



Semiconductor Manufacturing International Corporation

(Incorporated in the Cayman Islands with limited liability)

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中芯

2004 Interim Report

\* For identification purposes only



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When Semiconductor Manufacturing International Corporation listed our ordinary shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the New York Stock Exchange in March 2004, we understood that one of our key obligations would be to maximize shareholder value. During the first six months of 2004, we achieved many significant operational and technological milestones which have established a fundamental framework to meet the increasing demands of our global customer base and to grow in the future.

**1.**

During the first six months of 2004, our revenues increased 259.0% to US\$407.9 million as compared to US\$113.6 million in the first six months of 2003. Our net income increased to US\$61.6 million in the first six months of 2004 with a net profit margin of 15.1%, from a net loss of US\$68.6 million for the first six months of 2003. Our blended average sales price per wafer increased 80.1% to US\$1,022 in the first six months of 2004 from US\$568 in the first six months of 2003. We experienced this growth primarily due to our increase in capacity and increased demands of our customers for wafers using advanced manufacturing processes. Our sales of logic wafers (including copper interconnects) reached 73.0% in the first six months of 2004 from 36.7% in the first six months of 2003 and the percentage of wafer revenues from 0.18 μm and below technologies increased to 71.0% of wafer revenues from 18.4%, respectively.

**2.**

Our business increased during the first six months of 2004, due to (i) our increased capacity to approximately 81,000 wafer starts per month as of the end of the first six months of 2004, resulting in an increase in the number of wafers shipped to our customers, (ii) an increasing average sales price per wafer by shifting our product mix toward higher-priced wafers using more advanced manufacturing processes, and (iii) overall positive market conditions.

Our most significant development during the first six months of 2004 was the completion of our initial public offering on the New York Stock Exchange and the Hong Kong Stock Exchange (the "Global Offering"), which raised approximately US\$1,017.1 million for the Company. We will use a portion of the proceeds from the Global Offering to complete the construction of, and increase the manufacturing capacity at, our 12-inch manufacturing facilities in Beijing which successfully began pilot production in late July 2004 and is set for production in the second half of 2004, and to upgrade the technology and increase the manufacturing capacity at our Shanghai and Tianjin facilities.

Another significant development during the first six months of 2004 was our decision to participate in two projects to meet the demands of our customers. One is a joint venture with Toppan Printing Co., Ltd., which will combine SMIC's CMOS image sensor technology with Toppan's leading technology and know-how in color filters and micro-lenses. The market for CMOS image sensors has increased drastically because CMOS image sensor devices, which provide image-capturing capabilities, are used for an increasing number of consumer products such as mobile phone cameras, digital still cameras, and automobile and home security applications. This market has grown particularly in China which is the world's leading manufacturer and consumer of cell phones. We hope that this joint venture will position SMIC as a leading manufacturer of CMOS image sensors by providing customers with one-stop, CMOS image sensor wafer manufacturing technology. We also have signed an agreement with the government of Chengdu, China to participate in a project for testing, assembly and packing services, which will allow us to provide customers with in-house turn-key services.

With this additional capacity and the proceeds from our Global Offering, we were able to attract a significant number of new customers by offering the most advanced manufacturing processes. During the first six months of 2004, we added 31 new customers, 6 of which are among the largest fabless companies in China based on revenues in 2003 according to China

2.

(continued)

Center of Industry Development. Furthermore, we currently are working with many other domestic fabless companies and design houses by providing other services such as design services and assisting with silicon verification. While domestic fabless companies presently represent a small amount of our revenues, we anticipate that as the infrastructure in China for integrated circuits develops and matures, domestic fabless semiconductor companies will represent an increasing percentage of our revenues.

We also continued to offer our customers advanced semiconductor manufacturing services. For example, we expanded our portfolio of process technologies to include a full flow 0.13  $\mu$ m process and qualified our 90nm process using a memory device. We anticipate that we will offer 90nm process technology for logic devices in the first six months of 2005.

Our achievements during the first six months of 2004 demonstrate our confidence in, and ability to execute, our business plan and strategy. We believe that during the second half of 2004, the demand for our semiconductor manufacturing services will remain strong. We will continue to ramp up our fabs in Shanghai and Tianjin and commence commercial production of 12-inch wafers in Beijing in order to try to meet this demand.

We intend to continue to grow at a sustainable rate and maximize shareholder value by:

- Responding to the semiconductor industry market conditions. Despite our increase in capacity during the first six months of 2004, there is a significant amount of unsatisfied demand for additional capacity. Due to the high costs associated with increasing capacity, we must increase our capacity in a cost-efficient manner while maintaining our high level of performance and utilization.
- Increasing blended average sales prices and gross margins. We will continue to shift our product mix toward higher-priced wafers while reducing our costs.
- Increasing our offerings of manufacturing services using leading-edge technology. We will continue to develop leading-edge technology internally or through technology partnerships.
- Developing domestic fabless semiconductor customers. We will continue to provide domestic fabless companies, which often use leading-edge technology and thus require higher-priced wafers, with quality services and solutions.
- Attracting and retaining key employees. We will continue to attempt to attract engineering graduates from China's leading universities and retain our current employees, many of whom have significant experience working at other international semiconductor companies.

I would like to extend my heart-felt appreciation to our customers, vendors, employees, advisors, and board of directors, and in particular the board members who served prior to our Global Offering, for their contribution and support since our establishment in April 2000. Finally, I would also like to thank you, the investment community, for your ongoing support of SMIC. We believe that our fundamentals remain strong, and that by executing our business plan, we can maximize shareholder value. Accordingly, we will continue to adhere to our business plan of increasing capacity to meet the needs of our global customer base and improving our services in order to operate in the best interests of our shareholders.

May God bless you and SMIC,

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Shanghai, the PRC  
September 1, 2004

Registered name	Semiconductor Manufacturing International Corporation
Chinese name	中芯國際集成電路製造有限公司*
Registered office	PO Box 309 GT Ugland House George Town Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong registered under Part XI of the Companies Ordinance	904 Tower B Queen's Garden 9 Old Peak Road Hong Kong
Website address	<a href="http://www.smics.com">www.smics.com</a>
Company secretary	Anne Wai Yui Chen
Authorized representatives	Richard R. Chang Anne Wai Yui Chen
Places of listing	Hong Kong Stock Exchange New York Stock Exchange
Name of share	Semiconductor Manufacturing International Corp.
Stock code	0981 (HKSE) SMI (NYSE)

\* 中芯國際集成電路製造有限公司





Sales increased by 259.0% from US\$113.6 million for the six months ended June 30, 2003 to US\$407.9 million for the six months ended June 30, 2004, due primarily to the increase in our manufacturing capacity and an increase in the average selling price. The total number of wafers shipped increased by 95.2% from 192,546 wafers for the six months ended June 30, 2003 to 375,859 wafers for the six months ended June 30, 2004. The blended average selling price of the wafers we shipped also increased by 80.1% from US\$568 for the six months ended June 30, 2003 to US\$1,022 for the six months ended June 30, 2004, while the average selling price of the logic wafers we shipped increased by 44.6% from US\$751 to US\$1,085, respectively. The relative percentage of wafers shipped that were 0.18 micron and below increased from 18.4% to 71.0% between these two periods.

( )

Cost of sales increased by 88.2% from US\$152.1 million for the six months ended June 30, 2003 to US\$286.3 million for the six months ended June 30, 2004. This increase was primarily due to the increase in sales volume, labor, depreciation and overhead expenses. Other factors included an increase in the amount of direct and indirect materials purchased corresponding to the increase in wafers shipped. In addition, our deferred stock compensation increased from US\$2.3 million to US\$5.2 million. The increase in the stock compensation expenses resulted from an increase in the fair market value of our ordinary shares, as well as an increase in the number of stock option grants due to the addition of new personnel during the six months ended June 30, 2004.

