

BUSINESS REVIEW OF THE YEAR 2005

OVERVIEW

The year 2005 represents the first year of reporting a net loss for the Group after five consecutively profitable years. The Group experienced a difficult year in 2005 due to the down cycling of the global semiconductor market. This down trend, starting from the fourth quarter of 2004, came at the height of the Group's capacity expansion. The average capacity utilization rate of the Group was down to 63% in 2005 from 87% in 2004. The Group experienced substantial pressure to fill the available capacity with much lower average selling price ("ASP") products. As a result, the Group's consolidated sales decreased by 2.2% to US\$78.10 million in 2005 from US\$79.86 million in 2004. EBITDA decreased by 37.2% to US\$17.24 million in 2005 from US\$27.46 million in 2004. The Group incurred a net loss of US\$6.84 million in 2005, compared with a net profit of US\$10.17 million in 2004.

二零零五年的業務回顧

概覽

二零零五年為本集團連續五年錄得盈利後首次錄得淨虧損的年度。受全球半導體市場低迷週期影響，本集團於二零零五年經歷艱難的一年。市場下滑趨勢始於二零零四年第四季，適值本集團推行產能擴充計劃的高峰，本集團的平均產能使用率由二零零四年的87%降至二零零五年的63%。透過較低的平均售價以盡量利用產能，對本集團構成莫大壓力。因此，本集團的綜合銷售額由二零零四年的7,986萬美元下跌2.2%至二零零五年的7,810萬美元。EBITDA由二零零四年的2,746萬美元下跌37.2%至二零零五年的1,724萬美元。本集團於二零零五年錄得淨虧損684萬美元，而二零零四年則錄得純利1,017萬美元。

BUSINESS REVIEW OF THE YEAR 2005 (Cont'd)

Expansion of Customer Base

The total number of customers of the Group reached 263 in 2005, compared to 194 in 2004, representing an increase of 35.6%.

The following table shows the Company's number of customers and the breakdown of sales by customer type for the five years ended 31 December 2005:

	2005		2004		2003		2002		2001	
	Customers 客戶	Sales 銷售額 (US\$'000) (千美元)	Customers 客戶	Sales 銷售額 (US\$'000) (千美元)	Customers 客戶	Sales 銷售額 (US\$'000) (千美元)	Customers 客戶	Sales 銷售額 (US\$'000) (千美元)	Customers 客戶	Sales 銷售額 (US\$'000) (千美元)
Fabless 無生產線設計公司	255	73,028	188	75,202	127	40,547	129	39,809	104	27,568
IDMs IDM	8	5,071	6	4,658	6	1,530	6	1,168	10	2,380
Total 總計	263	78,099	194	79,860	133	42,077	135	40,977	114	29,948

The Group's customers include fabless design houses and IDMs. The Group provides open foundry services to IDMs, who outsource part of their production. The Group has long term symbiotic relationship with both these customers who put stringent requirements on foundries to which they outsource their production.

The Group has adopted a strategy to expand its customer base to IDMs and overseas customers in order to diversify its market risk across its customer base thereby reducing potential adverse impacts of downturns in either the domestic or global semiconductor markets. The management believes that many overseas IDMs are reducing or shutting down their production facilities and outsourcing their production to China. The Group is well aligned with the customers' strategy to reduce costs and to be closer to their low-cost IC supply chain.

二零零五年的業務回顧(續)

拓展客戶群

本集團於二零零五年的客戶總數達263名，與二零零四年的194名比較，增幅為35.6%。

下表呈列於截至二零零五年十二月三十一日止五個年度，本公司按客戶類別及客戶數量的銷售額分析：

本集團的客戶包括無生產線IC設計公司及IDM。本集團向將部份生產外判的IDM提供開放式晶圓代工服務。兩類客戶對其外判生產的晶圓定下嚴格要求，而本集團與該等客戶有著長久互惠關係。

本集團已採納擴大其客戶群至IDM及海外客戶的策略，減少因國內或全球半導體市場下滑帶來的潛在不利影響以分散市場風險。管理層相信，許多海外IDM現正減少或關閉其生產設施，並將其生產外判至中國。本集團正好配合及對準客戶降低成本的策略，並縮短與其低成本IC供應鏈之間的距離。

BUSINESS REVIEW OF THE YEAR 2005 (Cont'd)

Expansion of Customer Base (Cont'd)

The sales from IDMs accounted for 6.5% of the total sales in 2005 compared with 5.8% in 2004. In line with the increase of sales from IDMs, the number of our IDM customers increased to 8 and more new IDMs are developing products with the Group. The management believes orders from IDMs will increase in the near future as the global semiconductor market returns to the growth track.

Chinese fabless design houses have experienced rapid growth during the last five years. The number of fabless design houses in China increased to around 500 by the end of 2005, according to CCID Consulting Co. Ltd., a professional market research and management consultancy services provider in China. The management believes the anticipated strong growth from these design houses in 2006 will benefit the Group. In 2005, 6 out of the top 10 Chinese design houses were the Group's customers. Many Chinese fabless design houses are small-scale operators. Most of them rely on the Group to assist in their design process. This further strengthens the on-going cooperation benefiting mutual growth.

The Group's Chinese business contributed 67.8% to the total sales of the Group in 2005, which represents an increase of 13.1% over the year 2004. The Group's business from overseas market declined as a result of market downturn and inventory build-up by overseas customers in the first half of year 2005.

二零零五年的業務回顧(續)

拓展客戶群(續)

二零零五年來自IDM的銷售額佔總銷售額6.5%，對比二零零四年的5.8%。本集團的IDM客戶數目增至八家，且有更多新IDM正在本集團內部開發產品，與來自IDM的銷售額增加情況一致。管理層相信，隨著全球半導體市場重拾升軌，來自IDM的訂單將會上升。

過去五年中國無生產線IC設計公司迅速發展一日千里。根據賽迪諮詢顧問有限公司(中國一家專業市場研究及管理諮詢服務公司)的資料顯示，截至二零零五年底中國無生產線IC設計公司的數目已增加至約500家。管理層相信，預期該等設計公司於二零零六年出現的強勁增長將令本集團受惠。於二零零五年，中國無生產線IC設計十大公司中，六家為本集團的客戶。許多中國無生產線IC設計公司屬小規模營運機構，且大多在其設計過程中依賴本集團提供協助。這有助進一步加強持續合作，從而互相促進發展。

二零零五年本集團的總銷售額的67.8%來自中國業務貢獻，較二零零四年增長13.1%。本集團海外業務受累於市場不景氣及二零零五年上半年海外客戶積壓存貨而倒退。

BUSINESS REVIEW OF THE YEAR 2005 (Cont'd)

Expansion of Customer Base (Cont'd)

The following table shows the geographical breakdown of the Group's sales for the five years ended 31 December 2005:

		2005		2004		2003		2002		2001	
		(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)	
The PRC	中國	52,982	67.8	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	15,194	19.5	20,900	26.2	7,596	18.1	6,888	16.8	6,936	23.2
United States	美國	5,637	7.2	5,571	7.0	2,192	5.2	2,184	5.3	2,245	7.5
Europe	歐洲	4,286	5.5	6,535	8.2	—	—	—	—	—	—
Total	總計	78,099	100.0	79,860	100.0	42,077	100.0	40,977	100.0	29,948	100.0

The Group adopted a strategy to diversify its customer base to avoid over-reliance on any single customer. The Group's top ten customers' contribution to the sales decreased to 68.0% in 2005 from 74.5% in 2004.

