

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

September 07, 2010

Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of September, 2010

Commission File Number: 001-31994

Semiconductor Manufacturing International Corporation
(Translation of registrant's name into English)

18 Zhangjiang Road
Pudong New Area, Shanghai 201203
People's Republic of China
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

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CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This interim report contains, in addition to historical information, "forward-looking statements" within the meaning of the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on SMIC's current assumptions, expectations and projections about future events. SMIC uses words like "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the best judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicity and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity, and financial stability in end markets.

In addition to the information contained in this interim report, you should also consider the information contained in our other filings with the SEC, including our annual report on Form 20-F filed with the SEC on June 29, 2010, especially in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections, and such other documents that we may file with the SEC or SEHK from time to time, including on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this interim report may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated or, if no date is stated, as of the date of this interim report.

Except as required by law, SMIC undertakes no obligation and does not intend to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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ADDITIONAL INFORMATION

References in this interim report to:

- “2010 AGM” are to the Company’s Annual General Meeting held on June 3, 2010;
- “China” or the “PRC” are to the People’s Republic of China, excluding for the purpose of this interim report, Hong Kong, Macau and Taiwan;
- “Company” or “SMIC” are to Semiconductor Manufacturing International Corporation;
- “EUR” are to Euros;
- “HK\$” are to Hong Kong dollars;
- “NYSE” or “New York Stock Exchange” are to the New York Stock Exchange, Inc.;
- “Rmb” are to Renminbi;
- “SEC” are to the U.S. Securities and Exchange Commission;
- “SEHK”, “HKSE” or “Hong Kong Stock Exchange” are to The Stock Exchange of Hong Kong Limited;
- “US\$” or “USD” are to U.S. dollars.

All references in this interim report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90 nanometer, 65 nanometer and 45 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state “0.25 micron process technology,” that also includes 0.22 micron, 0.21 micron, 0.20 micron and 0.19 micron technologies. “0.18 micron process technology” also includes 0.17 micron and 0.16 micron technologies. References to “U.S. GAAP” mean the generally accepted accounting principles in the United States. Unless otherwise indicated, our financial information presented in this interim report has been prepared in accordance with U.S. GAAP.

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CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation (the “Company”)
Chinese name	
Registered office	PO Box 309 Ugland House Grand Cayman KY1-1104 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	Suite 3003 30th Floor No. 9 Queen’s Road Central Hong Kong
Website address	http://www.smics.com
Company secretary	Anne Wai Yui Chen
Authorized representatives	Jiang Shang Zhou Anne Wai Yui Chen
Places of listing	The Stock Exchange of Hong Kong Limited (“HKSE”) New York Stock Exchange (“NYSE”)
Stock code	0981 (HKSE) SMI (NYSE)

* For identification purposes only

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LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

A challenging year has passed, and we have entered an opportunity filled 2010. The worldwide semiconductor industry grew above expectations in the first half of 2010 with sales increasing more than 50% year-on-year. SMIC was able to ride on this opportunity and increased its revenue for the first half of 2010 to more than 77% compared to the same period last year. The Company's gross margin has turned positive since the fourth quarter of 2009 and maintained double-digits with continued growth for two consecutive quarters. Utilization has climbed from 35% in the first quarter of 2009 to 94.3% in the second quarter of 2010. Also in the first half of 2010, the book-to-bill ratio was above 1.0 for six consecutive months.

Since our new management came on board they have implemented various initiatives, which produced positive results. We are gradually narrowing the technology gap on advanced nodes with industry leaders. Our 45 and 40 nanometer technology development is ahead of schedule and will be qualified by the end of this year and enter volume production next year. We are also working to speed up our 32 nanometer process development. Internally, we are strengthening our professionalism and accountability, and at the same time, we are simplifying internal processes, improving departmental operating efficiency. In the recent placing of new shares, we have successfully raised US\$100 million for our Beijing fab's advanced technology capacity expansion. We have also reorganized our sales force with an emphasis on key customers and those with high-potential. By strengthening existing key partnerships and selectively cultivating new customers and new products with high potential, we will improve our product mix and average selling price to achieve profitability. As Mainland China's most advanced semiconductor manufacturer, our 90-nanometer and below revenue contribution increased to 23.6% in the second quarter of this year, and total 65-nanometer shipments have already exceeded 10,000 wafers. Revenue from Mainland China contributed 28.7% to our total revenue in the second quarter of 2010, compared to 20.0% in 2009.