We had a gross loss of US\$38.5 million in the six months ended June 30, 2003 compared to a gross profit of US\$121.6 million in the six months ended June 30, 2004. This improvement was primarily due to an improvement in average selling prices between the two periods, a shift in production to

more logic and logic DRAM wafers, higher utilization of our 0.18 micron and 0.15 micron manufacturing capacity, and a decrease in the amount of

( ) ( )

As a result, we had an operating loss of US\$66.2 million from operations for the six months ended June 30, 2003 compared to operating income of US\$63.2 million for the six months ended June 30, 2004. Our operating margin was (58.3%) for the six months ended June 30, 2003 compared to 15.5% for the six months ended June 30, 2004.

Other expenses decreased by 30.7% from US\$2.3 million for the six months ended June 30, 2003 to US\$1.6 million for the six months ended June 30, 2004.

( )

Due to the factors described above, we recorded a net loss of US\$68.6 million for the six months ended June 30, 2003 compared to a net income of US\$61.6 million for the six months ended June 30, 2004.

For the six months ended June 30, 2004, we recorded aggregate deemed dividends on Series D convertible preference shares of US\$18.8 million. The deemed dividends, which did not arise in the six months ended June 30, 2003, were non-cash and non-recurring items represented by the difference between the sale and conversion prices of Series D convertible preference shares and warrants to purchase Series D convertible preference shares we issued in the first quarter of 2004 and their respective fair market values.

We incurred capital expenditures of US\$216.4 million for the six months ended June 30, 2003 and US\$1,314.7 million for the six months ended June 30, 2004. We have financed our substantial capital expenditure requirements through the issuance of equity securities in several rounds of private financing, issuance of equity through our initial public offering on March 18, 2004, cash flows from operations, and bank borrowings.

As of June 30, 2004, we had US\$1,198.6 million of cash and cash equivalents. Our net cash provided by operating activities for the six months ended June 30, 2004 was US\$241.7 million. This was primarily attributable to the US\$61.6 million from net income, the add back of US\$186.1 million in depreciation and amortization, and US\$6.8 million in the amortization of acquired intangible assets as non-cash items. Our net cash provided by operating activities for the six months ended June 30, 2003 was US\$4.6 million, primarily due to the US\$68.6 million net loss, the add back of US\$103.4 million in depreciation and amortization, and US\$1.5 million in the amortization of acquired intangible assets as non-cash items.

Our net cash used in investing activities was US\$638.2 million for the six months ended June 30, 2004 and US\$158.8 million for the six months ended June 30, 2003. This was primarily attributable to purchases of plant and equipment and land use rights for Fab 1, Fab 2, Fab 3, Fab 4, and Fab 7 in these periods in the amounts of US\$577.8 million for the for the six months ended June 30, 2004 and US\$168.6 million for the six months ended June 30, 2003.

## (continued)

Our net cash provided by financing activities was US\$1,149.6 million for the six months ended June 30, 2004. This was primarily derived from the US\$1,017.1 million in proceeds generated from our initial public offering, US\$30.0 million in proceeds from the issuance of Series D convertible preference shares, US\$105.4 million from the collection of subscriptions receivable, US\$33.9 million from the collection of notes receivable from employees, and US\$30.0 million in the form of long-term debt borrowings. Our net cash provided by financing activities was US\$108.0 million for the six months ended June 30, 2003, which was mainly derived from US\$88.7 million in long-term borrowings and US\$45.0 million from the collection of subscriptions receivable.

As of June 30, 2004, we had commitments of US\$10.0 million to purchase land use rights for the living quarters at the Beijing fabs, US\$173.0 million for facilities construction obligations for the Beijing, Tianjin, and Shanghai fabs, and US\$944.5 million to purchase machinery and equipment for the Beijing, Tianjin, and Shanghai fabs.

As of June 30, 2004, our outstanding long-term liabilities primarily consisted of US\$510.0 million in secured bank loans, which are repayable in installments commencing in March 2005 and March 2006, with the last payments due in March 2007 and March 2009, respectively.

In December 2001, SMIC Shanghai entered into a long-term loan agreement with four Chinese banks for US\$432.0 million. The drawdown period of the facility is 18 months starting from the loan agreement date. As of June 30, 2004, SMIC Shanghai had drawn down the full amount. The interest rate on the loan ranged from 2.82% to 3.47% in the six months ended June 30, 2004. Interest is due on a semi-annual basis. The principal amount is repayable starting in March 2005 in five semi-annual installments of US\$86.4 million each. The interest expense incurred for the six months ended June 30, 2004 and for the six months ended June 30, 2003 was US\$6.24 million and US\$6.62 million, respectively.

As part of the same long-term loan arrangement, SMIC Shanghai has a line of credit in Renminbi equivalent to US\$48.0 million. As of June 30, 2004, we had fully drawn down the line of credit. The principal amount is repayable starting in March 2005 in five semi-annual installments of US\$9.6 million each. The interest rate on the loan was 5.02% for the six months ended June 30, 2004. The interest expense incurred in the six months ended June 30, 2004 and the six months ended June 30, 2003 was US\$1.2 million and US\$1.1 million, respectively.

In January 2004, SMIC Shanghai entered into two long-term loan agreements with four Chinese banks for US\$256.5 million and RMB235.7 million (equivalent to approximately US\$28.5 million), respectively. These five-year bank loans will be used to expand the capacity of our Shanghai fabs and are collateralized by the Shanghai fab's plant and equipment. The drawdown period of these facilities ends on the earliest of (i) twelve months after the first drawdown, (ii) March 28, 2005, and (iii) the date on which the loans have been fully drawn down. As of June 30, 2004, we had drawn down US\$30.0 million. The interest rate on the loan ranged from 2.75% to 3.47% for the six months ended June 30, 2004. The principal amount is repayable starting in March 2006 in seven semi-annual installments of US\$40.7 million each. The interest expense incurred in the six months ended June 30, 2004 was US\$0.2 million.



### (continued)

In February 2004, SMIC Beijing, our subsidiary, entered into a short-term loan agreement for US\$10.0 million. As of June 30, 2004, we had already repaid the principal of US\$10.0 million. The interest rate on this loan ranged from 1.77% to 1.85% from February 27, 2004 to June 30, 2004. In March 2004, SMIC Shanghai entered into a short-term loan agreement for US\$15.0 million. As of June 30, 2004, we had already repaid the principal of US\$15.0 million. The interest rate on this loan ranged from 1.84% to 1.85% for the six months ended June 30, 2004. The interest expense incurred for the short-term loans for the six months ended June 30, 2004 was US\$0.034 million.

The portion of interest capitalized as additions to the assets under construction in the six months ended June 30, 2004 and 2003 was US\$2.2 million and US\$7.4 million, respectively.

As of June 30, 2004, the Company's debt to equity ratio was 16.6% calculated based on the current portion of long-term debt plus long-term debt divided by total shareholders' equity.

We purchase foreign currency forward exchange contracts with contract terms normally lasting less than six months to protect against the adverse effect that exchange rate fluctuations may have on foreign currency-denominated purchase activities. These forward exchange contracts are principally denominated in U.S. dollars, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with SFAS No. 133. As of June 30, 2004, we had outstanding foreign currency forward exchange contracts with notional amounts of US\$182.8 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of June 30, 2004, the fair value of foreign currency forward exchange contracts was approximately a loss of US\$0.2 million, which is included in accrued expenses and other current liabilities. We had US\$63.3 million of foreign currency exchange contracts outstanding as of June 30, 2003, all of which matured by December 31, 2003. We do not enter into foreign currency exchange contracts for speculative purposes.