Production Capacity and Capacity Utilization Rate

In 2005, the Group maintained a capacity of 59,200 wpm. The market downturn, coming at the height of the Group's capacity expansion, resulted in 2005 seeing our lowest capacity utilization rate. Average capacity utilization achieved was 63% in 2005 compared to 87% in 2004. However, the capacity utilization was recovering during the second half of year 2005. In particular, our fourth quarter of 2005 capacity utilization rate reached 74%.

二零零五年的業務回顧(續)

拓展客戶群(續)

下表呈列了按地區分析本集團截至二零零五年十二月三十一日止五個年度的銷售額：

本集團採納策略使其客戶群多元化，避免過份依賴任何單一客戶。本集團十大客戶的銷售額貢獻由二零零四年的74.5%減至二零零五年的68.0%。

產能及產能使用率

於二零零五年，本集團的產能維持每月晶圓數量59,200件。市場不景氣適逢本集團全力推行產能擴充，導致本集團二零零五年使用率創新低。二零零五年平均使用率為63%，而二零零四年則為87%。然而，二零零五年下半年產能使用率已見回升，特別是二零零五年第四季達74%。

BUSINESS REVIEW OF THE YEAR 2005 (Cont'd)**Technology Migration**

One of the Group's ASP enhancement strategies is to continue to enhance its core offering to more advanced process technology mix. The Group has successfully re-focused its core offerings to more advanced process technologies. In 2005, the Group focused on supporting applications of power management IC and power discrete in PC, mobile phone, electric transportation and medical device by ramping-up processes for 0.6 to 0.5 micron mixed-signal and DMOS. Sales contributions from 0.6 micron and more advanced process technologies increased to 41.2% in 2005 from 34.1% in 2004 and 19.5% in 2003. The Group expects to widen and deepen its process technology mix with the addition of the new fab in Beijing. The Group is also working towards expanding its process technology offering to include 0.35 to 0.25 micron with the technology partner for Fab 2 when those process technologies come on stream. The management believes that this technology mix is ideal to serve the Chinese mainstream market in the coming future. The table below shows the Group's sales by process technologies:

二零零五年的業務回顧(續)**技術改良**

本集團繼續將其核心服務提升至更先進製程技術組合，作為提高平均售價策略之一。本集團已成功將其核心服務再度集中於更先進的製程技術。於二零零五年，本集團透過改良0.6微米至0.5微米數模混合訊號及DMOS，主力開發用於個人電腦、流動電話、電子傳輸及醫療器械之支援性部件的電源管理積體電路和分立器件。二零零五年0.6微米及更先進製程技術的銷售額貢獻，分別由二零零三年及二零零四年的19.5%及34.1%，增加至41.2%。本集團預期透過在北京新建的晶圓廠令其擴大及深化其製程技術組合。本集團亦正就二廠與技術夥伴合作，在製程投產時將製程技術擴充至包括0.35至0.25微米。管理層相信，這技術組合正好切合未來中國主流市場。下表呈列按製程技術分析本集團的銷售額：

		2005		2004		2003		2002		2001	
		(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)	
5-inch	5 英寸	—	—	—	—	—	—	962	2.3	5,895	19.7
6-inch	6 英寸										
>=1.0 micron	>= 1.0 微米	21,310	27.3	20,350	25.4	18,234	43.3	20,731	50.6	12,100	40.4
0.6 - 0.8 micron	0.6-0.8 微米	17,967	23.0	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	20,917	26.8	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	11,270	14.4	18,347	23.0	6,682	15.9	2,315	5.7	396	1.3
Subtotal	小計	71,464	91.5	76,459	95.7	40,629	96.6	39,965	97.6	23,842	79.6
DMOS	DMOS	2,256	2.9	61	0.1	—	—	—	—	—	—
Others	其他	4,379	5.6	3,340	4.2	1,448	3.4	50	0.1	211	0.7
Total	總計	78,099	100.0	79,860	100.0	42,077	100.0	40,977	100.0	29,948	100.0

BUSINESS REVIEW OF THE YEAR 2005 (Cont'd)

Technology Migration (Cont'd)

The Group manufactures ICs mainly using the CMOS and DMOS process technology. Within the CMOS technology, the Group mainly produces logic, mixed-signal, high voltage, NVM and EEPROM ICs for the fast-growing consumer electronics, communication and computer industry in China.

The Group continues to focus on more advanced high voltage technologies, mixed-signal and DMOS which are widely used for applications of power management IC and power discrete. Sales contributions from non-logic and DMOS products increased to 34.4% in 2005 from 19.8% in 2004 and 8.8% in 2003. With the new fab planned in Beijing, the Group will expand its technology capability to include EPI wafer manufacturing.

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

		2005		2004		2003		2002	
		(US\$'000)		(US\$'000)		(US\$'000)		(US\$'000)	
		(千美元)	%	(千美元)	%	(千美元)	%	(千美元)	%
Logic	邏輯	46,882	60.0	60,700	76.0	36,950	87.8	38,186	93.2
Mixed-signal	數模混合信號	19,739	25.3	12,142	15.2	2,506	6.0	2,741	6.7
High Voltage	高壓	2,747	3.5	879	1.1	1,147	2.7	—	—
NVM & EEPROM	NVM 及 EEPROM	2,096	2.7	2,738	3.4	26	0.1	—	—
DMOS	DMOS	2,256	2.9	61	0.1	—	—	—	—
Others	其他	4,379	5.6	3,340	4.2	1,448	3.4	50	0.1
Total	總計	78,099	100.0	79,860	100.0	42,077	100.0	40,977	100.0

Note: 2001 information is not available.

