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Dear Shareholders,

According to the most recent research figures released earlier this year by several market research companies, China has already surpassed the United States to become the world's largest market for integrated circuits. SMIC had been recognized by leading technology market research companies as the number 3 foundry in the world in 2005. Its advanced 12" fab in Beijing is the first of its kind in China, and began commercial production in 2005. SMIC achieved the highest growth rate of approximately 20% amongst the top foundries last year and produced half of Chinese foundries' semiconductor output in 2005.

SMIC has manufactured for its Chinese customers numerous new and exciting products, some of which have received awards or been recognized by industry experts. During the year we produced the first advanced baseband chip based on China's own TD-SCDMA 3G Standard. A world class satellite broadcast receiver chip that SMIC manufactures for another Chinese customer has received a Technology Innovation Award from China's Ministry of Information Industry. Recently SMIC had also been certified as Sony's Green Partners in recognition of our strong commitment to environmental protection.

As a publicly listed company on the New York Stock Exchange, the Company is subject to the requirements of the Sarbanes-Oxley Act of 2002 ("SOX"). The Company has established committees and dedicated teams to improve the internal controls of the Company. The fulfillment of the requirements of SOX remains a priority for the Company, as the Company seeks to maintain a responsible corporate citizen, a high level of transparency and international standards of corporate governance.

The continuous integration of technology into our lives is accepted as a part of everyday life. SMIC is working on preparing for a world that is permeated with technology. SMIC has now established itself among the top tier of semiconductor foundries in the world, and is bringing the most advanced technology to foster excellence in the semiconductor industry. I look forward to sharing these very exciting developments with you as SMIC continues to expand its technology expertise to serve its customers and deliver superior returns to its shareholders.

Sincerely,  
**Yang Yuan Wang**  
*Chairman of the Board*

Shanghai, the PRC  
April 27, 2006