Our exposure to interest rate risks relates primarily to our long-term debt obligations, which we generally assume to fund capital expenditures and working capital requirements. Our long-term debt obligations are all subject to variable interest rates. The interest rates on our U.S. dollar-denominated loans are linked to the LIBOR rate, while our Renminbi-denominated loans have interest rates linked to the rates determined by the People's Bank of China. As a result, the interest rates on our loans are subject to fluctuations in the underlying interest rates to which they are linked. We have not entered into any interest rate hedging contracts.

In September 2003, we entered into agreements with Motorola, Inc. ("Motorola") and its wholly owned subsidiary, Motorola (China) Electronic Limited ("MCEL"), providing for our acquisition of the assets constituting a fab in Tianjin, the assumption of certain obligations, the transfer of certain technology to us from Motorola, our exchange of certain licenses with Motorola, the provision by Motorola of US\$30 million in cash to us and our issuance to Motorola and MCEL of our Series D Convertible Preference Shares and warrants to purchase Series D Convertible Preference Shares in exchange for the foregoing. Upon completion of these transactions, which occurred in January 2004, Motorola, together with MCEL, became the beneficial owner of more than 10% of our ordinary shares outstanding and issuable upon conversion of outstanding preference shares and Motorola became entitled to appoint a director to our board.



### ( 審 計 委 員 會 )

- obtaining and reviewing reports from management, our internal auditor and our independent auditor regarding compliance with applicable legal and regulatory requirements, including the Foreign Corrupt Practices Act.

The current members of our audit committee, all of whom are independent non-executive directors, are Henry Shaw, Lip-Bu Tan, Yang Yuan Wang and Yen-Pong Jou.

The compensation committee meets at least quarterly to approve and oversee the Company's compensation policy, including:

- approving and overseeing the total compensation package for our executive officers and any other officer, evaluating the performance of and determining and approving the compensation to be paid to our chief executive officer and reviewing the results of our chief executive officer's evaluation of the performance of our other executive officers;
- reviewing and making recommendations to our board of directors with respect to director compensation, including equity-based compensation;
- administering and periodically reviewing and making recommendations to our board of directors regarding the long-term incentive compensation or equity plans made available to our directors, employees and consultants;
- reviewing and making recommendations to our board of directors regarding executive compensation philosophy, strategy and principles and reviewing new and existing employment, consulting, retirement and severance agreements proposed for our executive officers; and
- ensuring appropriate oversight of our human resources policies and reviewing strategies established to fulfill our ethical, legal and human resources responsibilities.

The current members of our compensation committee, all of whom are independent non-executive directors, are Ta-Lin Hsu, Tsuyoshi Kawanishi and Lip-Bu Tan.

We believe that during the second half of 2004, the demand for our semiconductor manufacturing services will remain strong. We will continue to ramp up our fabs in Shanghai and Tianjin and commence commercial production of 12-inch wafers in Beijing. Furthermore, we will continue our participation in two projects – one with Toppan Printing Co., Ltd. and another with the government of Chengdu – which will allow us to expand our offerings to our customers and provide in-house turn-key services.

FOR THE SIX MONTHS ENDED JUNE 30, 2004  
(unaudited; in US\$ thousands, except per share data)

	<b>2004</b>	<b>30, 2003</b>
Sales ( )	<b>407,926</b>	113,635
Cost of sales	<b>(281,068)</b>	(149,827)
Cost of sales – Amortization of deferred stock compensation	<b>(5,220)</b>	(2,313)
Gross profit (loss)	<b>121,638</b>	(38,505)
Operating expenses:		
Research and development	<b>(30,073)</b>	(14,457)
General and administrative	<b>(16,707)</b>	(6,765)
Selling and marketing	<b>(3,687)</b>	(4,430)
* Amortization of deferred stock compensation	<b>(7,937)</b>	(2,078)
Total operating expenses	<b>(58,404)</b>	(27,730)
Income (loss) from operations ( )	<b>63,234</b>	(66,235)
Other income (expenses):		
Interest income	<b>4,216</b>	1,070
Interest expense	<b>(5,503)</b>	(292)
Others, net	<b>(329)</b>	(3,109)
Total others, net	<b>(1,616)</b>	(2,331)
Net income (loss)	<b>61,618</b>	(68,566)
Deemed dividends on preference shares ( )	<b>(18,839)</b>	–
Income (loss) attributable to holders of ordinary shares	<b>42,779</b>	(68,566)
Net income (loss) per share, basic ( )	<b>0.0042</b>	(0.7844)
Net income (loss) per share, diluted ( )	<b>0.0025</b>	(0.7844)
Share used in computation:		
Basic	<b>10,269,399,903</b>	87,412,433
Diluted	<b>16,923,027,185</b>	87,412,433
* Amortization of deferred stock compensation related to:		
Research and development	<b>2,617</b>	1,058
General and administrative	<b>4,066</b>	558
Selling and marketing	<b>1,254</b>	462
Total	<b>7,937</b>	2,078

See accompanying notes to consolidated financial statements.

AS OF JUNE 30, 2004  
(unaudited; in US\$ thousands)

	<b>30,</b> <b>2004</b>	December 31, 2003
Current assets:		
Cash and cash equivalents	<b>1,198,592</b>	445,276
Short-term investments	<b>90,464</b>	27,165
Accounts receivable, net of allowances of US\$357,000 and US\$114,000 respectively ( )	<b>131,708</b>	90,539
Inventories ( )	<b>113,563</b>	69,924
Prepaid expense and other current assets	<b>7,866</b>	15,387
Assets held for sale	<b>32,592</b>	32,591
<b>Total current assets</b>	<b>1,574,785</b>	680,882
Land use rights, net	<b>34,804</b>	41,935
Plant and equipment, net	<b>2,658,128</b>	1,523,564
Acquired intangible assets, net	<b>61,777</b>	41,120
Investments held to maturity		3,005
	<b>4,329,494</b>	2,290,506
Current liabilities:		
Current portion of long-term debt ( )	<b>95,992</b>	–
Redeemable convertible promissory note		15,000
Accounts payable ( )	<b>699,587</b>	211,762
Note payable to stockholder		27,018
Deposit received from stockholder	<b>200</b>	38,351
Accrued expenses and other current liabilities	<b>54,243</b>	33,299
<b>Total current liabilities</b>	<b>850,022</b>	325,430
Long-term liabilities:		
Long-term debt ( )	<b>413,965</b>	479,961
	<b>1,263,987</b>	805,391

See accompanying notes to consolidated financial statements.



AS OF JUNE 30, 2004  
(unaudited; in US\$ thousands)

	30, 2004	December 31, 2003
Commitments ( )		
Stockholders' equity		
Ordinary shares, US\$0.0004 par value, 50,000,000,000 shares authorized, shares issued and outstanding 18,224,817,010 and 242,595,000 respectively	7,290	97
Series A convertible preference shares, US\$0.0004 par value, 1,000,000,000 shares authorized, shares issued and outstanding nil and 954,977,374 respectively		382
Series A-1 non-convertible preference shares, US\$0.00001 par value, 1,000,000,000 shares authorized, shares issued and outstanding nil and 219,499,674 respectively		2
Series A-2 convertible preference shares, US\$0.0004 par value, 42,373,000 authorized, shares issued and outstanding nil and 42,373,000 respectively		17
Series B convertible preference shares, US\$0.0004 par value, 50,000,000 authorized, shares issued and outstanding nil and 2,350,000 respectively		1
Series C convertible preference shares, US\$0.0004 par value, 215,285,714 authorized, shares issued and outstanding nil and 181,718,858 respectively		73
Series D convertible preference shares, US\$0.0004 par value, 122,142,857 authorized, shares issued and outstanding nil and 7,142,857 respectively		3
Warrants	125	37,840
Additional paid-in capital	3,294,694	1,835,820
Subscription receivable from stockholders		(105,420)
Notes receivable from stockholders	(1,892)	(36,026)
Accumulated other comprehensive income	400	200
Deferred stock compensation	(70,598)	(40,583)
Accumulated deficit	(164,512)	(207,291)
	<b>3,065,507</b>	1,485,115
	<b>4,329,494</b>	2,290,506
Net current assets	724,763	355,452
Total assets less current liabilities	<b>3,479,472</b>	1,965,076

See accompanying notes to consolidated financial statements.