二零零五年的業務回顧(續)

技術改良(續)

本集團主要利用CMOS及DMOS製程技術製造IC。在CMOS技術方面，本集團主要為中國發展迅速的消費電子業、通訊業及電腦業生產邏輯、數模混合訊號、高壓、非揮發性記憶體及電子可擦除可編程唯讀記憶體IC。

本集團繼續專注於在晶圓生產電源管理積體電路和分立器件方面獲廣泛採用的更先進高壓技術、數模混合訊號及DMOS。二零零五年非邏輯及DMOS產品的銷售額貢獻，分別由二零零三年及二零零四年的8.8%及19.8%，增加至34.4%。北京新晶圓廠計劃將讓本集團提升其技術的能力，包括EPI晶圓生產技術。

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 2005 (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 used these proceeds to partially fund the Group's expansion plans.

As at 31 December 2005, the total net proceeds have been used for shell construction of Fab 2, capital expenditure and technologies migration for Fab 1 and payment for the equipment purchase and technology transfer from Chartered Semiconductor Manufacturing. The table below sets out the details of the use of the proceeds:

		(US\$'000) (千美元)
Shell construction for Fab 2	興建二廠廠房	15,000
Capital expenditure and technologies migration for Fab 1	資本開支及為一廠進行技術改良	11,430
Equipment purchase and technology transfer from Chartered Semiconductor	購置設備及轉讓自特許半導體的技術	11,300
Total	總計	<u>37,730</u>

二零零五年的業務回顧(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3,773萬美元。誠如招股章程所述，本集團已使用該等所得款項，作為本集團擴產計劃的部分資金。

截至二零零五年十二月三十一日，所得總項款淨額已用於興建二廠廠房、資本開支及為一廠進行技術改良、購置設備及轉讓自特許半導體的技術。下表呈列所得款項使用詳情：

BUSINESS REVIEW OF THE YEAR 2005 (Cont'd)

Employees

The management believes that the Group's employees are its greatest asset. The Group had 1,436 employees as at 31 December 2005, an increase of 99 employees compared with 1,337 at end of 2004. The Group has maintained a good working relationship with employees over the year. On 27 May 2005, the Group adopted a new Share Option Scheme, in addition to the Equity Incentive Plan, as a means to motivate and retain employees.

In the highly competitive foundry business, strong human resources are essential for growth. The management successfully leverages on the strength of both local Chinese employees and international expertise. The Group also prides itself for its track record of recruiting and developing local managerial, technical, and operating personnel. Currently 98% of the Group's staff are citizens of People's Republic of China (the "PRC"), including the majority of the managers. As at 31 December 2005, 59% of the Group's employees have college or graduate degrees.

The Group has developed continuous training programs for its employees at different levels. In 2005, it conducted managerial and technical training programs totaling 29,119 hours, with an average of 21 training hours per employee. This represents an increase of 29% and 13.5%, respectively. Since 2005, the Group has worked with external consultants to introduce 35 new technical subjects into the Group's training programs.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Employer's pension cost charged to the consolidated income statement was US\$1,128,000 for 2005, compared with US\$1,004,000 for 2004.

二零零五年的業務回顧(續)

僱員

管理層相信，本集團的僱員為其至關重要的資產。截至二零零五年十二月三十一日本集團有僱員1,436名，較二零零四年底的1,337名僱員增加99人。過往一年，本集團與僱員維持良好工作關係。除股份獎勵計劃外，本集團亦於二零零五年五月二十七日採納新的購股權計劃，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。管理層成功地運用中國本地僱員及國際專才的優勢。本集團亦對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98%的員工為中國本地人才，包括大部分的經理。於二零零五年十二月三十一日，本集團59%的僱員均擁有大學或以上的學歷。

本集團已為其僱員發展不同程度的持續培訓計劃。於二零零五年，本集團舉辦了合計共29,119小時的管理及技術培訓計劃，平均每名僱員接受了21小時的培訓，分別增加29%及13.5%。由二零零五年開始，本集團亦與外界培訓供應商合作，引入35項新技術科目，加入本集團的培訓計劃。

本集團就強制性、合約性或自願性的公眾或私人管理退休金保證計劃作出供款。二零零五年，於綜合收益表中扣除的僱主退休金費用為1,128,000美元，而二零零四年則為1,004,000美元。

BUSINESS REVIEW OF THE YEAR 2005 (Cont'd)

Financial Results

For the year ended 31 December 2005, the Group recorded sales of US\$78.10 million, a decrease of 2.2% from US\$79.86 million in 2004. The decrease of sales was primarily due to the continuous decline of ASP, as a result of the softening of the worldwide semiconductor market.

EBITDA for the year ended 31 December 2005 was US\$17.24 million, a decrease of 37.2% from US\$27.46 million in 2004. The decrease of EBITDA was mainly due to the decrease of ASP, with an effect approximately of US\$3.96 million, as well as the increase of utility cost approximately US\$2.74 million. The refund of value-added-tax decreased to US\$0.75 million in 2005 from US\$3.75 million in 2004, which also affected the Group's EBITDA.

Net loss for the year ended 31 December 2005 is US\$6.84 million comparing with a net profit of US\$10.17 million in 2004.

Basic loss per share for the year ended 31 December 2005 was US cent 0.26, compared to a basic earnings per share of US cent 0.50 for the preceding year.

二零零五年的業務回顧(續)

財務業績

於截至二零零五年十二月三十一日止年度，本集團錄得銷售額7,810萬美元，較二零零四年的7,986萬美元減少2.2%。銷售額減少的主要原因，是由於全球半導體市場下滑導致平均售價持續下跌。

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，較二零零四年的2,746萬美元下跌37.2%。EBITDA下跌主要由於平均售價下跌之影響約396萬美元及動力成本增加約274萬美元所致。增值稅退稅由二零零四年的375萬美元減少至二零零五年的75萬美元，亦影響本集團的EBITDA。

截至二零零五年十二月三十一日止年度的淨虧損為684萬美元，而二零零四年則錄得純利1,017萬美元。

截至二零零五年十二月三十一日止年度的每股基本虧損為0.26美仙，相對於上年度的每股基本盈利為0.50美仙。

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 2005 and 2004, extracted from the audited consolidated financial statements of the same period:

Consolidated income statements

For the year ended 31 December 2005

經營業績

下表呈列有關本集團截至二零零五年及二零零四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：

綜合收益表

截至二零零五年十二月三十一日止年度

		2005		2004	
		(US\$'000) (千美元)	%	(US\$'000) (千美元) (Restated) (重列)	%
Sales	銷售額	78,099	100.0	79,860	100.0
Cost of goods sold	銷貨成本	(71,502)	(91.6)	(57,006)	(71.4)
Gross profit	毛利	6,597	8.4	22,854	28.6
Other gains – net	其他收益淨額	1,358	1.7	3,921	4.9
Operating expenses:	經營費用：				
Selling and marketing costs	銷售及市場推廣開支	(2,528)	(3.2)	(2,534)	(3.2)
Administrative expenses	行政費用	(8,755)	(11.2)	(8,445)	(10.5)
Research and development expenses	研發費用	(2,264)	(2.9)	(3,238)	(4.1)
Operating (loss) profit	經營（虧損）溢利	(5,592)	(7.2)	12,558	15.7
Finance costs	融資成本	(1,616)	(2.1)	(992)	(1.2)
(Loss) profit before tax	除稅前（虧損）溢利	(7,208)	(9.3)	11,566	14.5
Income tax expenses	所得稅開支	366	0.5	(1,395)	(1.8)
Net (loss) profit for the year	年度（淨虧損）純利	(6,842)	(8.8)	10,171	12.7
Dividends	股息	1,705		3,015	
Earnings per share	每股盈利				
– basic (US cent)	– 基本（美仙）	(0.26)		0.50	
– diluted (US cent)	– 攤薄（美仙）	N/A		0.47	
Operating Data	經營數據				
Depreciation and amortization	折舊及攤銷	22,836		14,899	
Capital expenditure	資本開支	40,862		77,772	
Wafer sales (units)	晶圓銷售數量（以片計）	439,500		433,000	
ASP (US\$)	平均售價（美元）				
(Wafer sales/quantity of wafer sold)	（晶圓銷售數量／已售晶圓數量）	168		177	

OPERATING RESULTS (Cont'd)

Sales

The Group's sales was mainly from wafer fabrication. The Group's consolidated sales for year ended 31 December 2005 amounted to US\$78.10 million, representing a decrease of 2.2% compared to US\$79.86 million in 2004. This decrease in the Group's sales was mainly due to the decrease of ASP by 5.1% to US\$168 in 2005 from US\$177 in 2004, while the sales volume of wafers shipped increased by 1.5% to 439,500 wafers in 2005 from 433,000 wafers in 2004.

Cost of goods sold

Cost of goods sold 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 goods sold increased by 25.4% to US\$71.50 million in 2005 from US\$57.01 million in 2004. The capacity expansion, from 26,700 wpm to 59,200 wpm during 2004 increased depreciation charge of US\$7.75 million to US\$22.56 million in 2005 from US\$14.81 million in 2004. This expansion also increased related labor cost by approximately US\$1.02 million. Utility cost's increase of approximately US\$2.74 million was mainly due to the increase in fab spaces, the expansion of production capacity of Fab 1 and the continuous increase in utility rate. Spare-parts, maintenance cost and outsourcing cost also increased to a certain extent during the year.

經營業績(續)

營業額

本集團銷售額的主要來源為晶圓製造。截至二零零五年十二月三十一日止年度，本集團的綜合銷售額為7,810萬美元，較二零零四年7,986萬美元下跌2.2%。本集團銷售額下跌主要因為二零零五年平均售價下跌5.1%，由二零零四年的177美元降至168美元。同時，晶圓付運量增加1.5%，由二零零四年的433,000件增加至二零零五年的439,500件。

銷貨成本

銷貨成本主要包括：

- 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。

銷貨成本由二零零四年的5,701萬美元增加25.4%至二零零五年的7,150萬美元。於二零零四年內進行的產能擴充，將每月產能由26,700件增至59,200件，亦令折舊開支由二零零四年的1,481萬美元增加775萬美元至二零零五年的2,256萬美元。是次產能擴充亦令相關員工成本增加約102萬美元。動力成本增加約274萬美元，主要由於擴大廠房空間、一廠擴充產能及動力成本單價提高所致。年內備用零件、維修成本及外判成本均錄得若干程度增幅。

OPERATING RESULTS (Cont'd)

Gross profit

Gross profit decreased by 71.1% to US\$6.60 million in 2005 from US\$22.85 million in 2004. Gross margin decreased to 8.4% in 2005 from 28.6% in 2004. The decrease in gross margin was mainly due to decrease in capacity utilization to 63% in 2005 from 87% in 2004, following the successful capacity expansion in scale in year 2004. The decrease in ASP also resulted in the drop in gross profit.

Other gains – net

Other gains consist principally of:

- subsidy income consisting mainly of the value-added tax (“VAT”) refund and other subsidies from the Chinese government; and
- interest income derived from bank deposits;

Interest income	利息收入
Subsidy income – refund of VAT	補貼收入—增值稅退稅
Other, net	其他，淨額

經營業績 (續)

毛利

毛利由二零零四年的2,285萬美元下跌71.1%至二零零五年的660萬美元。毛利率由二零零四年的28.6%降至二零零五年的8.4%。毛利率下跌主要由於在二零零四年成功擴大產能規模後，令二零零五年產能使用率由二零零四年的87%降至63%，而平均出售價格下跌亦是導致下降的原因。

其他收益淨額

其他收益淨額主要包括：

- 補貼收入主要包括增值稅退稅及中國政府的其他補貼；及
- 利息收入主要來自銀行存款；

2005	2004
US\$'000	US\$'000
千美元	千美元
172	185
749	3,751
437	(15)
1,358	3,921

OPERATING RESULTS (Cont'd)

Other gains – net (Cont'd)

Other gains decreased by 65.4% to US\$1.36 million in 2005 from US\$3.92 million in 2004 primarily due to the decrease of refund of value-added-tax (“VAT”), to US\$0.75 million in 2005 from US\$3.75 million in 2004. According to the relevant PRC rules and regulations, our Fab 1, as a qualified manufacturer of micro-electronics products, was entitled to the refund of relevant portion of VAT paid in excess of 3% of domestic sales since 1 January 2002. The policy was terminated on 31 March 2005.

Selling and marketing costs

Selling and marketing costs were maintained at US\$2.53 million for both year 2005 and 2004 in line with minor fluctuation in sales and sales volume. Selling and marketing costs 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.

Administrative expenses

Administrative expenses increased by 3.7% to US\$8.76 million in 2005 from US\$8.45 million in 2004. In 2005 the Group engaged external consultants to assist in the annual risk assessment for the Group and provided relevant training to enhance the internal audit methodology and internal controls. The Group incurred additional cost for the first Annual General Meeting and Extra Ordinary General Meeting held in Hong Kong. The increased expenses also include the additional consulting fee for compliance with corporate governance, and other board related expenses.

