

BUSINESS REVIEW OF THE YEAR 2004

OVERVIEW

The year 2004 represents the fifth consecutive year of record turnover and profitability for the Company. Despite a softening of the worldwide market beginning in the fourth quarter of 2004, the Group's turnover for 2004 grew by 89.8% to US\$79.86 million, as compared with US\$42.08 million in 2003. Net profit in 2004 met management's previous forecast with 182.5% growth to US\$11.34 million. Net profit margin increased from 9.5% in 2003 to 14.2% in 2004. The growth in turnover and net profit was mainly attributable to the increased capacity from 26,700 wpm at the end of 2003 to 59,200 wpm by 31 December 2004, and higher sales volume achieved from both China and overseas markets.

Expansion of Customer Base

The total number of customers of the Group reached 194 in 2004, compared to 133 in 2003, representing an increase of 45.9%.

The following table shows the Company's number of customers and the breakdown of turnover by customer type for the four years ended 31 December 2004:

		2004		2003		2002		2001	
		Customers	Turnover	Customers	Turnover	Customers	Turnover	Customers	Turnover
		客戶	營業額	客戶	營業額	客戶	營業額	客戶	營業額
		(US\$'000)	(US\$'000)	(US\$'000)	(US\$'000)	(US\$'000)	(US\$'000)	(US\$'000)	(US\$'000)
		(千美元)	(千美元)	(千美元)	(千美元)	(千美元)	(千美元)	(千美元)	(千美元)
Fabless	無生產線設計公司	188	75,202	127	40,547	129	39,809	104	27,568
IDMs	IDM	6	4,658	6	1,530	6	1,168	10	2,380
Total	總計	194	79,860	133	42,077	135	40,977	114	29,948

二零零四年的業務回顧

概覽

二零零四年度為本公司連續第五年錄得營業額及盈利。儘管全球市場於二零零四年第四季開始偏軟，惟本集團二零零四年的營業額增長89.8%至79,860,000美元，而於二零零三年則為42,080,000美元。於二零零四年的純利達到管理層先前預測增長182.5%至11,340,000美元。邊際純利由二零零三年的9.5%增加至二零零四年的14.2%。營業額及純利增長主要由於產量由二零零三年的月產能26,700片晶圓增加至二零零四年十二月三十一日前的月產能59,200片晶圓，並且中國和海外市場的銷售量均有所增加。

拓展客戶群

本集團的客戶總數於二零零四年達194名，較二零零三年的133名，相當於增加45.9%。

下表呈列於截至二零零四年十二月三十一日止四個年度，本公司按客戶類別及客戶數量的營業額分析：

BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)

Expansion of Customer Base (Cont'd)

The Group's customers include Chinese fabless design houses and IDMs. In 2004, the Group provided open foundry services to IDMs, which outsource part of their production. The Group's relationship with these customers tends to be long term and symbiotic since these customer types have stringent requirements for "qualifying" the fabs to which they outsource production. Moreover, the majority of the Group's Chinese fabless design houses operate on a small scale and usually rely on the Group to assist in the design process.

Chinese fabless design houses have experienced rapid growth during last three years. The number of fabless design houses in China increased to 463 by the end of 2003, according to CCID. The management believes that the competition among these Chinese fabless design houses will lead to more consolidation in the industry and the management believes that their expected strong growth will benefit the Group. Furthermore, the Group also diversifies its customer base to avoid over-reliance on any single customer. The Group has been successful in executing this strategy. In 2004, 6 out of the top 10 Chinese design houses were the Group's customers.

二零零四年的業務回顧 (續)

拓展客戶群 (續)

本集團的客戶包括中國的無生產線IC設計公司及IDM。於二零零四年，本集團向將部分生產外判的IDM提供開放式晶圓代工服務。由於該類客戶對其外判生產的「合格」晶圓代工廠定下嚴格要求，故本集團與該等客戶的關係傾向為長久及互惠。此外，大部分本集團的中國無生產線IC設計公司規模小，設計過程中依賴本集團的協助。

中國無生產線IC設計公司於過去三年增長迅速。根據賽迪的資料顯示，於二零零三年底，於中國的無生產線IC設計公司已增加至463家。管理層相信，該等中國無生產線IC設計公司之間的競爭將會促使業內進行整固，而管理層相信，其預期的強勁增長，將對本集團有利。此外，本集團致力使其客戶基礎更趨多元化，以避免過份依賴任何單一客戶。本集團已於二零零四年成功執行該策略，在中國前十大無生產線IC設計公司中，六家為本集團的客戶。

BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)

Expansion of Customer Base (Cont'd)

The Group has adopted a strategy of expanding its customer base to include IDMs and overseas customers, taking advantage of the global outsourcing trend and to diversify risk. The management believes that many IDMs and overseas customers are now shutting down their internal production facilities and moving their production sites to China in order to reduce costs and to be closer to a low-cost IC supply chain. CSMC is well-positioned to capture the demand for outsourced capacity with the Group's Fab 2 capacity expansion plan. Moreover, CSMC is diversifying its risks across its customer base by seeking IDMs and customers outside China to offset downturns in either the domestic or global semiconductor markets. The Group's turnover from IDM customers was US\$4.66 million in 2004 compared to US\$1.53 million in 2003.

The following table shows the geographical breakdown of the Group's turnover for the four years ended 31 December 2004:

		2004		2003		2002		2001	
		(US\$ '000)		(US\$ '000)		(US\$ '000)		(US\$ '000)	
		(千美元)	%	(千美元)	%	(千美元)	%	(千美元)	%
The PRC	中國	46,854	58.6	32,289	76.7	31,905	77.9	20,767	69.3
Asia, other than the PRC	中國以外的亞洲地區	20,900	26.2	7,596	18.1	6,888	16.8	6,936	23.2
United States	美國	5,571	7.0	2,192	5.2	2,184	5.3	2,245	7.5
Europe	歐洲	6,535	8.2	—	—	—	—	—	—
Total	總計	79,860	100.0	42,077	100.0	40,977	100.0	29,948	100.0

For the year ended 31 December 2004, 74.5% of the Group's turnover was attributed to its top 10 customers, while the remaining customers represented 25.5% of turnover.