FOR THE SIX MONTHS ENDED JUNE 30, 2004  
(unaudited; in US\$ thousands)

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					-1		-2									
1, 2004	242,595,000	97	954,977,374	382	219,499,674	2	42,373,000	17	2,350,000	1	181,718,858	73	7,142,857	3	37,840	
Issuance of Series D convertible preference shares and Series D warrant for acquisition of assets	-	-	-	-	-	-	-	-	-	-	-	-	95,714,286	38	27,664	
Issuance of Series D preference shares in exchange for intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	914,285	1	-	
Redemption of Series A-1 preference shares	-	-	-	-	(219,499,674)	(2)	-	-	-	-	-	-	-	-	-	
Issuance of Series B convertible preference shares	-	-	-	-	-	-	-	-	762,343	1	-	-	-	-	-	
Repurchase of restricted preference shares	-	-	(54,750)	(1)	-	-	-	-	-	-	-	-	-	-	-	
Conversion of preference share to ordinary shares upon initial public offering	14,927,787,480	5,971	(954,922,624)	(381)	-	-	(42,373,000)	(17)	(3,112,343)	(2)	(181,718,858)	(73)	(103,771,428)	(42)	(65,374)	
Issuance of ordinary shares																

-				( )			( )
1,835,820	(105,420)	(36,026)	(207,291)	200	(40,583)	1,485,115	
308,142	-	-	-	-	-	335,844	
5,060	-	-	-	-	-	5,061	
-	-	-	-	-	-	(2)	
2,785	-	-	-	-	-	2,786	
(61)	-	-	-	-	-	(62)	
59,918	-	-	-	-	-	-	
1,015,339	-	-	-	-	-	1,016,551	
656	-	-	-	-	-	657	
-	-	34,134	-	-	-	34,134	
(189)	-	-	-	-	-	(190)	
-	-	-	-	-	-	(5)	
5,213	-	-	-	-	-	5,223	
-	105,420	-	-	-	-	105,420	
43,172	-	-	-	-	(30,015)	13,157	
18,839	-	-	(18,839)	-	-	-	
-	-	-	61,618	-	-	61,618	61,618
-	-	-	-	103	-	103	103
-	-	-	-	97	-	97	97
3,294,694	-	(1,892)	(164,512)	400	(70,598)	3,065,507	61,818
1,139,760	(107,430)	(36,994)	(104,029)	30	(20,843)	870,991	
3,313	-	(1,355)	-	-	-	1,963	
(690)	-	-	-	-	-	(692)	
-	45,000	-	-	-	-	45,000	
14,387	-	-	-	-	(9,996)	4,391	
-	-	-	-	-	-	-	
-	-	-	(68,566)	-	-	(68,566)	(68,566)
-	-	-	-	(9)	-	(9)	(9)
-	-	-	-	(22)	-	(22)	(22)
1,156,770	(62,430)	(38,349)	(172,595)	(1)	(30,839)	853,056	(68,597)

See accompanying notes to consolidated financial statements.

FOR THE SIX MONTHS ENDED JUNE 30, 2004  
(unaudited; in US\$ thousands)

	2004	30, 2003
:		
Income (loss) attributable to holders of ordinary shares	42,779	(68,566)
Deemed dividends on preference shares	18,839	–
Net income (loss)	61,618	(68,566)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on disposal of plant and equipment	(177)	(8)
Bad debt expense	242	186
Depreciation and amortization	186,053	103,368
Non-cash interest expense		265
Amortization of acquired intangible assets	6,769	1,470
Amortization of deferred stock compensation	13,157	4,391
Changes in operating assets and liabilities:		
Accounts receivable	(41,411)	(26,605)
Inventories	(43,639)	(24,941)
Prepaid expense and other current assets	8,928	(5,857)
Accounts payable	34,829	12,812
Accrued expense and other current liabilities	15,372	8,121
Net cash provided by operating activities	241,741	4,636
:		
Purchase of plant and equipment	(577,813)	(168,603)
Purchase of acquired intangible assets	(2,612)	(2,750)
Purchase of short-term investments	(66,225)	(10,282)
Purchase of investment held to maturity		(3,011)
Sale of short-term investments	3,024	25,847
Sale of investments held to maturity	3,005	–
Proceeds received for assets held for sale	1,976	–
Proceeds from disposal of plant and equipment	478	17
Net cash used in investing activities	(638,167)	(158,782)

See accompanying notes to consolidated financial statements.

FOR THE SIX MONTHS ENDED JUNE 30, 2004  
(unaudited; in US\$ thousands)

	2004	30, 2003
Repayment of note payable to stockholder for land use rights	(13,659)	–
Proceeds from long-term debt	29,996	88,665
Repayment of redeemable convertible promissory note	(15,000)	–
Proceeds from issuance of ordinary shares	1,017,051	–
Proceeds from issuance of Series D convertible preference shares	29,975	–
Proceeds from exercise of employee stock options	123	1,271
Collection of notes receivables from employees	33,884	–
Collection of subscription receivables	105,420	45,000
Change in deposit received from stockholders	(38,151)	(26,957)
Net cash provided by financing activities	1,149,639	107,979
Effect of foreign exchanges rate changes	103	(9)
( )	753,316	(46,176)
,	445,276	91,864
,	1,198,592	45,688

See accompanying notes to consolidated financial statements.







1.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Accounting Principles Board Opinion 28, "Interim Financial Reporting" ("APB 28"), issued by Accounting Principles Board under general accounting principles accepted in the United States of America and Appendix 16, "Disclosure of financial information", of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. In the opinion of management, the consolidated financial statements include all adjustments (consisting only of normal recurring accruals) that management considers necessary for a fair presentation of its financial position, operating results and cash flows for the interim periods presented. Operating results and cash flows for interim periods are not necessarily indicative of results for the entire year.

These interim consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and notes thereto, as set forth in the Appendix I, "Accountants' report", appearing in the prospectus of the Company dated March 8, 2004.

*Accountants' report*

1. **Stock-based compensation cost** (in US\$ thousands)

2004 2003

Had compensation cost for options granted and shares issued to employees under the Company's stock option plans (the "Plans") been determined based on the fair value at the grant date, as prescribed in SFAS No. 123, the Company's pro forma net income (loss) would have been as follows:

	<b>2004</b>	<b>30, 2003</b>
	(in US\$ thousands, except per share data)	
Net income (loss) as reported	<b>61,618</b>	(68,566)
Add: Stock-based compensation as reported	<b>13,157</b>	4,391
Less: Stock-based compensation determined using the fair value method	<b>(18,457)</b>	(7,278)
Pro forma income (loss)	<b>56,318</b>	(71,453)
Deemed dividends on preference shares	<b>(18,839)</b>	-
Pro forma net income (loss) attributable to holders of ordinary shares	<b>37,479</b>	(71,453)
Net income (loss) per share:		
Basic-pro forma	<b>0.0036</b>	(0.8174)
Diluted-pro forma	<b>0.0022</b>	(0.8174)
Basic-as reported	<b>0.0042</b>	(0.7844)
Diluted-as reported	<b>0.0025</b>	(0.7844)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants during the applicable period.