經營業績 (續)

其他收益淨額 (續)

其他收益由二零零四年的392萬美元下跌65.4%至二零零五年的136萬美元，主要由於二零零五年的增值稅退稅由二零零四年的375萬美元下跌至75萬美元。根據中國相關法規，本集團的一廠作為合格微電子產品製造商，可自二零零二年一月一日起享有相當於超過3%國內銷售的已付增值稅相關部分退稅。有關政策已於二零零五年三月三十一日終止。

銷售及市場推廣開支

二零零五年及二零零四年兩年的銷售及市場推廣開支維持於253萬美元，表現與銷售額及銷售量之變動比率相符。銷售及市場推廣開支主要包括營銷人員的薪金及相關人員費用、付運貨品的保費、宣傳及其他市場推廣開支及營銷辦事處租金。

行政費用

行政費用由二零零四年的845萬美元增加3.7%至二零零五年的876萬美元。本集團於二零零五年委聘外部顧問協助本集團進行年度風險評估，並提供相關培訓以改善內部審核方法及加強內部監控。本集團因在香港舉行首次股東週年大會及股東特別大會而錄得額外成本。增加的費用亦包括遵守企業管治而產生的額外諮詢費用及其他董事會相關支出。

OPERATING RESULTS (Cont'd)

Research and development expenses

Research and development expenses decreased by 30.1% to US\$2.26 million in 2005 from US\$3.24 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 decrease in research and development expenses in 2005 was primarily because of the reduction of outsourcing of development activities which was performed in house.

Taxation

(a) Income Tax

The Company is exempted from taxation in the Cayman Islands.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong.

The Company's subsidiaries registered in the PRC are subject to Enterprise Income Tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The applicable EIT rate is 33%. However, being located in the "Old Urban Area of Coastal Open Economic Zone", Fab 1, the only operating subsidiary of the Group in the PRC, is entitled to a preferential EIT rate of 24%. Furthermore, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", Fab 1 is also entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. Moreover, since Fab 1 is also qualified as an "advanced-technology enterprise", it is further entitled to a 50% reduction in EIT for an additional three years. The first profitable year for Fab 1 was 1999.

經營業績 (續)

研究及開發費用

研究及開發費用由二零零四年的324萬美元下跌30.1%至二零零五年的226萬美元。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，以及開發技術所用設備的維修保養等。二零零五年研究及開發費用下跌主要由於自行進行研發活動並減少外判所致。

稅項

(a) 所得稅

本公司無須繳納開曼群島稅項。

由於並無自香港賺取或產生應課稅溢利，故並無為香港利得稅作出撥備。

本公司於中國註冊的附屬公司，須就他們的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(「企業所得稅」)。適用企業所得稅率為33%。然而，由於本集團於中國的唯一營運附屬公司無錫華潤上華半導體有限公司(「一廠」)位於沿海經濟開放區的老市區，故就企業所得稅享有24%的優惠稅率。再者，根據中國《外商投資企業所得稅法》，一廠亦可從其抵銷過往五年結轉的所得稅項虧損的首個獲利年度起的首兩年，有權獲享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。此外，由於一廠亦符合「高新技術企業」資格，因而可再享三年50%企業所得稅減免。一廠首個獲利年度為一九九九年。

OPERATING RESULTS (Cont'd)

Taxation (Cont'd)

(a) Income Tax (Cont'd)

In April 2005, Fab 1 received approval from the PRC National Administration of Taxation to be classified as an encouraged technology intensive foreign investment enterprise with foreign investment in excess of US\$30 million. As a result, from 1 January 2004 onwards, Fab 1 enjoys a preferential EIT rate of 15%. However, according to PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", the minimum EIT rate applicable to a foreign investment enterprise is 10%, and therefore although Fab 1 can enjoy 50% reduction in EIT for the years ended 31 December 2004 to 2006, Fab 1 is still subject to 10% EIT rate. Accordingly, EIT which was previously over-accrued at a rate of 12% of approximately US\$279,000 during the year ended 31 December 2004 was reversed to reflect the preferential EIT rate of 10%.

The amount of taxation (credited)/charged to the consolidated income statement represents:

Current income tax	現行所得稅
– PRC taxation	– 中國所得稅
– Reversal of over-accrued EIT	– 撥回多計的企業所得稅
Deferred income tax	遞延所得稅

經營業績 (續)

稅項 (續)

(a) 所得稅 (續)

於二零零五年四月，一廠收到中國國家稅務總局的批准，被分類為投資超過3,000萬美金之受鼓勵技術密集型外商投資企業。因此，自二零零四年一月一日起，一廠就企業所得稅享有15%的優惠稅率。然而，根據中國《外商投資企業所得稅法》，外商投資企業的企業所得稅稅率最低為10%，所以，雖然一廠就截至二零零四年至二零零六年十二月三十一日止年度的企業所得稅獲50%減免，一廠仍須按10%的企業所得稅稅率繳納稅項。截至二零零四年十二月三十一日止年度，過往按12%多計提之企業所得稅約為279,000美元已被撥回，以反映10%的企業所得稅優惠稅率。

自綜合收益表(計入)扣除的稅項金額指：

2005	2004
US\$'000	US\$'000
千美元	千美元
—	1,673
(279)	—
(87)	(278)
(366)	1,395

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 the 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 2005 and 2004 amounted to approximately US\$0.75 million and 3.75 million, respectively.

Net (loss) profit for the year

As a result of the foregoing, the Group recorded a net loss of US\$6.84 million in 2005, comparing with a net profit of US\$10.17 million 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。本集團截至二零零五年及二零零四年十二月三十一日止年度的增值稅退稅分別約達75萬美元及375萬美元。

年內(淨虧損)／純利

由於上述各項，本集團於二零零五年錄得淨虧損684萬美元，而二零零四年則錄得純利1,017萬美元。

OPERATING RESULTS (Cont'd)

Dividends

In May 2005, the Company declared a final dividend of HK\$0.005 (equivalent to approximately US\$0.00064) per ordinary share for financial year ended 31 December 2004.

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2005.

(Loss) earnings per share

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

(Loss) 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(虧損)溢利

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

Effect of dilutive potential ordinary shares:
– Equity incentive plan

攤薄潛在普通股之影響：
– 股份獎勵計劃

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

No diluted earnings per share for 2005 has been presented as the potential ordinary shares resulted from the Equity Incentive Plan are anti-dilutive.

經營業績(續)

股息

於二零零五年五月，本公司宣派截至二零零四年十二月三十一日止財政年度的末期股息每股普通股0.005港元(相等於約0.00064美元)。

董事不建議派付截至二零零五年十二月三十一日止財政年度的股息。

每股(虧損)盈利

每股基本及攤薄(虧損)盈利是根據下列數據計算：

	2005	2004
	US\$'000 千美元	US\$'000 千美元
	(6,842)	10,171
Number of ordinary shares 普通股數目		
	2005	2004
	2,646,935,175	2,023,855,494
	N/A 不適用	145,998,803
	N/A 不適用	2,169,854,297

由於因股份獎勵計劃產生的潛在普通股具反攤薄作用，故並無呈列二零零五年的每股攤薄盈利。

OPERATING RESULTS (Cont'd)

Liquidity and Capital Resources

For the year ended 31 December 2005, the Group's sources of liquidity mainly included from the net bank borrowings and cashflow from operating activities, which amounted to US\$24.90 million and US\$18.03 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 amounting to US\$20.34 million, construction of Fab 2 shell amounting to US\$20.00 million and purchase of intangible assets of US\$0.52 million as well as dividend payment of approximately US\$1.71 million.