二零零四年的業務回顧(續)

拓展客戶群(續)

本集團已實施擴大其客戶基礎的策略，招攬IDM及海外客戶，從全球外判趨勢中獲益，並分散風險。管理層相信，許多IDM及海外客戶現正關閉其內部生產設施，並將其生產基地遷移至中國，以降低成本及縮短與低成本IC供應鏈之間的距離。本集團處於有利位置，以本集團的二廠產能擴產計劃，從市場對外判的需求獲益。此外，華潤上華尋求位於中國以外的IDM及客戶，以分散其客戶基礎的風險，抵銷國內或全球半導體市場下滑的影響。本集團來自IDM客戶的營業額於二零零四年約為4,660,000美元，而於二零零三年則約為1,530,000美元。

下表呈列了按地區分析本集團截至二零零四年十二月三十一日止四個年度的營業額：

截至二零零四年十二月三十一日止年度，本集團營業額的74.5%來自前十大客戶，而餘下客戶則佔營業額的25.5%。

BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)

Growth in Capacity and High Utilization Rate

In 2004, the Group significantly increased its 6-inch capacity from 26,700 wpm at the end of 2003 to 59,200 wpm at the end of 2004, to better meet market demand both from domestic and international customers. This increase in capacity was a result of the successful transfer of equipment and technology from Chartered Semiconductor, which was substantially completed in November 2004.

The Group's average capacity utilization was 87% in 2004 compared to 79% in 2003, even with the aggressive increase in capacity. Going forward, the Group expects to further expand its capacity in order to serve the 0.35 micron and more advanced process technology demand with the construction of Fab 2.

二零零四年的業務回顧 (續)

產能增長及高產能利用率

於二零零四年，本集團將6英寸產能由二零零三年的月產26,700片晶圓，大幅增加至二零零四年的月產量59,200片晶圓，以更能滿足國內及國際客戶的需求。產能的增加是由於成功轉移特許半導體的設備及技術，轉移已於二零零四年十一月大致完成。

即使產能大幅擴張，本集團於二零零四年的平均產能利用率為87%，而於二零零三年則為79%。展望將來，本集團預期興建二廠，進一步擴大其產能，以應付0.35微米及更先進的製程技術的需求。



BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)
Technology Migration

The Group continuously strives to improve its process technology mix to enhance average selling price ("ASP"). The Group has successfully transitioned its core offerings to more advanced process technologies. Turnover contributions from 0.6 micron and more advanced process technologies increased from 19.5% in 2003 to 34.1% in 2004. Combined with the increased capacity in 2004 and its Fab 2 capacity expansion plan, the Group's continued technology migration strategy of following the mainstream will enable the Group to better serve its customer base. The Group is expanding its process technology offering to include 0.35 to 0.25 micron with the building of Fab 2. The management believes that this range will represent the mainstream market demand in China by 2006. The table below shows the Group's turnover by process technologies:

二零零四年的業務回顧(續)
技術改良

本集團繼續致力改善其製程技術組合，以提高平均出售價格（「平均售價」）。本集團已成功將其提供的核心服務提升至更先進的加工技術。0.6微米及更先進的製程技術帶來的營業額貢獻由二零零三年的19.5%增加至二零零四年的34.1%。結合二零零四年增加的產能及其二廠產能擴產計劃，本集團一直以來堅持追隨主流技術，以持續轉移其製程之策略，將令本集團能為其客戶提供更好的服務。本集團興建二廠，以擴大提供其製程技術，包括0.35至0.25微米。管理層相信，在二零零六年底以前，此範圍將代表中國的主流市場需求。下表呈列按加工技術分析本集團的營業額：

		2004		2003		2002		2001	
		(US\$ '000)		(US\$ '000)		(US\$ '000)		(US\$ '000)	
		(千美元)	%	(千美元)	%	(千美元)	%	(千美元)	%
5-inch	5 英寸	—	—	—	—	962	2.3	5,895	19.7
6-inch	6 英寸								
>=1.0 micron	>= 1.0 微米	20,411	25.5	18,234	43.3	20,731	50.6	12,100	40.4
0.6 - 0.8 micron	0.6-0.8 微米	28,922	36.2	14,217	33.8	16,836	41.1	11,150	37.2
0.5 - 0.6 micron	0.5-0.6 微米	8,840	11.1	1,496	3.6	83	0.2	196	0.7
0.35-0.5 micron	0.35-0.5 微米	18,347	23.0	6,682	15.9	2,315	5.7	396	1.3
Subtotal	小計	76,520	95.8	40,629	96.6	39,965	97.6	23,842	79.6
Others	其他	3,340	4.2	1,448	3.4	50	0.1	211	0.7
Total	總計	79,860	100.0	42,077	100.0	40,977	100.0	29,948	100.0

BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)

Technology Migration (Cont'd)

The Group manufactures ICs using the CMOS process technology. CMOS is currently the dominant semiconductor manufacturing process. It requires lower power than other technologies and allows dense placement of components onto a single IC. The low power consumption and high-density characteristics of the CMOS process allow the continued development of high performance ICs that are smaller and faster. Within the CMOS area, the Group mainly produces logic, mixed-signal, high voltage, NVM and EEPROM ICs for customers in the fast-growing consumer electronics industry in China. Turnover contributions from non-logic products increased from 8.8% in 2003 to 19.7% in 2004. Looking ahead, the management expects that the turnover attributed from non-logic processes will continue to grow in 2005.

The table below shows the Group's turnover by process mix:

		2004		2003		2002	
		(US\$'000)	%	(US\$'000)	%	(US\$'000)	%
		(千美元)		(千美元)		(千美元)	
Logic	邏輯	60,761	76.1	36,950	87.8	38,186	93.2
Mixed-signal	數模混合信號	12,142	15.2	2,506	6.0	2,741	6.7
High Voltage	高壓	879	1.1	1,147	2.7	—	—
NVM&EEPROM	NVM 及 EEPROM	2,738	3.4	26	0.1	—	—
Others	其他	3,340	4.2	1,448	3.4	50	0.1
Total	總計	79,860	100.0	42,077	100.0	40,977	100.0

Note: 2001 information is not available.