	<b>2004</b>	<b>30, 2003</b>
Average risk-free rate of return	<b>2.42%</b>	2.91%
Weighted average expected option life	<b>3.5</b>	4.0 years
Volatility rate	<b>54.37%</b>	68.98%
Dividend yield (Preference share only)	<b>0%</b>	8%

2. **Share split**

On March 18, 2004, the Company effected a 10-for-1 share split in the form of a share dividend immediately after the conversion of preference shares into ordinary shares. All share information relating to ordinary shares of the Company in the accompanying financial statements, including the conversion price relating to such shares, have been adjusted retroactively, which gives effect to the share split.

2.

On September 23, 2003, the Company entered into an agreement to acquire certain assets and assumed certain obligations from Motorola, Inc. ("Motorola") and Motorola (China) Electronics Limited ("MCEL"), a wholly owned subsidiary of Motorola in exchange for 82,857,143 Series D convertible preference shares convertible into ordinary shares at a conversion price of US\$0.2087 per share and a warrant to purchase 8,285,714 Series D convertible preference shares for US\$0.01 per share (the "Asset Purchase"). In addition, the Company issued 8,571,429 Series D convertible preference shares and a warrant to purchase 857,143 Series D convertible preference shares for US\$0.01 per share in exchange of US\$30,000,000. The Company and Motorola have completed the Asset Purchase on January 16, 2004.

In conjunction with the Asset Purchase, the Company and Motorola entered into an agreement to license certain technology and intellectual property. In exchange for these licenses, the Company issued to Motorola an aggregate of 11,428,571 Series D convertible preference shares convertible into ordinary shares at a convertible price of US\$0.2087 per share and a warrant to purchase 1,142,857 Series D convertible preference shares for US\$0.01 per share. On December 5, 2003, the Company partially closed this license agreement with Motorola and issued to Motorola 7,142,857 Series D convertible preference shares and a warrant to purchase 714,286 Series D convertible preference shares at US\$0.01 per share. On January 16, 2004, the Company closed the license agreement with Motorola and issued to Motorola 4,285,714 Series D convertible preference share and a warrant to purchase 428,571 Series D convertible preference shares at US\$0.01 per share.

3.

In May 2003, Financial Accounting Standard Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). The Statement establishes standards for how an issuer classifies and measures certain financial instruments. The Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Statement requires that certain financial instruments that, under previous guidance, issuers could account for as equity be classified as liabilities (or assets in some circumstances) in statement of position or consolidated balance sheets, as appropriate. The financial instruments within the scope of this Statement are: (i) mandatorily redeemable shares that an issuer is obligated to buy back in exchange for cash or other assets; (ii) financial instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets; and (iii) financial instruments that embodies an obligation that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares (excluding certain financial instruments indexed partly to the issuer's equity shares and partly, but not predominantly, to something else). This Statement does not apply to features embedded in a financial instrument that is not a derivative in its entirety. The Statement also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, all of whose shares are mandatorily redeemable. The adoption of SFAS No. 150 did not have a material impact on the Group's financial position, cash flows or results of operations.

In March 2004, the Emerging Issues Task Force ("EITF") issued No. 03-06, "Participating Securities and the Two-class Method Under FASB Statement No. 128, Earnings per Share". EITF No. 03-06 addresses a number of questions regarding the computation of earnings per share ("EPS") by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the Company when, and if, it declares dividends on its common stock. EITF No. 03-06 also provides further guidance in applying the two-class method of calculating EPS. It clarifies what constitutes a participating security and how to apply the two-class method of computing EPS once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. This pronouncement is effective for fiscal periods beginning after March 31, 2004. The Group does not believe that the adoption of this standard will have a material impact on its computation of EPS.

## 3.

## (continued)

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". EITF No. 03-01 provides guidance on recording other-than-temporary impairments of cost method investments and requires additional disclosures for those investments. The recognition and measurement guidance in EITF No. 03-01 should be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. The disclosure requirements are effective for fiscal years ending after June 15, 2004 and are required only for annual periods. The Group does not believe that the adoption of this standard will have a material impact on its financial positions or results of operations.

In December 2003, the Security and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"), which codifies, revises and rescinds certain sections of SAB 101, "Revenue Recognition in Financial Statements" in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB 104 did not have a material effect on the Group's consolidated results of operations, financial position or cash flows.

In January 2003, the FASB issued FAS Interpretation No.46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" and provides guidance on the identification of entities for which control is achieved through means other than voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIEs. This new model for consolidation applies to an entity in which either: (1) the equity investors (if any) lack one or more characteristics deemed essential to a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. FIN 46 was applicable for periods ending December 15, 2003. In December 2003 the FASB issued FIN 46R which defers the implementation date to the end of the first reporting period after March 15, 2004 unless the Company has a special purpose entity in which case the provisions must be applied for fiscal years ending December 31, 2003. The Company does not have a special purpose entity; therefore the Company will adopt the provisions in December 2004 and does not expect these provisions will have an effect on the Group's consolidated results of operations, financial positions and cash flows.

## 4.

The Group manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Group also sells certain standard semiconductor products to customers. Customers do not have any rights of return except pursuant to warranty provisions, which has been minimal. The Group typically performs tests of its products prior to shipment to identify yield of acceptable products per wafer. Occasionally, product tests performed after shipment identify yields below the level agreed with the customer. In those circumstances, the customer arrangement may provide for a reduction to the price paid or for its costs to ship replacement products. The Group estimates the amount of sales returns and the cost of replacement products based on its historical trend of returns and warranty replacements relative to sales and any current information regarding specific customer yield issues that may exceed historical trends. The Group recognizes revenue to customers upon shipment and title transfer. The Group also provides certain services such as mask making and probing and revenue is recognized when the services are completed.





## 8.

Short-term and long-term debt is as follows:

			<b>30,</b>	December 31,
			<b>2004</b>	2003
			(in US\$ thousands)	
USD denominated bank loan I	2005-2007	2.82%-3.47%	<b>432,000</b>	432,000
USD denominated bank loan II	2006-2009	2.75%-3.47%	<b>30,000</b>	
RMB denominated bank loan	2005-2007	5.02%	<b>47,957</b>	47,961
			<b>509,957</b>	479,961
Less: Current portion of long-term debt			<b>95,992</b>	-
			<b>413,965</b>	479,961

## 9.

The Company is a tax exempted company incorporated in the Cayman Islands. The subsidiaries incorporated in the PRC are governed by the Income Tax Law of the PRC Concerning Foreign Investment and Foreign Enterprises and Various local income tax laws (the "Income Tax Laws"). Pursuant to the relevant regulation and upon approval by the governmental agency, the Company's Shanghai and Beijing subsidiaries are entitled to a full exemption from Foreign Enterprise Income Tax ("FEIT") for five years starting with the first year of positive accumulated earnings and a 50% reduction for the following five years. In addition, its Tianjin subsidiary enjoys preferential tax treatment, under which it is entitled to a two-year full exemption and a three-year 50% reduction in FEIT, starting the first year of positive accumulated earnings. The Company's other subsidiaries are subject to respective local country's income tax law, including those of Japan, the United States of America, Taiwan and Europe. For the six months ended June 30, 2004 and 2003, the Group did not have material income tax expenses being recorded.

The Group had minimal taxable income in jurisdictions other than China.

## 10.

The Group is engaged primarily in the manufacturing, trading, packaging, testing, and computer-aided design of integrated circuits and other semiconductor services, and manufacturing design masks. In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results of manufacturing operations when making decisions about allocating resources and assessing performance of the Group. The Group believes it operates in one segment, and all financial segment information required by SFAS No. 131 can be found in the consolidated financial statements.

10. ( )

Geographic Information:

	2004	30, 2003
	(in US\$ thousands)	
Total sales:		
United States	174,585	40,025
Japan	66,362	4,229
Europe	57,713	1,290
Taiwan	53,046	57,428
Korea	48,242	8,066
Asia Pacific (Excluding Japan, Korea and Taiwan)	7,978	2,597
	<b>407,926</b>	113,635

Revenue is attributed to countries based on location of customers invoiced.