Since the beginning of this year, we have streamlined the organization to reduce costs and increase the efficiency and output of SMIC. Additionally, more than 100 key managers attended our first global management meeting. The meeting communicated the corporate message and strategies to bolster organizational effectiveness, employee cohesiveness, teamwork spirit and execution. The new management will continue to work together to build a solid foundation for leading SMIC to a successful future.

Looking back on the past six months, we have already taken solid steps to pave our way to sustainable profitability. We will continue to work step by step, to maximize the interests of our shareholders and customers.

Thank you again for your continuous support for SMIC.

Jiang Shang Zhou
Chairman of the Board

David NK Wang
President, Chief Executive Officer and Executive Director

Shanghai, China
August 27, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Board of Directors (the "Board") of Semiconductor Manufacturing International Corporation (the "Company") would like to announce the unaudited interim results of operations of the Company and its subsidiaries for the six months ended June 30, 2010, and would like to express their gratitude to the shareholders and their staff for the support of the Company.

SALES

Sales increased by 77.0% from US\$413.9 million for the six months ended June 30, 2009 to US\$732.9 million for the six months ended June 30, 2010, primarily due to increase in wafer shipments. The number of wafers the Company shipped increased by 86.6%, from 509,943 8-inch wafer equivalents to 951,776 8-inch wafer equivalents, between these two periods. The simplified average selling price of total revenue during this period decreased by 5% from US\$812 per wafer to US\$770 per wafer.

COST OF SALES AND GROSS PROFIT (LOSS)

Cost of sales increased by 11.8% from US\$556.2 million for the six months ended June 30, 2009 to US\$622.0 million for the six months ended June 30, 2010, primarily due to increased wafer shipments.

The Company had a gross profit of US\$110.8 million for the six months ended June 30, 2010 compared to a gross loss of US\$142.3 million for the six months ended June 30, 2009. Gross margins increased to 15% for the six months ended June 30, 2010 from (34)% for the six months ended June 30, 2009. The increase in gross margin was primarily due to higher fab utilization.

OPERATING INCOME, EXPENSES AND LOSS FROM OPERATIONS

Operating expenses increased by 17.7% from US\$128.3 million for the six months ended June 30, 2009 to US\$151.0 million for the six months ended June 30, 2010.

Research and development expenses increased by 29.8% from US\$66.9 million for the six months ended June 30, 2009 to US\$86.9 million for the six months ended June 30, 2010 primarily due to decreased government subsidies.

Selling and marketing expenses increased by 17.6% from US\$11.1 million for the six months ended June 30, 2009 to US\$13.1 million for the six months ended June 30, 2010 due to an increase in selling activities.

General and administrative expenses remained relatively flat at US\$32.6 million for the six months ended June 30, 2010, a slight 1.6% increase from US\$32.1 million for the six months ended June 30, 2009.

An asset impairment loss of US\$5.1 million for the six months ended June 30, 2010 related to operational efficiency improvement efforts.

Income from the disposal of properties increased from a loss of US\$0.2 million for the six months ended June 30, 2009 to a gain of US\$0.3 million for the six months ended June 30, 2010.

The Company's operating loss was US\$40.2 million for the six months ended June 30, 2010 compared to operating loss of US\$270.6 million for the six months ended June 30, 2009.

The Company's operating margin was (5.5)% for the six months ended June 30, 2010 and (65.4)% for the six months ended June 30, 2009.

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OTHER INCOME (EXPENSES)

Other expenses increased from US\$10.3 million for the six months ended June 30, 2009 to US\$53.8 million for the six months ended June 30, 2010. The increase was primarily attributed to the change in fair value of the commitment to issue shares and warrants in relation to the settlement of TSMC litigation; such fair value change amounted to a loss of \$40.6 million for the six months ended June 30, 2010.

The Company's net foreign exchange gain and loss, including operating, financing, and investing activities, was a gain of US\$0.5 million for the six months ended June 30, 2010 compared to a gain of US\$4.7 million for the six months ended June 30, 2009.

NET LOSS

Due to the factors described above, the Company had a net loss attributable to holders of ordinary shares of US\$85.9 million for the six months ended June 30, 2010 compared to a net loss of US\$276.5 million for the six months ended June 30, 2009.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2010, the Company incurred capital expenditures of US\$156 million compared to US\$44.9 million for the six months ended June 30, 2009. The Company has financed substantial capital expenditure requirements through the cash flows from operations and financing.

The Company had US\$506.5 million in cash and cash equivalents as at June 30, 2010. These cash and cash equivalents are held in the form of United States Dollars, Japanese Yen, European Euro, and Chinese Renminbi. The net cash provided by operating activities increased by 164.5% from US\$121.3 million as at June 30, 2009 to US\$320.8 million as at June 30, 2010.