二零零四年的業務回顧 (續)

技術改良 (續)

本集團利用CMOS製程技術製造IC。CMOS目前是主要的半導體製造工藝，因為較其他技術耗電低，可於單件IC配置密集的元件。CMOS製程技術的低耗電及高密度特性，容許持續開發出微型及高速的高效能IC。於CMOS方面，本集團主要為中國高速增長的消費電子業客戶生產邏輯、數模混合信號、高壓、NVM及EEPROM IC。非邏輯產品的營業額貢獻由二零零三年的8.8%增加至二零零四年的19.7%。展望將來，管理層預期非邏輯製程所佔的營業額將於二零零五年繼續增長。

下表呈列按製程組合分析本集團的營業額：

註：無提供二零零一年的資料。

BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)

Use of Net Proceeds from IPO

On 13 August 2004, the Company was listed on the Main Board of the Hong Kong Stock Exchange. Through a global offering which included the Hong Kong public offering and an international placement (the "IPO"), the Company issued a total of 684.42 million new shares, including 63.42 million as a result of the exercise of the over-allotment option ("Over-allotment Option") as defined in the Prospectus. The net proceeds of the IPO (after deduction of underwriting fees and expenses), together with proceeds from the exercise of the Over-allotment Option, amounted to approximately US\$37.73 million. As stated in the Prospectus, the Group intends to use these proceeds to partially fund the Group's future expansion plans.

For the year ended 31 December 2004, the total net proceeds expended amounted to approximately US\$35.80 million, in the form of shareholder loans to Fab 1 and payment for the equipment purchase and technology transfer from Chartered Semiconductor. The table below sets out the details of the use of proceeds for the year ended 31 December 2004:

二零零四年的業務回顧(續)

首次公開發售所得款項淨額用途

於二零零四年八月十三日，本公司於香港聯合交易所有限公司主板上市。透過全球發售（包括香港公開發售及國際配售（「首次公開發售」）），本公司已發行合共 684,420,000 股新股份，包括 63,420,000 股因行使超額配股權（「超額配股權」）（定義見招股章程）而發行。首次公開發售的所得款項淨額（扣除包銷費及開支後），連同行使超額配股權的所得款項，約達 37,730,000 美元。誠如招股章程所述，本集團擬使用該等所得款項，作為本集團未來擴產計劃的部分資金。

截至二零零四年十二月三十一日止年度，已動用的所得款項淨額約達 35,800,000 美元，以股東貸款的形式投資於一廠及向特許半導體支付購買設備和技術轉讓的款項。下表呈列於截至二零零四年十二月三十一日止年度的所得款項使用詳情：

		(US\$'000) (千美元)
Shareholder loans to Fab 1	以股東貸款的形式投資於一廠	24,500
Equipment purchase and technology transfer from Chartered Semiconductor	向特許半導體支付購買設備和技術轉讓的款項	11,300
Total	總計	<u>35,800</u>

BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)

Employees

The management believes that the Company's employees are its greatest asset. The Group had 1,337 employees as at 31 December 2004, a substantial increase from the 920 employed at the end of 2003 in order to support the Group's expansion plans. The Group has maintained a good working relationship with employees over the year. On 8 May 2004, the Equity Incentive Plan (as defined in the Prospectus) was adopted by the Group to motivate and retain employees.

In the highly competitive foundry business, strong human resources are essential for growth. The management combines the strengths of both local Chinese and international expertise. The Group prides itself for its track record of recruiting and developing local managerial, technical, and operating personnel. Currently over 98% of the Company's staff are PRC citizens, including the majority of managers. As at 31 December 2004, 58% of the Group's employees have college or graduate degrees.

The Group has developed continuous training programs for its employees at different levels. In 2004, it has conducted managerial and technical training programs totaling 22,575 hours, with an average of 18.5 training hours per employee. Starting from 2004, it has also worked with outside training providers to introduce 37 new technical subjects into the Group training program from 2004 through 2005.

二零零四年的業務回顧(續)

僱員

管理層相信，本公司的僱員為其至關重要的資產。截至二零零四年十二月三十一日本集團有僱員1,337名，由二零零三年底的920名僱員大幅增加，以支持本集團的擴產計劃。過往一年，本集團已與僱員維持良好工作關係。於二零零四年五月八日，本集團採納股份獎勵計劃(定義見招股章程)，以激勵及挽留僱員。

晶圓代工業務的競爭非常激烈，強大的人力資源是增長所必需的。管理層結合中國本地及國際專業人才的優勢。本集團就其招聘及發展本地的管理、技術及營運員工的記錄感到自豪。本集團現時超過98%的員工為中國本地人，包括大部分的經理。於二零零四年十二月三十一日，本集團的58%僱員均擁有大專或以上的學位。

本集團已為其僱員發展不同程度的持續培訓計劃。於二零零四年，本集團舉辦了合共22,575小時的管理及技術培訓計劃，平均每名僱員接受了18.5小時的培訓。由二零零四年開始，本集團亦與外界培訓公司合作，引入37項新的技術科目，加入本集團由二零零四年至二零零五年的培訓計劃。

BUSINESS REVIEW OF THE YEAR 2004 (Cont'd)

Financial Results

For the year ended 31 December 2004, the Group recorded a turnover of US\$79.86 million, an increase of 89.8% from US\$42.08 million in 2003. The increase in turnover was primarily due to the increase in Fab 1 capacity from 26,700 wpm at the end of 2003 to 59,200 wpm by 31 December 2004.

Net profit for the year ended 31 December 2004 increased to US\$11.34 million from US\$4.02 million in 2003, representing an increase of 182.5%. Net profit margins were 14.2% in 2004 and 9.5% in 2003.

Basic earnings per share for the year ended 31 December 2004 was US\$0.56 cent, compared to US\$0.35 cent for the preceding year.

In the Prospectus, the Directors forecasted that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix III to the Prospectus, the Group's consolidated profit after tax but before extraordinary items for 2004 would not be less than US\$11.22 million (the "Forecast"). The Group met the Forecast in 2004.

For further details on the analysis of the Group's operating results for the year ended 31 December 2004, please refer to the section headed "Operating Results."