The table below sets forth the cash flow of the Group for the two years ended 31 December 2005 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

截至二零零五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銀行貸款淨額及經營業務的現金流量，分別為2,490萬美元及1,803萬美元。本集團的現金主要用於為購買一廠的機器及設備的資本開支、興建二廠廠房、購入無形資產及支付股息，分別為2,034萬美元、2,000萬美元、52萬美元及約171萬美元。

下表載列本集團截至二零零五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：

		2005	2004
		US\$'000	US\$'000
		千美元	千美元
Net cash inflow generated from operating activities	經營活動產生的現金流入淨額	18,032	19,967
Net cash used in investing activities	投資活動動用的現金淨額	(40,661)	(78,080)
Net cash generated from financing activities	融資活動產生的現金淨額	22,909	43,433
Net (decrease) increase in cash and cash equivalents	現金及現金等值項目 (減少) 增加淨額	280	(14,680)
Effect of foreign exchange rate change	匯率變動影響	35	5
Cash and cash equivalents at beginning of year	年初現金及現金等值項目	24,463	39,138
Cash and cash equivalents at end of year	年終現金及現金等值項目	24,778	24,463

OPERATING RESULTS (Cont'd)

Liquidity and Capital Resources (Cont'd)

Net cash generated from operating activities for the year decreased to US\$18.03 million in 2005 from US\$19.97 million in 2004. The decrease was primarily due to payment for increased utility cost.

Net cash used in investing activities was US\$40.66 million and US\$78.08 million in 2005 and 2004, respectively. Within the amount for year 2005, US\$20.0 million was spent on construction of Fab 2 shell, US\$17.10 million was spent on Fab 1's technology migration to 0.35 micron and paying for the remainder of prior year's capacity expansion, and the remaining US\$3.76 million was spent on other capital expenditures, such as office buildings and IT application systems, etc.

Net cash generated from financing activities in 2005 amounted to US\$22.91 million, compared to US\$43.43 million in 2004. The amount in 2005 reflects the US\$24.90 million from the net bank borrowings and loans from various local and domestic banks. The amount in 2004 reflects the US\$17.4 million proceeds from the issue of warrants and the US\$37.73 million proceeds from the IPO.

經營業績 (續)

流動資金及資金資源 (續)

二零零五年經營業務產生的現金流入淨額由二零零四年的1,997萬美元下跌至1,803萬美元。下跌主要由於動力成本增加付款所致。

二零零五年及二零零四年投資活動動用的現金淨額分別為4,066萬美元及7,808萬美元。就二零零五年金額而言，2,000萬美元用於興建二廠廠房、1,710萬美元用於將一廠技術提升至0.35微米及支付上一年度擴充產能的所需餘款，而餘下的376萬美元則用於其他資本開支，例如辦公大樓及資訊科技應用系統等。

二零零五年融資活動產生的現金淨額達2,291萬美元，而二零零四年則為4,343萬美元。二零零五年的金額反映從不同本地及國內銀行的銀行貸款取得款項淨額2,490萬美元。二零零四年的金額反映發行認股權證的所得款項1,740萬美元及首次公開招股的所得款項3,773萬美元。

OPERATING RESULTS (Cont'd)

Indebtedness

The bank loans of the Group as at 31 December 2005 and 2004 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
– Secured	– 有抵押
Total outstanding bank loans	未償還銀行貸款總額

As at 31 December 2005, the Group's short-term bank loans bore interest rates ranging from 4.41% to 6.32% per annum. Long-term bank loans bore interest rates ranging from 5.58% to 5.62% per annum.

The secured portion of US\$12.23 million was secured by certain of the Group's equipments and land use right with the net book value of approximately US\$11.99 million.

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

本集團於二零零五年及二零零四年十二月三十一日的銀行貸款載述如下：

2005	2004
US\$'000	US\$'000
千美元	千美元
3,000	—
29,922	17,500
9,230	—
42,152	17,500

於二零零五年十二月三十一日，本集團的短期銀行貸款按年利率4.41厘至6.32厘計息，長期銀行貸款按年利率5.58厘至5.62厘計息。

有抵押部份計1,223萬美元由本集團若干設備及土地使用權(賬面淨值約1,199萬美元)作擔保。

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 incurred capital expenditure of US\$40.86 million in 2005, of which US\$20.00 million was spent on construction of Fab 2 shell, US\$17.10 million was spent on Fab 1's technology migration to 0.35 micron and paying for the remainder of prior year's capacity expansion, and the remaining US\$3.76 million was spent on other capital expenditures, such as office buildings and IT implementation systems, etc.

The Group has slowed down the construction of supporting facilities of Fab 2 in line with its overall plan to look for strategic partners. In addition, in light of the semiconductor market down cycle in 2005, Fab 2's construction plan was re-scheduled in line with the forecast for the future market demand. The construction of Fab 2 shell and other supporting facilities are still in progress at the end of 2005.

The management estimates the cost of the construction of the Fab 2 building and facilities to be US\$115.76 million. Of this amount, US\$38.06 million was spent in 2004 and 2005. 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 inflow from operations. The Group will continue to implement its prudent capital management policy and optimize the allocation of its capital resources.

Repurchase of Share

During the year ended 31 December 2005, the Company repurchased 5,424,430 shares of the Company at prices ranging from HK\$0.38 to HK\$0.43 per share with a total consideration of US\$285,000. These shares have been duly cancelled.

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。於二零零五年，本集團的資本開支為4,086萬美元，其中2,000萬美元用於興建二廠廠房、1,710萬美元用於將一廠技術提升至0.35微米及支付上一年度擴充產能的所需餘款，餘下的376萬美元則用於其他資本開支，例如辦公大樓及資訊科技執行系統等。

本集團已減慢二廠後勤設施的興建速度，以配合其物色策略夥伴的整體計劃。此外，由於二零零五年半導體市場處於低迷週期，二廠的興建計劃改期以配合未來市場需求的預測。於二零零五年底，二廠廠房建設工程及其他後勤設施仍在施工。

管理層預期二廠的廠房及設施建築成本為11,576萬美元。就此金額而言，3,806萬美元已於二零零四年及二零零五年撥付。上述一廠及二廠的資本開支已經或將會由發行股份所得款項、銀行貸款及經營活動內部產生經營性現金流入額撥支。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。

購回股份

截至二零零五年十二月三十一日止年度，本公司購回5,424,430股本公司股份，每股作價介乎0.38港元至0.43港元，總代價為285,000美元。該批股份已正式註銷。