Net cash used in investing activities was US\$172.4 million for the six months ended June 30, 2010, primarily attributable to purchases of plant and equipment for the Mega Fab in Shanghai and Mega Fab in Beijing. For the six months ended June 30, 2009, net cash used in investing activities was US\$109.1 million primarily attributable to purchases of plant and equipment for the Mega Fab in Shanghai and Mega Fab in Beijing.

The Company's net cash used in financing activities was US\$84.5 million for the six months ended June 30, 2010. This was primarily resulting from US\$299.7 million in proceeds from short-term borrowings, US\$40.0 million in the repayment of promissory notes, US\$229.2 million in the repayment of short-term borrowings, and US\$126.1 million in the repayment of long-term debt.

As of June 30, 2010, the Company's outstanding long-term liabilities primarily consisted of US\$640.3 million in secured bank loans, and US\$275.3 million classified as the current portion of long-term loans. The long-term loans are repayable in installments commencing in December 2006 with the last payments due in December 2012.

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2006 Loan Facility (SMIC Shanghai). In June 2006, Semiconductor Manufacturing International (Shanghai) Corporation (“SMIC Shanghai”) entered into a USD denominated long-term facility arrangement for US\$600.0 million with a consortium of international and PRC banks. Of this principal amount, US\$393.0 million was used to repay the principal amount outstanding under SMIC Shanghai’s bank facilities from December 2001 and January 2004. The remaining principal amount was used to finance future expansion and general corporate requirement for SMIC Shanghai. This facility is secured by the manufacturing equipment located in SMIC Shanghai 8-inch fabs. The Company has guaranteed SMIC Shanghai’s obligations under this facility. As of June 30, 2010, SMIC Shanghai has repaid US\$537.9 million according to the repayment schedule. The interest rate on this loan facility ranged from 1.55% to 1.81%, for the six months ended June 30, 2010. The interest expense incurred for the six months ended June 30, 2010 and 2009 was US\$1.4 million and US\$3.1 million of which US\$0.3 million and US\$0.3 million was capitalized additions to assets under construction for the six months ended June 30, 2010 and 2009, respectively.

The long-term loan agreement entered into in June 2006 contains the following covenants:

Any of the following in respect of SMIC Shanghai would constitute an event of default during the term of the loan agreement:

Financial covenants for the Borrower including:

1. Consolidated Tangible Net Worth of no less than US\$1,200 million;
2. Consolidated Total Borrowings to Consolidated Tangible Net Worth of:
 - (a) no more than 60% for periods up to and including December 31, 2008; and
 - (b) no more than 45% thereafter;
3. Consolidated Total Borrowings to trailing preceding four quarters EBITDA not to exceed 1.50x.
4. Debt Service Coverage Ratio of no less than 1.5x. Debt Service Coverage Ratio means trailing four quarters EBITDA divided by scheduled principal repayments and interest expense for all bank borrowings (including hire purchases, leases and other borrowed monies) for the same period.

Financial covenants for the Guarantor (the Company) including:

1. Consolidated Tangible Net Worth of no less than US\$2,300 million;
2. Consolidated Net Borrowings to Consolidated Tangible Net Worth of:
 - (a) no more than 50% for period up to and including June 30, 2009;
 - (b) no more than 40% thereafter.

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3. Consolidated Net Borrowings to trailing four quarters EBITDA of:
- (a) no more than 1.50x for periods up to and including June 30, 2009;
 - (b) no more than 1.30x thereafter.

Exemption of covenants for this loan expired as of March 31, 2010. However, the consortium had already anticipated a new loan to replace the existing loan and subsequently, has completely resolved the covenants issues, as of the date of this report. The Company has signed a new loan with the lenders to refinance the remainder of the USD loan.

2009 USD & RMB Loan Facility (SMIC Shanghai). In June 2009, SMIC Shanghai entered into the Shanghai USD & RMB loan, a new two-year loan facility in the principal amount of US\$80 million and RMB200 million respectively with The Export-Import Bank of China. This facility is secured by the manufacturing equipment located in SMIC Shanghai's 12-inch fab. This two-year bank facility was used to finance future expansion and general corporate needs for SMIC Shanghai's 12-inch fab. As of June 30, 2010, SMIC Shanghai had drawn down US\$80 million and RMB200 million (US\$29.4 million) respectively, on this loan facility. The principal amount is repayable in June 2011. The interest rate on this loan facility ranged from 2.44% to 4.86%, for the six months ended June 30, 2010. The interest expense incurred for the six months ended June 30, 2010 was US\$1.7 million, of which US\$0.4 million was capitalized additions to assets under construction for the six months ended June 30, 2010.

