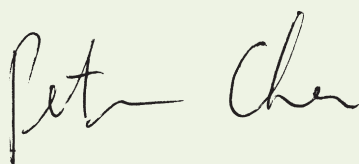
為將半導體行業的週期性市場風險減至最低，本集團已經與範圍廣泛的客戶建立鞏固關係，當中包括中國設計公司、海外的無生產線設計公司及IDM。活躍客戶總數由二零零四年194名增至二零零五263名，而IDM的數目則增至八家。於中國十大無生產線設計公司中，有六家為本集團的客戶。大多數中國無生產線設計公司為小規模經營商，絕大部分依賴本集團協助其設計過程。於二零零五年，本集團的中國客戶佔其銷售總額67.8%，較二零零四年增加13.1%。作為中國首屈一指的主流晶圓代工廠，華潤上華承諾會成為中國IC設計公司的最佳晶圓代工夥伴。

本集團已強化本身的策略重點，為的是提供最佳品質保證及品質監控系統，迎合本集團多元化客戶的不同需求。除了其QS9000：1998、ISO9001：2000、ISO14001：1996及OHSAS18001：1999系統獲認證外，本集團正努力達致TS16949認證，此項認證為半導體業對汽車產業應用的最高品質認證。為達到更高標準、可靠及有效率的營運，本集團於二零零五年強化本身的管理系統，例如與經營管理相關的先進項目管理系統(APQP)及6S管理系統。本集團已着手改善我們的資訊科技應用，例如物流的SAP系統、網絡客戶訂購資訊系統的GUI系統、網上監察的實時SPC系統及設備校正的PM系統。

Chairman's Report 主席報告書

Our mission is to be the largest and the most cost-effective foundry in the mainstream segment in China semiconductor market. As the mainstream segment in China migrates to below 0.5 micron process technologies, we have positioned our Fab 2 strategy to capture the growth in that sector. As we enter 2006, we are working on a number of business opportunities to expand capacity as well as improving our technologies portfolio, and we are confident in our ability to capitalize on these opportunities.

Finally, I would like to take this opportunity on behalf of all of us at CSMC, to thank all of our shareholders and business partners for your confidence and support.



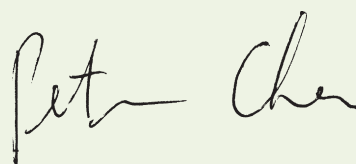
Dr. Peter CHEN Cheng-yu

Chairman

Hong Kong, 14 March 2006

我們的使命是成為中國半導體市場主流產品的最大及最具成本效益晶圓代工廠。由於中國的主流產品轉至於0.5微米以下的製程技術，本集團已制訂二廠策略以把握該市場的增長。邁入二零零六年，本集團正努力多個業務機會以擴大產能以及改善本集團的技術組合，我們對本集團把握該等機會的能力充滿信心。

最後，本人謹藉此機會代表華潤上華全體人員，對所有股東及業務夥伴的信任及支持深表謝意。



主席

陳正宇博士

香港，二零零六年三月十四日