Management Discussion and Analysis 管理層討論及分析

OPERATING RESULTS (Cont'd)

Commitments and Contingent Liabilities

As at 31 December 2005, the Group has capital commitments of US\$226.56 million. Details are set out as follow:

		US\$ million 百萬美元
Contracted but not provided	已訂約但未撥備	
– the purchase of equipment for Fab 1	– 為一廠購置設備	3.10
– the construction of building and facilities of Fab 2	– 為二廠興建廠房及設施	2.42
– the purchase of equipment and facilities for the new fab in Beijing	– 為北京新廠購置設備及設施	6.21
		<hr/>
Sub-total	小計	11.73
		<hr/>
Authorised but not contracted	已授權但未訂約	
– the purchase of equipment for Fab 1	– 為一廠購置設備	14.87
– the construction of Building facilities of Fab 2	– 為二廠興建廠房及設施	75.28
– the purchase of equipment for Fab 2	– 為二廠購置設備	99.61
– the purchase of equipment for new fab in Beijing	– 為北京新廠購置設備	25.07
		<hr/>
Sub-total	小計	214.83
		<hr/>
Total	總計	226.56
		<hr/> <hr/>

As at 31 December 2005, the Group has lease commitments of US\$6.25 million for factory premises and office, which are all due within five years.

As at 31 December 2005, Fab 1 has a staff retention program which requires Fab 1 to provide corporate guarantee to a third party bank for the down payment of mortgage loans of its key employees amounting to approximately US\$340,000. Save as disclosed above, the Group does not have any other commitment or contingent liabilities.

經營業績 (續)

承擔及或然負債

於二零零五年十二月三十一日，本集團的資本承擔為22,656萬美元，詳情載列如下：

		US\$ million 百萬美元
Contracted but not provided	已訂約但未撥備	
– the purchase of equipment for Fab 1	– 為一廠購置設備	3.10
– the construction of building and facilities of Fab 2	– 為二廠興建廠房及設施	2.42
– the purchase of equipment and facilities for the new fab in Beijing	– 為北京新廠購置設備及設施	6.21
		<hr/>
Sub-total	小計	11.73
		<hr/>
Authorised but not contracted	已授權但未訂約	
– the purchase of equipment for Fab 1	– 為一廠購置設備	14.87
– the construction of Building facilities of Fab 2	– 為二廠興建廠房及設施	75.28
– the purchase of equipment for Fab 2	– 為二廠購置設備	99.61
– the purchase of equipment for new fab in Beijing	– 為北京新廠購置設備	25.07
		<hr/>
Sub-total	小計	214.83
		<hr/>
Total	總計	226.56
		<hr/> <hr/>

於二零零五年十二月三十一日，本集團廠房物業及寫字樓租賃承擔為625萬美元，全部均於五年內到期支付。

於二零零五年十二月三十一日，一廠設立挽留員工計劃，一廠因此為其關鍵員工的首期按揭貸款金額合計約34萬美元向第三方銀行提供公司擔保。除上文披露者外，本集團並無任何其他承擔或或然負債。

OPERATING RESULTS (Cont'd)

Legal Liabilities

For the year ended 31 December 2005, 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 Company as far as the Company is aware.

Basis of Preparation and Changes in Accounting Policies

The consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of this consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new HKFRS which are effective for accounting periods commencing on or after 1 January 2005.

Following the adoption of the new HKFRS, certain comparative have been amended as required. Major changes are summarized as follows:

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

經營業績(續)

法律責任

截至二零零五年十二月三十一日止年度，本公司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針對本公司的重大訴訟或申索。

編製基準及會計政策的變動

綜合財務資料已根據香港會計師公會發出的香港會計準則而編製。

編製本綜合財務資料所採用的會計政策及計算方法，與截至二零零四年十二月三十一日止年度的年度財務報表所採用者一致，惟本集團於採納新香港財務報告準則後已更改其若干會計政策的情況除外，新香港財務報告準則於二零零五年一月一日當日或之後起計的會計期間生效。

採納新香港財務報告準則後，若干比較數字已根據有關規定作出修訂。主要改動概述如下：

採納經修訂香港會計準則第17號導致有關將租賃土地及土地使用權由物業、廠房及設備重新分類為經營租約的會計政策有所變動。就租賃土地及土地使用權支付的一次性預付款項，乃於租約期內以直線法在收益表內列作支出，或倘出現減值，則減值會於收益表內作出支出。於過往年度，租賃土地是按成本減累計折舊及累計減值入賬。

OPERATING RESULTS (Cont'd)

Basis of Preparation and Changes in Accounting Policies (Cont'd)

The adoption of revised HKAS 17 resulted in:

Decrease in property, plant and equipment	物業、廠房及設備減少
Increase in land use rights	土地使用權增加

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of shares options under the Company's "Equity Incentive Plan" did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of shares granted under the Equity Incentive Plan in the income statement. As a transitional provision, the cost of shares granted under the Equity Incentive Plan after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

經營業績 (續)

編製基準及會計政策的變動 (續)

採納香港會計準則第17號導致：

2005	2004
US\$'000	US\$'000
千美元	千美元
(554)	(554)
554	554

採納香港財務報告準則第2號，導致以股份為基礎的償付的會計政策出現變動。直至二零零四年十二月三十一日為止，根據本公司的「股份獎勵計劃」提供股份，並不會造成收益的支銷。由二零零五年一月一日起，本集團在於收益表內就根據股份獎勵計劃授出股份的成本產生開支。作為一項過渡性條文，於二零零二年十一月七日後根據股份獎勵計劃授出但未於二零零五年一月一日歸屬的購股權的成本，已於相關期間的收益賬內追溯支銷。

OPERATING RESULTS (Cont'd)

Basis of Preparation and Changes in Accounting Policies (Cont'd)

The adoption of revised HKFRS 2 resulted in:

Increase in share capital	股本的增加
Decrease in retained earnings	保留盈利的減少
Increase in cost of goods sold	銷貨成本的增加
Increase in selling and marketing costs	銷售及市場推廣開支的增加
Increase in administrative expenses	行政費用的增加
Increase in research and development expenses	研發費用的增加
Decrease in basic earnings per share	每股基本盈利的減少
Decrease in diluted earnings per share	每股攤薄盈利的減少

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was amortised on a straight line basis over a period of 10 years and assessed for an indication of impairment at each balance sheet date. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

經營業績 (續)

編製基準及會計政策的變動 (續)

採納香港財務報告準則第2號導致：

2005	2004
US\$'000	US\$'000
千美元	千美元
857	—
(2,624)	(1,171)
715	576
156	126
460	371
122	98
US\$0.0006	US\$0.0006
0.0006美元	0.0006美元
N/A	US\$0.0005
不適用	0.0005美元

採納香港財務報告準則第3號、香港會計準則第36號及香港會計準則第38號，導致商譽的會計政策出現變動。至直二零零四年十二月三十一日前，商譽按直線法於十年內攤銷及於每個結算日進行減值評估。根據香港財務報告準則第3號，本集團於二零零五年一月一日起不再攤銷商譽，於二零零四年十二月三十一日的累計攤銷已與商譽成本的相對銷及自截至二零零五年十二月三十一日止年度起，商譽將每年或於有減值跡象時進行減值測試。

本集團已根據香港會計準則第38號重估無形資產的可用年期，並無就此重估作出調整。

OPERATING RESULTS (Cont'd)

Basis of Preparation and Changes in Accounting Policies (Cont'd)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than that only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005 for HKFRS 2, and prospectively after 1 January 2005 for HKFRS 3.