二零零四年的業務回顧(續)

財務業績

於截至二零零四年十二月三十一日止年度，本集團錄得營業額約79,860,000美元，較二零零三年的約42,080,000美元增加89.8%。營業額增加的主要原因，是一廠的產能由二零零三年的月產能26,700片晶圓增加至二零零四年十二月三十一日前的月產能59,200片晶圓。

截至二零零四年十二月三十一日止年度的純利，由二零零三年的約4,020,000美元增加至約11,340,000美元，增幅為182.5%。二零零四年的邊際純利為14.2%，而二零零三年則為9.5%。

截至二零零四年十二月三十一日止年度的每股基本盈利為0.56美仙，相對於上年度則為0.35美仙。

董事於招股章程內預測，在缺乏任何不可預見的情況，以及根據招股章程附錄三所載的基準和假設，本集團於二零零四年的除稅後但未計特殊項目的綜合溢利，將不少於11,220,000美元（「預測」）。本集團達到二零零四年的預測。

有關本集團截至二零零四年十二月三十一日止年度的經營業績分析的其他詳情，請參閱「經營業績」一節。

PROSPECTS FOR THE YEAR 2005

In 2005, the Group will continue its strategy of developing new markets and expanding its customer base in keeping with its capacity expansion plan. Going forward, the Group expects to deliver higher margin processes such as 0.5 micron mixed-signal, high voltage, EEPROM and 0.35 micron processes, to enhance overall profitability. The Group continues to work towards growing its IDM and overseas market segments in order to ensure more stable capacity commitment and diversification of risk.

The Group is currently in the process of building Fab 2 shell in the New District of Wuxi and expects to complete the construction of the building by the end of 2005. Fab 2 will focus on 8-inch production with 0.35 micron to 0.25 micron process technologies in continuing CSMC's pursuit of China's mainstream segment. With the right strategic partner, the Group will be ready to ramp up Fab 2 from shell construction phase to production phase.

Looking ahead, the management is currently preparing to meet the challenges from the expected softening of the worldwide semiconductor industry in 2005, as forecasted by industry sources. However, the China domestic semiconductor market is expected to grow at a faster rate than the global market, according to IC Insights. Due to the Group's solid foothold in the China market, CSMC has been able to maintain stability, profitability and growth in the last two industry downturns since its inception, in 2001 and 2003, including the 2003 SARS period in China.

二零零五年展望

於二零零五年，本集團將以開發新市場和擴充客戶基礎的戰略，持續滿足產能擴充計劃。於將來，本集團預期會推出更高利潤的製程技術，例如0.5微米數模混合信號、高壓、EEPROM及0.35微米製程技術，以提升整體盈利能力。為了確保有更穩定的產量和分散風險，本集團繼續朝著發展其IDM和海外市場業務的方向經營業務。

本集團現正於無錫新區興建二廠廠房，預期於二零零五年底前完成廠房興建的工程。二廠將集中採用0.35微米至0.25微米製程技術生產8英寸晶圓，繼續實現華潤上華尋求中國的主流技術的目標。在合適的策略性夥伴協助下，二廠將從興建廠房的階段，逐步踏入生產階段。

展望未來，根據產業預測，二零零五年全球半導體業預期走軟，管理層現正準備面對因此而帶來的種種挑戰。然而，根據IC Insight，中國國內半導體市場的增長速度，預期會較全球市場快。由於本集團在中國市場建立了穩固根基，故自成立以來，於這行業最近兩段低谷時期（即二零零一年和二零零三年，亦包括二零零三年中國非典型肺炎期間）中，華潤上華亦能夠保持業務平穩、賺取溢利和增長。

OPERATING RESULTS

The following table shows certain information relating to the Group's results of operations for each of the two years ended 31 December 2004 and 2003, extracted from the audited consolidated financial statements of the same period:

Consolidated Profit and Loss Accounts

For the year ended 31 December 2004

經營業績

下表呈列有關本集團截至二零零四年及二零零三年十二月三十一日止兩個年度的經營業績的若干資料。該等資料是摘錄自同期的經審核綜合財務報表：

綜合損益賬

截至二零零四年十二月三十一日止年度

		2004		2003	
		(US\$'000) (千美元)	%	(US\$'000) (千美元)	%
Turnover	營業額	79,860	100.0	42,077	100.0
Cost of sales	銷售成本	(56,430)	(70.7)	(32,480)	(77.2)
Gross profit	毛利	23,430	29.3	9,597	22.8
Other revenue	其他收益	4,020	5.0	1,448	3.4
Operating expenses:	經營費用：				
Distribution expenses	分銷費用	(2,408)	(3.0)	(744)	(1.8)
Administrative expenses	行政費用	(6,444)	(8.1)	(3,842)	(9.1)
Research and development expenses	研發費用	(3,140)	(3.9)	(1,080)	(2.6)
Other operating expenses	其他經營費用	(1,729)	(2.2)	(104)	(0.2)
Operating profit	經營溢利	13,729	17.1	5,275	12.5
Finance costs	融資成本	(992)	(1.2)	(709)	(1.7)
Profit before taxation	除稅前溢利	12,737	15.9	4,566	10.8
Taxation	稅項	(1,395)	(1.7)	(551)	(1.3)
Net profit for the year	本年度純利	11,342	14.2	4,015	9.5
Dividend	股息	3,015		13,000	
Earnings per share	每股盈利				
- basic (US cent)	- 基本 (美仙)	0.56		0.35	
- diluted (US cent)	- 攤薄 (美仙)	0.52		N/A	
Operating Data	經營數據				
Depreciation and amortization	折舊及攤銷	14,912		9,116	
Capital expenditure	資本開支	77,772		34,017	
Wafer sales (6-inch 12-layer equivalent, units)	晶圓銷售額 (6 英寸 12 層面，以片計)	433,000		214,990	
ASP (US\$)	平均售價 (美元)	184		196	

OPERATING RESULTS (Cont'd)

Turnover

The principle source of the Group's turnover is wafer fabrication. Turnover increased by 89.8% from US\$42.08 million in 2003 to US\$79.86 million in 2004 primarily as a result of the increase in the volume of wafers shipped. This increase was partially offset by the decrease in ASP. The total number of 6-inch wafers the Group shipped increased by 101.4% from 214,990 wafers in 2003 to 433,000 in 2004. The ASP of wafers shipped decreased by 6.1% from US\$196 per wafer in 2003 to US\$184 per wafer in 2004 mainly due to the ramping up the increased capacity quickly with a larger proportion of lower price and mature process technologies as well as pricing pressure.