All of the Group's long lived assets are located in the PRC.

11. ( )

	2004	30, 2003
	(in US\$ thousands)	
Income (loss) from operations is arrived at after charging:		
Depreciation and amortization of plant and equipment	185,662	102,934
Amortization of land use rights	391	434
Amortization of intangible assets	6,769	1,470

12.

A deemed dividend represents the beneficial conversion feature relating to the preferential price of certain convertible equity instruments an investor receives when the effective conversion price of the equity instruments is lower than the fair market value of the common stock to which the convertible

## 13.

(c) *Commitments*

At June 30, 2004 the Group had the following commitments to purchase land use rights, machinery and equipment and construction obligations. The machinery and equipment is scheduled to be delivered at the Group's facilities by June 30, 2005. The Group expects to obtain the land use rights and have the facility construction completed no later than June 30, 2005.

	2004	30, 2003
	(in US\$ thousands)	
Land use rights	10,000	10,000
Facility construction	173,049	118,000
Machinery and equipment and others	944,481	525,000
	<b>1,127,530</b>	<b>653,000</b>

(d) *Royalty*

Beginning in 2002, the Group has entered into several license and technology agreements with third parties. The duration of the agreements range from 3 to 10 years. The Group makes royalty payments based on a certain percentage of product sales using the third parties' technology or license. In the six months ended June 30, 2004 and 2003, the Group incurred royalty expenses of US\$2,221,000 and US\$1,185,000, respectively.

Beginning in 2003, the Group has entered into several license agreements with third parties pursuant to which the Group licenses certain technology to third parties. The Group will receive royalty payments based on a certain percentage of product sales using the Group's licensed technology. In the six months ended June 30, 2004 and 2003, the Group earned royalty income of US\$67,000 and nil, respectively.

(e) *Leases*

The Group owns apartment facilities that are leased to the Group's employees at negotiated prices. The apartment rental agreement is renewed on an annual basis. The Group leases office space to non-related third parties. Office lease agreements are renewed on an annual basis as well. The total amount of rental income recorded in the six months ended June 30, 2004 and 2003 was US\$873,000 and US\$1,040,000, respectively.

(f) *Operating lease expenses*

The Group leases land use rights and operational equipment which are under non-cancelable leases expiring at various times through 2053. Future minimum lease payments under these leases at June 30, 2004 are as follows:

Year ending	(in US\$ thousands)
2004	1,237
2005	—
2006	58
2007	58
2008	58
Thereafter	2,726
	<b>4,137</b>

The total operating lease expenses recorded in the six months ended June 30, 2004 and 2003 were US\$1,825,000 and US\$1,353,000, respectively.

14.

( )

The following table presents the calculation of basic and diluted net income (loss) per share:

	<b>2004</b>	<b>30,</b> <b>2003</b>
	(in US\$ thousands except per share data)	
Net income (loss) attributable to holders of ordinary shares	<b>42,779</b>	(68,566)
Basic and diluted:		
Weighted average ordinary shares outstanding	<b>10,506,146,416</b>	241,867,833
Less: Weighted average ordinary shares outstanding subject to repurchase	<b>(236,746,513)</b>	(154,455,400)
Weighted average shares used in computing basic net income (loss) per share	<b>10,269,399,903</b>	87,412,433
Effect or dilutive securities:		
Weighted average preference shares outstanding	<b>6,248,493,164</b>	–
Less: Weighted average preference shares outstanding subject to repurchase	<b>(83,727,227)</b>	–
Warrants	<b>194,061,201</b>	–
Employee stock options	<b>294,800,144</b>	–
Weighted average shares used in computing diluted net income (loss) per share	<b>16,923,027,185</b>	87,412,433
Basic net income (loss) per share	<b>0.0042</b>	(0.7844)
Diluted net income (loss) per share	<b>0.0025</b>	(0.7844)

For the six months ended June 30, 2004, employee stock options to purchase 45,604,850 ordinary shares and warrants to purchase an aggregate of 9,721,040 ordinary shares were outstanding but were excluded in the computation of diluted net income per share because these options and warrants were antidilutive in that period. For the six months ended June 30, 2003, 10,498,123,750 ordinary share equivalents, consisting of 9,987,568,470 preference shares and employee stock options to purchase 510,555,280 preference shares or ordinary shares were excluded from the calculation of diluted loss per share because such securities were antidilutive in that period.

15.

On December 19, 2003, Taiwan Semiconductor Manufacturing Company ("TSMC"), WaferTech, L.L.C. and TSMC North America filed a complaint against the Company in the United States District Court for the Northern District of California, alleging patent infringement and trade secret misappropriation and seeking injunctive relief as well as compensatory and punitive damages. On January 12, 2004, TSMC amended the complaint to add Semiconductor Manufacturing International (Shanghai) Corporation, the Company's wholly-foreign owned subsidiary, as a defendant.



**15. (continued)**

With respect to the five (5) patent claims made in the original complaint, the Federal District Court originally scheduled a Markman Hearing for construction of certain terms in the patents for November 15, 2004, but that date may be changed due to the fact that TSMC has subsequently amended its complaint and added six (6) other patents allegedly infringed by the Company. The Federal District Court has not scheduled a Markman Hearing for these additional patents. If the case is not resolved earlier, the Federal District Court has set a jury trial date of April 11, 2006.

With respect to the trade secret misappropriation claims, on April 21, 2004, the Federal District Court dismissed one of the trade secret related claims with prejudice and two of the other trade secret related claims without prejudice. On May 20, 2004, TSMC filed a trade misappropriation case in the Superior Court of California, County of Alameda. That case is in its very early stages. It is expected that in October 2004 the State Court will set the trial date. The earliest possible trial date appears to be in mid-2006.

On August 18, 2004, TSMC filed a proceeding against the Company in the United States International Trade Commission (the "ITC"). In this ITC proceeding, TSMC has alleged substantially the same trade secret misappropriation claims which are currently pending before the California State Court, and patent infringement claims involving three patents which are the subject of a new suit TSMC filed concurrently with the ITC proceeding, against the Company in the U.S. District Court for the Northern District of California. The Company is investigating the new patent claims. As with the claims in other lawsuits TSMC has filed against the Company, the Company will assess and formulate its strong defenses to these new claims.

Management intends to vigorously defend the Company against these claims by TSMC. The Company implements a variety of measures to protect its intellectual property and related interests, as well as the intellectual property and related interests of its customers and technology partners. For example, the Company requires that all employees execute a confidential information and invention assignment agreement relating to non-competition and intellectual property protection issues prior to commencing their employment at the Company.

The Company is currently a party to various claims and legal proceedings, including the matter noted above. If management believes that a loss arising from these matters is probable and can reasonably be estimated, the Company records the estimated amount of the loss. An unfavorable ruling on these matters could include monetary damages, an injunction prohibiting the Company from utilizing certain technologies in its manufacturing processes and/or a geographical restriction on the Company's sales. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the results of operations and financial position of the Company. Due to the preliminary stage of the matter with TSMC and the inherent uncertainty regarding these matters, management is unable to estimate the range of possible loss from outstanding litigation and no amounts have been provided for such matters in the consolidated financial statements.

**16.**

On July 21, 2004, the Company and Toppan Printing Co., Ltd ("Toppan"), one of the largest integrated printing companies in Japan, signed an agreement to form a joint venture company in Shanghai to manufacture on-clip color filters and micro lenses for CMOS image sensors. Under the joint venture agreement, the Company will invest US\$19.2 million in the new joint venture.