Foreign Exchange Risk Management

The Group's operational cash flow was primarily denominated in Rmb and US dollars. The Group's borrowings were also denominated in Rmb and US dollars. The Group does not expect significant exposure to foreign exchange fluctuations in this regard, considering the working capital position of the Group. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Gearing Ratio

As at 31 December 2005, the gearing ratio, calculated based on total liabilities divided by total shareholders' equity was 42.77%, compared with 24.37% in 2004.

經營業績 (續)

編製基準及會計政策的變動 (續)

會計政策之所有變動乃根據各相關準則 (如適用) 之過渡性條文而作出。本集團採納之所有準則均須作出追溯應用，惟就香港財務報告準則第2號，僅就二零零二年十一月七日後授出及於二零零五年一月一日前未歸屬的所有股票工具作出追溯性應用；及就香港財務報告準則第3號，於二零零五年一月一日後以非追溯性應用方式採納則除外：

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，本集團並不預期會就此經歷重大外匯風險。本集團的政策是不會就投機目的而訂立任何衍生交易。

負債比率

截至二零零五年十二月三十一日，按總負債除以總股東權益計算所得的負債比率為42.77%，而二零零四年則為24.37%。

OPERATING RESULTS (Cont'd)

Significant Investment, Acquisitions and Disposals of Subsidiaries and associates

The Group continues to explore opportunity to further expand its customer base and operational capacity. On the 19th October 2005, the Group entered into a co-operation agreement with IMECAS for certain premises, facilities, equipment, technologies and services in relation to the manufacturing of wafers. The Group will inject additional machinery and equipment, and upgrade equipment provided by IMECAS in addition to providing management expertise to establish a new fab in Beijing with a capacity reaching 20,000 wpm by early 2007.

PROSPECTS FOR THE YEAR 2006

CSMC focuses mainly on Chinese semiconductor market, the second largest semiconductor market in the world since 2005. This market refers to both domestic consumption and export markets.

In 2006, CSMC will continue its strategy of growing with the Chinese fabless design houses and expanding its customer base to capture increasing overseas manufacturing demand relocated to China.

Currently, less than 10% of the Chinese semiconductor market demand has been produced by local companies. The Chinese fabless design houses have great potential to gain higher market share in the Chinese semiconductor market. The local semiconductor companies' market share has been increasing in the last two years due to the significantly improved design capability as well as the increased number of the Chinese fabless design houses.

經營業績(續)

附屬公司及聯營公司的重大投資、收購事項及出售事項

本集團繼續開拓進一步擴大客戶群及經營產能的可能性。於二零零五年十月十九日，本集團就有關製造晶圓之若干物業、廠房、設備、技術及服務與微電子所簽署合作協議。本集團將會額外注入機器及設備，確保改善及提升微電子所提供的設備，並提供專業知識及管理層以在北京成立一家新的晶圓代工廠，至二零零七年初的每月產能達20,000片晶圓。

二零零六年展望

華潤上華主要專注於中國半導體市場，中國半導體市場自二零零五年起成為全球第二大半導體市場，此市場包括國內消費及出口市場。

於二零零六年，華潤上華將會繼續與中國無生產線設計公司同步發展和擴充其客戶基礎的策略，以把握遷往中國的日增海外製造需求。

目前，少於10%的中國半導體市場需求由國內公司生產。中國無生產線設計公司擁有龐大潛力，可於中國半導體市場的生產方面爭取較高市場佔有率。於過去兩年，國內半導體公司的市場佔有率逐步上升，這是由於設計產能大大提高及中國無生產線設計公司的數目日增所致。

PROSPECTS FOR THE YEAR 2006 (Cont'd)

To meet the demand of both the Chinese fabless design houses and increase in outsourcing volume from overseas customer to China, CSMC has expanded Fab 1 capacity in Wuxi, and will set up a new fab in Beijing. By early 2007, CSMC will be able to produce 80,000 wpm to strengthen our leading position as the largest 6-inch foundry in China.

CSMC is conducting on-going negotiation for a strategic partnership with technology partner to set up an 8-inch foundry facility (Fab 2) in the New District of Wuxi. Fab 2 will focus on process technologies for 0.35 to 0.25 micron in anticipation of the continuous migration to 8-inch technology of the mainstream Chinese semiconductor market.

Although 2005 was a difficult year as semiconductor markets worldwide steered through the down cycle, we are encouraged by the improving semiconductor business since the second half of 2005. Despite the cyclical market conditions, we proceeded with our development strategy to enhance our capacity, completeness of process technology, and improvement of quality service. We believe our continuous focus on our longer term strategies to offer better and cost effective services to our customers for the mainstream China semiconductor market will ultimately deliver greater values to customers and shareholders.

二零零六年展望(續)

為應付中國無生產線設計公司及海外客戶向中國採購的數量日增的需求，華潤上華已擴大位於無錫的一廠的產能，並將會於北京成立一座新的晶圓代工廠。至二零零七年初，華潤上華每月將能夠生產80,000片晶圓，以鞏固我們作為中國最大6英寸晶圓代工商的領導地位。

華潤上華現正與技術夥伴磋商組成策略性夥伴，以於無錫新區成立8英寸晶圓代工廠(二廠)。預期中國主流半導體市場會陸續改用8英寸技術，二廠將會專注於0.35至0.25微米的製程技術。

雖然二零零五年是經營艱難的一年，全球半導體市場於衰退週期中轉型，但本集團因半導體業務自二零零五年下半年好轉而感到鼓舞。儘管出現週期性市場狀況，本集團繼續實施發展策略提高產能、製程技術的完整性，以及改善服務質素。本集團相信，持續專注於較長遠策略得以為本集團的中國主流半導體市場客戶提供較佳及具成本效益的服務，最終將會為客戶及股東帶來較高價值。