Cost of Sales

Cost of sales consists principally of:

- depreciation;
- direct materials, mainly raw wafers, and indirect materials such as test wafers, photo masks, chemicals and photo resist;
- manufacturing overhead, including utilities, spare parts, repair and maintenance, rent, and indirect labor; and
- direct labor, including salaries for employees directly involved in manufacturing activities.

Cost of sales increased by 73.7% from US\$32.48 million in 2003 to US\$56.43 million in 2004. The increase in cost of sales in 2004 was primarily because of increased sales of 6-inch wafers and an increase in the charge for depreciation from US\$9.06 million in 2003 to US\$14.83 million in 2004. The increase of depreciation cost is due to increased capital expenditure related to the purchase of machinery and equipment for Fab 1.

經營業績 (續)

營業額

本集團營業額的主要來源為晶圓製造。營業額由二零零三年的約42,080,000美元增加89.8%至二零零四年的79,860,000美元，主要由於付運的晶圓數量上升所致。此項增加部分被平均售價調低所抵銷。付運的6英寸晶圓總數由二零零三年的214,990片增加101.4%至二零零四年的433,000片。付運的6英寸晶圓的平均售價由二零零三年每片晶圓196美元下降6.1%至二零零四年每片晶圓184美元，主要由於已提升的產能的較大比例迅速以較低價格及成熟製程技術所擴張，以及定價壓力所致。

銷售成本

銷售成本主要包括：

- 折舊；
- 直接物料，主要包括未經加工晶圓，以及間接物料，例如測試晶圓、光罩、化學品及光致抗蝕劑；
- 製造間接費用，包括公用事業費用、零備件、維修及保養、租金及間接勞工；及
- 直接勞工，包括直接參與製造活動的僱員薪金。

銷售成本由二零零三年的約32,480,000美元增加73.7%至二零零四年的約56,430,000美元。於二零零四年的銷售成本增加主要由於6英寸晶圓的銷售增加，及於二零零三年的折舊費用9,080,000美元增加至二零零四年的14,830,000美元。折舊成本增加是由於有關一廠購買機器及設備的資本開支增加所致。

OPERATING RESULTS (Cont'd)

Gross Profit

Gross profit increased by 144.1% from US\$9.60 million in 2003 to US\$23.43 million in 2004. Gross margin increased from 22.8% in 2003 to 29.3% in 2004. The increase in gross margin was primarily due to the expansion of capacity which resulted in a significant decrease in fixed costs per unit, such as depreciation, utilities, rent and labor costs. The increase was partially offset by a decrease in ASP.

Other Revenue

Other revenue consists principally of:

- subsidy income consisting mainly of the value-added tax ("VAT") refund and other subsidies from the Chinese government;
- interest income derived primarily from bank deposits, excluding restricted deposits; and
- the sale of scrap materials.

Other revenue increased by 177.6% from US\$1.45 million in 2003 to US\$4.02 million in 2004 primarily due to an increase in the VAT refund which was US\$3.75 million in 2004 compared to US\$1.07 million in 2003.

經營業績 (續)

毛利

毛利由二零零三年的約9,600,000美元增加144.1%至二零零四年的約23,430,000美元。毛利由二零零三的22.8%增加至二零零四年的29.3%。邊際毛利率增加主要由於擴產，導致每單位的固定成本大幅下降，例如折舊、動力費、租金及人工成本。增加部分被平均售價下降所抵銷。

其他收益

其他收益主要包括：

- 補貼收入主要包括增值稅（「增值稅」）退稅及中國政府的其他補貼；
- 利息收入主要來自銀行存款，不包括有限制銀行存款；
- 銷售廢料。

其他收益由二零零三年1,450,000美元增加177.6%至二零零四年4,020,000美元，主要由於增值稅退稅增加至二零零四年的3,750,000美元，而二零零三年則為1,070,000美元。

OPERATING RESULTS (Cont'd)

Distribution Expenses

Distribution expenses increased by 223.7% from US\$0.74 million in 2003 to US\$2.41 million in 2004. Distribution expenses consisted primarily of salaries and related personnel expenses for sales and marketing personnel, insurance for goods in transit, promotional and other marketing expenses and sales office rental. The increase in distribution expenses was primarily due to the payment of a customer referral fee amounting to approximately US\$786,000 in 2004 while there was no such payment in 2003. The increase was also due to higher bonus payments in 2004, while there was a temporary reduction of salaries, wages and bonus payments in 2003.

Administrative Expenses

Administrative expenses increased by 67.7% from US\$3.84 million in 2003 to US\$6.44 million in 2004 due primarily to higher bonus payments in 2004 compared to a temporary reduction of salaries, wages and bonus payments in 2003.

Research and Development Expenses

Research and development expenses increased by 190.7% from US\$1.08 million in 2003 to US\$3.14 million in 2004. Research and development expenses consisted primarily of salaries and related personnel costs for process technology development, technology license fees, and maintenance of the equipment used in technology development. The increase in research and development expenses was primarily because the Group increased investment in improving process mix and more advanced process technologies in support of its strategy to keep up with the mainstream market. The increase was also due to higher bonus payments in 2004 compared to a temporary reduction of salaries, wages and bonus payments in 2003.