2005 Loan Facility (SMIC Beijing). In May 2005, Semiconductor Manufacturing International (Beijing) Corporation ("SMIC Beijing") entered into a five year USD denominated loan facility in the aggregate principal amount of US\$600.0 million, with a syndicate of financial institutions based in the PRC. This five-year bank loan will be used to expand the capacity of SMIC Beijing's fabs. The facility is secured by the manufacturing equipment located in the SMIC Beijing 12-inch fabs. The Company has guaranteed SMIC Beijing's obligations under this facility. As of June 30, 2009, SMIC Beijing had repaid US\$299.9 million according to the repayment schedule. On June 26, 2009, SMIC Beijing entered into an amendment to the syndicated loan agreement to extend the repayment date of the outstanding balance commencing from June 28, 2009 to December 28, 2011 and onwards. The amendment includes a provision for mandatory early repayment of a portion of the outstanding balance if SMIC Beijing's financial performance exceeds certain pre-determined benchmarks. The interest rate on this loan facility ranged from 2.64% to 2.95%, for the six months ended June 30, 2010. The interest expense incurred for the six months ended June 30, 2010 and 2009 was US\$4.0 million and US\$5.2 million of which US\$0.5 million and US\$0.2 million was capitalized as additions to assets under construction for the six months ended June 30, 2010 and 2009, respectively.

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Any of the following in respect of SMIC Beijing would constitute an event of default during the term of the loan agreement:

1. Where $[\text{Net profit} + \text{depreciation} + \text{amortization} + \text{financial expenses} - (\text{increase of accounts receivable and advanced payments} + \text{increase of inventory} - \text{increase in accounts payable and advanced receipts})] / \text{financial expenses} < 1$; and
2. $(\text{Total liability} - \text{borrowings from shareholders, including principal and interest}) / \text{Total assets} > 60\%$ (when SMIC Beijing's capacity is less than 20,000 12-inch wafers per month); and $(\text{Total liability} - \text{borrowings from shareholders, including principal and interest}) / \text{Total assets} > 50\%$ (when SMIC Beijing's capacity exceeds 20,000 12-inch wafers per month).

SMIC Beijing has complied with these covenants as of June 30, 2010.

2005 EUR Loan Facility. On December 15, 2005, the Company entered into a EUR denominated long-term loan facility agreement in the aggregate principal amount of EUR 85 million with ABN Amro Bank N.V. Shanghai Branch. The drawdown period of the facility ends on the earlier of (i) thirty six months after the execution of the agreement or (ii) the date which the loans have been fully drawn down. Each draw down made under the facility shall be repaid in full by us in ten equal semi-annual installments. SMIC Tianjin had drawn down in 2006 and SMIC Shanghai had drawn down in 2007 and 2008.

As of June 30, 2010, Semiconductor Manufacturing International (Tianjin) Corporation ("SMIC Tianjin") had drawn down EUR 15.1 million and repaid an aggregated amount of EUR 13.6 million with a remaining balance of EUR 1.5 million (the U.S. dollar equivalent of US\$1.8 million). The interest rate on this loan facility ranged from 0.97% to 1.85%, for the six months ended June 30, 2010. The interest expense incurred for the six months ended June 30, 2010 and 2009 were US\$0.02 million and US\$0.1 million of which US\$229 and US\$0.03 million was capitalized additions to assets under construction for the six months ended June 30, 2010 and 2009, respectively.

As of June 30, 2010, SMIC Shanghai had drawdown EUR 56.9 million and repaid an aggregated amount of EUR 31.3 million with a remaining balance of EUR 25.6 million (the US dollar equivalent of US\$31.2 million). The interest rate on this loan facility ranged from 0.99% to 1.88%, for the six months ended June 30, 2010. The interest expense incurred for the six months ended June 30, 2010 and 2009 was US\$0.2 million and US\$0.5 million of which US\$0.05 million and US\$0.03 million was capitalized additions to assets under construction for the six months ended June 30, 2010 and 2009, respectively.

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2006 Loan Facility (SMIC Tianjin). In May 2006, SMIC Tianjin entered into a loan facility in the aggregate principal amount of US\$300.0 million from a consortium of international and Chinese banks. This facility is secured by the manufacturing equipment located in our Tianjin fab, except for the manufacturing equipment purchased using the EUR denominated loan. The Company has guaranteed SMIC Tianjin's obligations under this facility. As of June 30, 2009, SMIC Tianjin had drawn down US\$259.0 million on this loan facility. The principal amount is repayable starting from February 2010 in six semi-annual installments. As of June 30, 2010, SMIC Tianjin had repaid US\$123.3 million. The interest rate on the loan ranged from 1.69% to 2.00%, for the six months ended June 30, 2010. The interest expense incurred for the six months ended June 30, 2010 and 2009 were US\$1.3 million and US\$5.3 million, of which US\$0.02 million and US\$1.0 million was capitalized as additions to assets under construction for the six months ended June 30, 2010 and 2009, respectively.