In July 2004, the Company signed an investment agreement anticipating to build an assembly and testing plant with a total investment of US\$175 million in Chengdu. The registered capital of this investment is US\$60 million. SMIC's requirement is to invest US\$9 million within three months of the receipt of the business license. The rest of the registered capital investment will be provided within three years of the receipt of the business license.

1.

The board of directors of the Company (the “Board”) proposed not to declare an interim dividend for the period of the six months ended June 30, 2004.

2.

During the first six months of 2004, the Company issued the following shares:

- 762,343 Series B Convertible Preference Shares, which were converted into 8,439,220 Ordinary Shares upon the completion of the Company’s initial public offering on the New York Stock Exchange and the Hong Kong Stock Exchange (the “Global Offering”);
- 3,428,571 Series C Convertible Preference Shares, which were converted into 59,999,990 Ordinary Shares upon the completion of the Global Offering;
- 96,628,571 Series D Convertible Preference Shares, which were converted into 1,620,507,900 Ordinary Shares upon the completion of the Global Offering;
- 1,200,000 Ordinary Shares (after giving effect to the 10-for-1 stock split immediately prior to the Global Offering) to an employee pursuant to the employee’s exercise of options to purchase Ordinary Shares in accordance with the Company’s employee stock option plans; and
- 3,030,303,000 Ordinary Shares or American Depositary Receipts into which our Ordinary Shares may convert, in connection with the Global Offering.

During the first six months of 2004 and prior to the Global Offering, the Company repurchased 33,750 Series A Convertible Preference Shares (equivalent to 337,500 Ordinary Shares) from an employee pursuant to the terms of the Company’s stock option plans (the “Stock Option Plans”) which repurchase has been reflected on the Company’s share register as at June 30, 2004.

Outstanding Share Capital as of June 30, 2004

\*Total Ordinary Shares Outstanding 17,714,595,490

\* This has not included 487,499,990 Ordinary Shares issued to Beida Microelectronics Investment Ltd., 23,957,830 Ordinary Shares issued to a technology partner, 1,273,200 Ordinary Shares issued to the Company’s employees pursuant to the Stock Option Plans, and 2,509,500 Ordinary Shares repurchased by the Company from certain of the Company’s employees pursuant to the terms of the Stock Option Plans after June 30, 2004, but which, for accounting purposes have been reflected in the Company’s Consolidated Statement of Shareholders’ Equity and Comprehensive Income (Loss).

## 3.

Set out below are the names of the parties which were interested in 5 percent or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were interested as at June 30, 2004 as recorded in the register kept by the Company under section 336 of the SFO.

Shanghai Industrial Holdings Limited (上海工業控股有限公司)	1,814,991,340	10.2%	–
Motorola, Inc. and its subsidiary	1,427,915,070	8.1%	–
Blessington Services Limited (柏靈頓服務有限公司)	1,051,493,250	5.9%	–

## Notes:

- All of the shares beneficially owned by Shanghai Industrial Holdings Limited are registered in the name of S.I. Technology Production Holdings Limited, its wholly owned subsidiary. Shanghai Industrial Holdings Limited is a Hong Kong publicly-listed company, majority-owned by Shanghai Industrial Investment (Holdings) Company Limited, which is a wholly beneficially owned and controlled by the Shanghai municipal government. Our current director, Lai Xing Cai, is Chairman of Shanghai Industrial Holdings Limited. It is our understanding that voting and investment control over our Shares beneficially owned by Shanghai Industrial Holdings Limited are maintained by the board of directors of Shanghai Industrial Holdings Limited.
- Consists of 195,594,250 Ordinary Shares registered in the name of Homer Investment Holdings Ltd., 171,179,800 Ordinary Shares registered in the name of Asset Success Investments Limited, 171,179,800 Ordinary Shares registered in the name of Easy Street Investments Limited, 171,179,800 Ordinary Shares registered in the name of Seaboard Investments Limited, 171,179,800 Ordinary Shares registered in the name of Visible Profit Investments Limited and 171,179,800 Ordinary Shares registered in the name of Whole Gain Investments Limited. Our current director Yen-Pong Jou, is a director of each of these entities, all of which are wholly-owned subsidiaries of Blessington Services Limited. Blessington Services Limited is accustomed to act in accordance with the directors of its shareholder, Deutsche International Corporate Services Limited, who currently holds 84% of the shareholding in Blessington Services Limited.

#### 4.

Save as disclosed below, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (“SEHK”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as at June 30, 2004:

Richard R. Chang	Semiconductor Manufacturing International Corporation	Personal Interest ( )	29,790,000
		Personal Interest ( )	100,000
		Corporate Interest ( )	20,000,000
		Interest of Spouse	9,790,000
		Interest of Child under 18	11,200,000
Ta-Lin Hsu	Semiconductor Manufacturing International Corporation	Corporate Interest ( )	15,300,010
Tsuyoshi Kawanishi	Semiconductor Manufacturing International Corporation	Personal Interest ( )	1,500,000

- Pursuant to a Charitable Pledge Agreement dated December 1, 2003, Richard R. Chang and his spouse, Scarlett K. Chang (collectively, the “Donors”) have pledged to transfer 10,000,000 of such Ordinary Shares as a charitable gift to The Richard and Scarlett Chang Family Foundation, a Delaware nonprofit nonstock corporation organized exclusively for religious, charitable, scientific, literary and education purposes within the meaning of Section 501(c)(3) of the US Internal Revenue Code of 1986, as amended, such transfer to be made in full at or prior to the death of the surviving Donor.
- Richard R. Chang has been granted an option to purchase 100,000 Ordinary Shares in the Company, if fully exercised. As of June 30, 2004, the option has not been exercised.
- These shares are held by Jade Capital Company, LLC, a Delaware limited liability company (the “LLC”), of which Richard R. Chang and his spouse, Scarlett K. Chang (collectively, the “Members”), are the sole members. It is the current intent of the Members that all or a portion of the net income of the LLC be used for philanthropic purposes, including but not limited to contributions to charitable organizations that are tax-exempt under Section 501(c)(3) of the US Internal Revenue Code of 1986, as amended.
- Ta-Lin Hsu has a controlling interest in AP3 Co-Investment Partners, LDC, which holds 15,300,010 Ordinary Shares.
- Tsuyoshi Kawanishi has been granted options to purchase an aggregate of 1,500,000 Ordinary Shares in the Company, if fully exercised. As of June 30, 2004, none of these options have been exercised.

Details of the 2001 Stock Plans, the 2001 Preference Share Plans, and the 2004 Employee Stock Option Plan, which are required to be disclosed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

## 2001

							1, 2004	30, 2004	*	‡
Tsuyoshi Kawawishi	July 11, 2002	500,000	July 11, 2002 - July 10, 2012	500,000	-	-	500,000	500,000	-	HK\$0.068
	January 15, 2004	1,000,000	January 15, 2004 - January 14, 2014	1,000,000	-	-	1,000,000	1,000,000	-	HK\$0.330
Senior Management	April 10, 2002	1,350,000	April 10, 2002 - April 9, 2012	1,350,000	-	-	1,350,000	1,350,000	-	HK\$0.049
	January 15, 2004	9,100,000	January 15, 2004 - January 14, 2014	9,100,000	-	-	9,100,000	9,100,000	-	HK\$0.330
	February 16, 2004	500,000	February 16, 2004 - February 15, 2014	500,000	-	-	500,000	500,000	-	HK\$0.330
	March 18, 2004	110,000	September 17, 2006 - March 17, 2014	110,000	-	-	110,000	110,000	-	HK\$0.312
Consultants	January 15, 2004	1,000,000	January 15, 2004 - January 14, 2014	1,000,000	-	-	1,000,000	1,000,000	-	HK\$0.330
	February 16, 2004	500,000	February 16, 2004 - February 15, 2014	500,000	-	-	500,000	500,000	-	HK\$0.330
Service Providers	July 11, 2002	200,000	July 11, 2002 - July 10, 2012	200,000	-	200,000	200,000	-	HK\$0.241	HK\$0.068
Others	January 15, 2004	2,600,000	January 15, 2004 - January 14, 2014	2,600,000	-	-	2,600,000	2,600,000	-	HK\$0.330
	February 16, 2004	1,000,000	February 16, 2004 - February 15, 2014	1,000,000	-	-	1,000,000	1,000,000	-	HK\$0.330
Employees	March 28, 2001	89,385,000	March 28, 2001 - March 27, 2011	9,583,200	-	-	8,939,200	8,939,200	HK\$0.034	HK\$0.330

\* Market price used in relation to pre-IPO exercises.