經營業績(續)

分銷費用

分銷費用由二零零三年的約744,000美元增加223.7%至二零零四年的約2,410,000美元。分銷費用主要包括營銷人員的薪金及相關人員費用、付運貨品的保險、宣傳及其他市場推廣支出及營銷辦事處租金。分銷費用增加主要由於二零零四年的客戶轉介費付款約達786,000美元，而二零零三年則無該款項。增加亦由於二零零四年的花紅付款較高。而二零零三年的薪金、薪酬及花紅款項有暫時性削減。

行政費用

行政費用由二零零三年的約3,840,000美元增加67.7%至二零零四年的約6,440,000美元，主要由於二零零四年較高的花紅付款，而二零零三年的薪金、薪酬及花紅款項有暫時性削減。

研究及開發費用

研究及開發費用由二零零三年的約1,080,000美元增加190.7%至二零零四年的約3,140,000美元。研究及開發費用主要包括從事製程技術開發的人員薪金及相關成本、技術特許費，以及技術開發所用設備的維修保養。研究及開發費用增加主要由於本集團增加投資於改善支持其策略的製程組合及更先進的製程技術，以保持與主流市場一致。此項增加亦由於二零零四年較高的花紅付款而於二零零三年的薪金、薪酬及花紅款項有暫時性削減。

OPERATING RESULTS (Cont'd)

Taxation

(a) Income Tax

The Company is not subject to Cayman Islands taxation. The Company's subsidiaries established in the PRC are subject to enterprise income tax ("EIT") on their taxable income as reported in their PRC statutory accounts, adjusted in accordance with relevant PRC income tax laws. The applicable EIT rates range from 15% to 24%. In accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment," the Company's PRC subsidiaries are entitled to full exemption for EIT for the first two years and a 50% reduction in EIT for the next three years commencing from the first profitable year after offsetting all losses carried forward from the previous five years.

The applicable EIT rate of Fab 1, one of the Company's PRC subsidiaries, is 24%. The year 1999 was the first profitable year of Fab 1, and EIT rate was 12% in 2001, 2002 and 2003.

In addition, since Fab 1 qualifies as an "advanced-technology enterprise," it is also entitled to a 50% tax reduction for three years, subject to a minimum effective tax rate of 10%. Fab 1 has already obtained approval for the reduction tax rates in relation to its qualification as an "advanced-technology enterprise," therefore the EIT rate for Fab 1 was 12% in 2004.

經營業績 (續)

稅項

(a) 所得稅

本集團毋須繳納開曼群島稅項。本公司於中國註冊的附屬公司須就其中國法定賬目所呈報的應課稅收入（根據有關中國所得稅法作出調整）繳付企業所得稅。適用企業所得稅率介於15%至24%。根據中國「外商投資企業所得稅法」，本公司的中國附屬公司可自首個獲利年度（經抵銷過往五年結轉的所有稅項虧損後）起計的首兩年全數豁免繳付企業所得稅，及於隨後三年減免50%企業所得稅。

本公司中國附屬公司之一的一廠所適用的企業所得稅率為24%，一九九九年度為一廠的首個獲利年度，企業所得稅根據截至二零零一年、二零零二年及二零零三年十二月三十一日止年度的應課稅收入按12%的稅率撥備。

此外，由於一廠符合「先進技術企業」的資格，故亦享有三年稅項減半的優惠，但須按最低實際稅率10%納稅。一廠已經就其符合「先進技術企業」的資格而獲批准削減稅率，故一廠於二零零四年的企業所得稅率為12%。

OPERATING RESULTS (Cont'd)

Taxation (cont'd)

(b) VAT

The Company's subsidiaries established in the PRC are subject to VAT, which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT on sales to determine the net VAT payable.

According to relevant PRC rules and regulations, Fab 1, being a qualified manufacturer of micro-electronics products, is entitled to refund of VAT from 1 July 2000 to 31 March 2005. Since 1 January 2002, the net VAT payables related to domestic sales were firstly paid to the tax bureau and any portion in excess of 3% of domestic sales would be refunded. The Group's VAT refund for the year ended 31 December 2004 amounted to approximately US\$3,751,000 (2003: US\$1,068,000). Such VAT refund has been recorded on cash basis.

Net Profit

As a result of the foregoing, net profit increased by 182.5% from US\$4.02 million in 2003 to US\$11.34 million in 2004. Net profit margins were 9.5% in 2003 and 14.2% in 2004.

經營業績 (續)

稅項 (續)

(b) 增值稅

本公司於中國註冊的附屬公司須繳付增值稅，以售價按一般稅率17%徵收。先前用於購買原材料或半製成品所支付的進項增值稅可先行記賬，並可沖銷銷售時須支付的銷項增值稅，以確定應繳付的增值稅淨額。

根據有關中國法例及法規，一廠被評為合格的微電子產品製造商，可由二零零零年七月一日起至二零零五年三月三十一日止獲退回增值稅。自二零零二年一月一日以來，一廠首先向稅務局支付有關內銷額的應付增值稅淨額，隨後將獲退回內銷額3%以外的任何餘額。本集團截至二零零四年十二月三十一日止年度的增值稅退款約達3,751,000美元(二零零三年：1,068,000美元)。該增值稅退稅已按現金基準記賬。

純利

由於上述各項，純利由二零零三年的約4,020,000美元增加182.5%至二零零四年的約11,340,000美元。邊際純利率於二零零三年為9.5%，而二零零四年則為14.2%。

OPERATING RESULTS (Cont'd)

Dividends

In March 2004, the Company declared a dividend of US\$1,338,000 satisfied by a bonus issue pursuant to which a total of 1,338,000 ordinary shares of US\$0.0001 each of the Company were allotted and issued, credited as fully paid, to members of the Company whose names appeared on the register of members of the Company as at 31 December 2003.

At a meeting held on 15 March 2005, the directors proposed a final dividend of HK\$0.005 (equivalent to approximately US\$0.00064) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

The dividend payout ratio is approximately 15% of the Group's net profit in 2004. It is the intention of the Group to distribute dividend to its shareholders that is in line with the Group's earnings growth.

經營業績 (續)

股息

於二零零四年三月，本公司宣派股息1,338,000美元，以紅利發行形式償付。據此，本公司配發及發行本公司每股面值0.0001美元入賬列作繳足的普通股1,338,000股，給於二零零三年十二月三十一日名列本公司股東名冊的股東。

於二零零五年三月十五日舉行之會議，董事擬派每股普通股末期股息0.005港元（相等於約0.00064美元）。擬派股息並不於該等賬目中反映為應付股息，但將反映為截至二零零五年十二月三十一日止年度之保留盈利分派。

股息派發比率約為本集團於二零零四年純利之15%。本集團擬分派股息予其股東，與本集團盈利增長一致。

OPERATING RESULTS (Cont'd)

Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

Profit attributable to shareholders for the purposes of calculating basic and diluted earnings per share	就計算每股基本及攤薄盈利而言之股東應佔純利
--	-----------------------

Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	就計算每股基本盈利而言之加權平均普通股數目
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Effect of dilutive potential ordinary shares:	攤薄潛在普通股之影響：
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- Equity incentive plan	- 股份獎勵計劃
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Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	就計算每股攤薄盈利而言之加權平均普通股數目
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(i) The weighted average number of share for the year ended 31 December 2003 has been restated to take into account the repurchase and currency redenomination of the share capital effected during the year 2004.

Diluted earnings per share for the year ended 31 December 2003 is not presented because there has been no potentially dilutive ordinary share in existence during the year.

經營業績 (續)

每股盈利

每股基本及攤薄盈利是根據下列數據：

2004 (US\$'000) (千美元)	2003 (US\$'000) (千美元)
11,342	4,015

Number of ordinary shares 普通股數目

2004	2003 (i)
2,023,855,494	1,157,130,000
145,998,803	N/A
2,169,854,297	N/A

(i) 截至二零零三年十二月三十一日止年度之加權平均股數已予以重列，以計及二零零四年度進行的股本的購回及重訂貨幣面額。

由於年內並無潛在可攤薄普通股存在，故並無呈列截至二零零三年十二月三十一日止年度之每股攤薄盈利。

OPERATING RESULTS (Cont'd)

Liquidity and Capital Resources

For the year ended 31 December 2004, the Group's sources of liquidity mainly included net proceeds from the IPO and Warrants (as defined in the Prospectus), bank loans and cash flow from operating activities, which amounted to US\$55.13 million, US\$28.33 million and US\$19.97 million, respectively. The Group's cash has principally been applied to fund capital expenditures related to the purchase of machinery and equipment for Fab 1 and construction of Fab 2 and repayment of bank loans, which amounted to US\$77.77 million and US\$33.48 million, respectively.

The table below sets forth the cash flow of the Group for the two years ended 31 December 2004 and the cash and cash equivalents at the end of each of the two years:

經營業績 (續)

流動資金及資金資源

截至二零零四年十二月三十一日止年度，本集團的流動資金來源主要包括首次公開招股及認股權證（定義見招股章程）的所得款項淨額、銀行貸款及經營業務的現金流量，分別為55,130,000美元、28,330,000美元及19,970,000美元。本集團的現金主要已用於購買一廠的機器及設備的資本開支及興建二廠，以及償還銀行貸款，分別為77,770,000美元及33,480,000美元。

下表載列本集團截至二零零四年十二月三十一日止兩個年度的現金流量及於兩個年度各年年終的現金及現金等值項目：

		2004 (US\$'000) (千美元)	2003 (US\$'000) (千美元)
Net cash generated from operating activities	經營業務產生的現金淨額	19,967	9,034
Net cash used in investing activities	投資業務動用的現金淨額	(78,080)	(33,963)
Net cash generated from financing activities	融資業務產生的現金淨額	43,433	58,114
Net (decrease) increase in cash and cash equivalents	現金及現金等值項目 (減少) 增加淨額	(14,680)	33,185
Effect of foreign exchange rate change	匯率變動影響	5	2
Cash and cash equivalents at beginning of year	年初現金及現金等值項目	39,138	5,951
Cash and cash equivalents at end of year	年終現金及現金等值項目	24,463	39,138

OPERATING RESULTS (Cont'd)

Liquidity and Capital Resources (Cont'd)

Net cash generated from operating activities for the year increased to US\$19.97 million in 2004 from US\$9.03 million in 2003. The increase was primarily due to an increase in operating profit before depreciation and amortization of approximately US\$14.25 million from US\$14.39 million in 2003 to US\$28.64 million in 2004. It was partially offset by the increase in inventories and trade receivables related to the growth in turnover and operations in 2004.

Net cash used in investing activities was US\$78.08 million and US\$33.96 million in 2004 and 2003, respectively, most of which was used for the acquisition of fixed assets, primarily equipment for capacity expansion in Fab 1 and construction of Fab 2.

Net cash generated from financing activities in 2004 amounted to US\$43.43 million, compared to US\$58.11 million in 2003. The amount in 2004 reflects the US\$17.40 million proceeds from the issue of Warrants and the US\$37.73 million proceeds from the IPO, compared to the private placement proceeds of US\$52.20 million and a US\$2.50 million share subscription by Stockside Limited in 2003. In addition, the Group has received an additional short-term loan of US\$28.33 million and repaid bank loans of US\$33.48 million in 2004, compared to US\$22.77 million of additional bank loans and repayment of US\$11.45 million in 2003.

經營業績 (續)

流動資金及資金資源 (續)

本年度的經營業務產生的現金淨額由二零零三年的9,030,000美元增加至二零零四年的19,970,000美元。增加主要由於未計折舊及攤銷前的經營溢利由二零零三年的14,390,000美元增加約14,250,000美元至二零零四年的28,640,000美元，部分被有關二零零四年營業額增長的存貨及應收貿易賬款增加所抵銷。

投資業務動用的現金淨額於二零零四年及二零零三年分別為78,080,000美元及33,960,000美元，大部分用於購買固定資產、一廠擴產的主要設備及興建二廠。

融資業務產生的現金淨額於二零零四年為43,430,000美元，而二零零三年則為58,110,000美元。二零零四年的款額反映發行認股權證的所得款項17,400,000美元及首次公開發售的所得款項37,730,000美元，而二零零三年則為私人配售所得款項52,200,000美元及Stockside Limited的認購股份2,500,000美元。此外，本集團於二零零四年獲得短期貸款28,330,000美元並償還貸款款項33,480,000美元，而二零零三年獲得銀行貸款為22,770,000美元並償還貸款款項11,450,000美元。

OPERATING RESULTS (Cont'd)

Indebtedness

The bank loans of the Group as at 31 December 2004 and 2003 were as follows:

Short-term bank loans	短期銀行貸款
- Secured	— 有抵押
- Unsecured	— 無抵押
Long-term bank loans	長期銀行貸款
Total outstanding bank loans	未償還銀行貸款總額

As of 31 December 2004, the Group's short-term bank loans bore interest rates ranging from 3.0% to 3.6% per annum.