‡ Market price used in relation to pre-IPO grants.









## 2001

	2001		2002		2003		2004			
	1, 2001	31, 2001	1, 2002	31, 2002	1, 2003	31, 2003	1, 2004	30, 2004		
Service Providers	July 11, 2002	200,000	July 11, 2002 - July 10, 2012	200,000	-	200,000	-	HK\$0.87	HK\$0.241	HK\$0.143
Others	July 11, 2002	260,000	July 11, 2002 - July 10, 2012	260,000	-	-	-	HK\$0.87	-	HK\$0.143
Employees	September 24, 2001	255,298,700	September 24, 2001 - September 23, 2011	37,854,300	-	-	-	HK\$0.87	HK\$0.121	HK\$0.111
	September 28, 2001	50,000	September 28, 2001 - September 27, 2011	50,000	-	-	-	HK\$0.87	-	HK\$0.111
	November 3, 2001	780,000	November 3, 2001 - November 2, 2011	730,000	-	-	-	HK\$0.87	-	HK\$0.111
	January 24, 2002	58,357,500	January 24, 2002 - January 23, 2012	10,446,250	-	-	-	HK\$0.87	HK\$0.123	HK\$0.118
	April 10, 2002	51,384,000	April 10, 2002 - April 9, 2012	8,925,000	-	-	-	HK\$0.87	HK\$0.151	HK\$0.130
	June 28, 2002	63,332,000	June 28, 2002 - June 27, 2012	19,324,500	-	-	-	HK\$0.87	HK\$0.155	HK\$0.139
	July 11, 2002	4,532,000	July 11, 2002 - July 10, 2013	4,082,000	-	-	-	HK\$0.87	HK\$0.152	HK\$0.143
	September 26, 2002	73,854,800	September 26, 2002 - September 25, 2012	23,835,850	-	-	-	HK\$0.87	HK\$0.165	HK\$0.151
	January 9, 2003	12,686,000	January 9, 2003 - January 8, 2013	2,176,000	-	-	-	HK\$0.87	HK\$0.184	HK\$0.167

Options to purchase preference shares issued to new employees generally vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date. Employees may early exercise their options to purchase preference shares. If an employee early exercises 100% of his or her options, the options vest at a rate of 25% upon each of the first, second, third and fourth anniversary of the vesting commencement date. Furthermore, in this case, if the employee remains employed by the Company and the Company has completed its initial public offering as of the third anniversary of the vesting commencement date, all of the options shall vest.

\* Market price used in relation to pre-IPO exercises.

† Market price used in relation to pre-IPO grants.

## 2004

			1, 2004		30, 2004	
Richard R. Chang	April 7, 2004	100,000	September 17, 2004 - April 7, 2014	-	100,000	HK\$0.314
Employees	March 18, 2004	50,119,700 <sup>(1)</sup>	September 17, 2004 - March 17, 2014	-	-	HK\$0.312
	April 25, 2004	22,591,800	April 25, 2006 - April 24, 2014	-	-	HK\$0.279

Options to purchase ordinary shares issued to new employees generally vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date. Options to purchase ordinary shares issued to then-existing employees generally vest at a rate of 25% upon the first, second, third and fourth anniversaries of the vesting commencement date.

- (1) Of these options granted, 47,328,700 shares are exercisable as of September 17, 2004. The remaining options were issued to new employees and thus vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date.



5.

Other than repurchases by the Company of Ordinary Shares from employees pursuant to the terms of the Stock Option Plans, as of June 30, 2004, as disclosed in paragraph 2 (Share Capital) above, the Company has not repurchased, sold or redeemed any additional shares since the date of the Company's prospectus dated March 8, 2004 (the "Prospectus").

6.

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the six months ended June 30, 2004, in compliance with the Code of Best Practices as set out in Appendix 14 of the Listing Rules.

7.

After due inquiry of the directors of the Company, the Company reasonably believes that the directors have complied with required standards set out in the Model Code on Securities Transactions by Directors.

8.

**3.10(1) 3.10(2)**

The Company is in the process of seeking confirmation from SEHK that the Board is composed of a sufficient number of independent non-executive directors, one of whom has appropriate professional qualifications or accounting or related financial management expertise, to meet the listing requirements as set forth in the Listing Rules.

9.

**3.21**

The Company is in the process of seeking confirmation from SEHK that the audit committee consists of an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

10.

On December 19, 2003, Taiwan Semiconductor Manufacturing Company ("TSMC"), WaferTech, L.L.C. and TSMC North America filed a complaint against the Company in the United States District Court for the Northern District of California, alleging patent infringement and trade secret misappropriation and seeking injunctive relief as well as compensatory and punitive damages. On January 12, 2004, TSMC amended the complaint to add Semiconductor Manufacturing International (Shanghai) Corporation, the Company's wholly-foreign owned operating entity, as a defendant.



10.

(continued)

With respect to the five (5) patent claims made in the original complaint, the Federal District Court originally scheduled a Markman Hearing for construction of certain terms in the patents for November 15, 2004, but that date may be changed due to the fact that TSMC has subsequently amended its complaint and added six (6) other patents allegedly infringed by the Company. The Federal District Court has not scheduled a Markman Hearing for these additional patents. If the case is not resolved earlier, the Federal District Court has set a jury trial date of April 11, 2006.

With respect to the trade secret misappropriation claims, on April 21, 2004, the Federal District Court dismissed one of the trade secret related claims with prejudice and two of the other trade secret related claims without prejudice. On May 20, 2004, TSMC filed a trade misappropriation case in the Superior Court of California, County of Alameda. That case is in its very early stages. It is expected that in October 2004 the State Court will set the trial date. The earliest possible trial date appears to be in mid-2006.

On August 18, 2004, TSMC filed a proceeding against the Company with the United States International Trade Commission (the "ITC"). In this ITC proceeding, TSMC has alleged substantially the same trade secret misappropriation claims which are currently pending before the California State Court, and patent infringement claims regarding three patents which are the subject of a new suit TSMC filed concurrently with the ITC proceeding, against the Company in the U.S. District Court for the Northern District of California. The Company is investigating the new patent claims. As with the claims in other lawsuits TSMC has filed against the Company, the Company will assess and formulate its strong defenses to these new claims.

11.

Since the date of the Prospectus, the Board has appointed Lai Xing Cai and Sean Hunkler as non-executive directors of the Company and Fang Yao has been appointed as an alternate director of the Company to Lai Xing Cai (a non-executive director of the Company). As disclosed in the prospectus, David Tse Young Chou, Charles Richard Kramlich, Jimmy Shueh-mien Lee, Ming Fang Lu and Philip Richard Nicholls ceased to be members of the Board after the completion of the Global Offering.

12.

Save as disclosed in the Prospectus, the Company has not received any waivers from compliance with the Listing Rules.

**13.**

The audit committee of the Company has reviewed with the management of the Company, the accounting principles and practices accepted by the Group and has discussed with the Directors matters concerning internal controls and financial reporting of the Company, including a review of the interim financial statements of the Company for the six months ended June 30, 2004.