The Group receives payments in currencies including Renminbi ("Rmb"), US dollars and Hong Kong dollars, and it incurs costs and expenses in currencies including US dollars, Rmb, Japanese Yen, Hong Kong dollars and Euros. The management believes that, considering the working capital position of the Group, the Group will have sufficient foreign exchange to meet its foreign exchange liabilities as they become due.

經營業績 (續)

債務

本集團於二零零四年十二月三十一日的銀行貸款載述如下：

2004	2003
(US\$'000)	(US\$'000)
(千美元)	(千美元)
—	4,229
17,500	16,121
—	—
17,500	20,350

於二零零四年十二月三十一日，本集團的短期銀行貸款按年利率介乎3.0厘至3.6厘計息。

本集團收取的款項以人民幣、美元及港元為單位，其成本及費用則以美元、人民幣、日圓、港元及歐元為單位。管理層相信，考慮到本集團的營運資金狀況，本集團將有充足外匯以支付到期的外匯負債。

OPERATING RESULTS (Cont'd)

Capital Expenditures

The Group requires capital to build, expand, upgrade and maintain its production facilities and equipment. The Group made capital expenditure of US\$77.77 million in 2004. The management estimates that the cost of the reconditioned equipment and its installation in Fab 1 will amount to approximately US\$112.38 million for 2003 through 2005. Of this amount:

- US\$52.27 million was spent in expanding Fab 1's capacity from 20,000 wpm to 41,700 wpm by mid-2004 (of the US\$52.27 million, US\$25.88 million was paid in 2004 and the remainder was paid in 2003 and before),
- US\$54.06 million was spent in expanding Fab 1's capacity further to 59,200 wpm by end of 2004 (of the US\$54.06 million, US\$33.83 million was paid in 2004 and the remainder will be paid in 2005); and
- The remaining approximately US\$6.05 million will be spent on Fab 1's technology migration to 0.35 micron in 2005.

經營業績(續)

資本開支

本集團需要資金以建設、擴充、提升及維修生產設施及設備。於二零零四年，本集團的資本開支為77,770,000美元。管理層估計，由二零零三年至二零零五年，一廠的二手設備及安裝工程成本將約達112,380,000美元。於該款項中：

- 52,270,000美元已用於擴充一廠的產能由每月晶圓產量20,000片增加至二零零四年中的每月晶圓產量41,700片(52,270,000美元中，25,880,000美元已於二零零四年支付，而餘款已於二零零三年及之前支付)；
- 54,060,000美元已用於進一步擴充一廠的產能至二零零四年底的每月晶圓產量59,200片(54,060,000美元中，33,830,000美元已於二零零四年支付，而餘款將於二零零五年支付)；及
- 餘下約6,050,000美元將用於一廠在二零零五年將技術改良至0.35微米。

OPERATING RESULTS (Cont'd)

Capital Expenditures (Cont'd)

In addition, the management estimates the cost of the construction of the Fab 2 building and facilities will be approximately US\$115.76 million. Of this amount, approximately US\$18.06 million was spent in 2004. Both the capital expenditure for Fab 1 and Fab 2 described above have been or will be funded from the proceeds of share issuances, bank loans and internally generated cash flow from operations. The Group will continue to implement its prudent policy on capital expenditures and further optimize the allocation of its capital expenditures.

Commitments and Contingent Liabilities

As at 31 December 2004, the Group had capital commitments of US\$142.63 million, of which US\$8.74 million was contracted but not provided for the purchase of equipment for Fab 1, US\$20.92 million was authorized but not contracted for the purchase of equipment for Fab 1, US\$16.81 million was contracted but not provided for the purchase of building and facilities of Fab 2 and US\$96.17 million was authorized but not contracted for the purchase of building and facilities of Fab 2. As at 31 December 2004, the Group had lease commitments of US\$6.65 million for factory promises and machinery, which all were due within five years. The Group does not have any other commitment or contingent liabilities.

Legal Liabilities

For the year ended 31 December 2004, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Group as far as the Company is aware.

經營業績 (續)

資本開支 (續)

此外，管理層估計興建二廠大樓及設施的成本將約為115,760,000美元。該款額中，約18,060,000美元已於二零零四年使用。上述一廠及二廠的資本開支已或將由股份發行的所得款項、銀行貸款及內部經營產生的現金流量撥支。本集團將繼續執行謹慎的資本開支政策，並進一步善用分配資本開支。

承擔及或然負債

於二零零四年十二月三十一日，本集團的資本承擔為142,630,000美元，其中8,740,000美元為一廠購置設備的已訂約但未撥備款項，20,920,000美元為一廠購置設備的已授權但未訂約款項，16,810,000美元為購置二廠廠房及設施的已訂約但未撥備的款項及96,170,000美元為購置二廠廠房及設施的已授權但未訂約的款項。於二零零四年十二月三十一日，本集團廠房場地及樓宇的租賃承擔為6,650,000美元，全部均於五年內到期支付。本集團並無任何其他承擔或或然負債。

法律責任

截至二零零四年十二月三十一日止年度，本集團並無涉及任何重大訴訟或仲裁，且就本公司所知，亦無任何尚未了結或對本集團構成威脅的重大訴訟或申索。

OPERATING RESULTS (Cont'd)

Foreign Exchange Risk Management

The Group's operational cash flow was primarily denominated in Renminbi and US dollars. The Group's borrowings were also denominated in Renminbi and US dollars. The Directors believe that, considering the working capital position of the Group, there is no significant exposure to foreign exchange risk. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Gearing Ratio

In accordance with IFRS the shareholders' funds to liabilities ratio of the Group in 2004 was 4.16 times compared with 2.28 times in 2003.

經營業績 (續)

外匯風險管理

本集團的營運現金流量主要以人民幣及美元為單位。本集團的借款亦以人民幣及美元為單位。考慮到本集團的營運資金狀況後，董事相信，本集團並無重大外匯風險。本集團的政策是不會就投機目的而訂立任何衍生交易。

資本負債比率

根據IFRS，本集團於二零零四年的股東權益與負債比率為4.16倍，而二零零三年則為2.28倍。

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