Any of the following in respect of SMIC Tianjin would constitute an event of default during the term of the facility:

1. $[\text{Net profit} + \text{depreciation} + \text{amortization} + \text{financial expenses} - (\text{increase of accounts receivable and advanced payments} + \text{increase of inventory} - \text{increase in accounts payable and advanced receipts})] / \text{financial expenses} < 1$; and
2. The ratio of total debt to total assets is more than 60% during the ramp up period of SMIC Tianjin and more than 40% after the facility is at full capacity.

SMIC Tianjin has complied with these covenants as of June 30, 2010.

Short-term Credit Agreements. As of June 30, 2010, the Company had short-term credit agreements that provided total credit facilities up to approximately US\$394.2 million on a revolving credit basis. As of June 30, 2010, the Company had drawn down approximately US\$357.4 million under these credit agreements and approximately US\$36.8 million is available for future borrowings. The outstanding borrowings under the credit agreements are unsecured, except for the amount of US\$17.0 million, which is secured by term deposits.

The interest expense incurred for the six months ended June 30, 2010 and 2009 were US\$5.7 million and US\$6.4 million, respectively. The interest rate on the loans ranged from 1.1% to 5.7%, for the six months ended June 30, 2010.

CAPITALIZED INTEREST

Interest cost incurred on funds used to construct plant and equipment during the active construction period is capitalized, net of government subsidies received. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interest of US\$3.1 million and US\$2.2 million have been added to the cost of the underlying assets during the six months ended June 30, 2010 and June 30, 2009, respectively, and is amortized over the respective useful life of the assets. For the six months ended June 30, 2010 and June 30, 2009, the Company recorded amortization expenses relating to the capitalized interest of US\$3.6million and US\$4.5 million, respectively.

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COMMITMENTS

As of June 30, 2010, the Company had commitments of US\$63 million for facilities construction obligations in Chengdu, Beijing, Tianjin, Shanghai and Shenzhen and US\$705 million to purchase machinery and equipment mainly for the Beijing, Tianjin and Shanghai fabs in the coming 18 months. The Company plans to fund these commitments through funds generate from the placing of new shares of US\$100 million in July this year, the upcoming subscription of shares of US\$102 million from its major shareholder, Datang, and also the Company's ongoing operations.

DEBT TO EQUITY RATIO

As of June 30, 2010, the Company's debt to equity ratio was 58% calculated by dividing the sum of the short-term borrowings, current portion of long-term debt, and long-term debt by total shareholders' equity.

CONTINGENT LIABILITIES

The Company recorded a contingent liability in relation to claims from an unrelated semiconductor manufacturer based on its best estimate of the probable amount of its liability as of December 31, 2009. For the six months ended June 30, 2010, the Company believes that the recorded amount still reflects its best estimate of the probable amount of the liability.

FOREIGN EXCHANGE RATE FLUCTUATION RISK

The Company's revenues, expenses, and capital expenditure are primarily transacted in United States Dollars. However, since the Company has operations consisting of manufacturing, sales activities and capital purchasing conducted in currencies other than U.S. dollar, the Company is primarily exposed to changes in exchange rates for the EURO, Japanese Yen, and Chinese Renminbi.

To minimize these risks, the Company purchases foreign-currency forward exchange contracts with contract terms normally lasting less than twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign currency denominated activities. These forward exchange contracts are principally denominated in Chinese Renminbi, Japanese Yen or EURO and do not qualify for hedge accounting in accordance with ASC 815. As of June 30, 2010, the Company had outstanding foreign currency forward exchange contracts with a notional amount of US\$4.2 million all of which matured before April 2011. Notional amounts are stated in U.S. dollar equivalent spot market exchange rates, as of the respective dates.

As of June 30, 2010, the fair value of foreign currency forward exchange contracts was a loss of approximately US\$0.05 million. The Company does not enter into foreign currency exchange contracts for speculative purposes.

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CROSS CURRENCY SWAP FLUCTUATION RISK

At June 30, 2010, the Company had a long-term loan facility agreement outstanding in the aggregate principal amount of EUR27.1 million. The company is primarily exposed to changes in exchange rate for the EURO.

To minimize the risk, the company entered into a cross currency swap contract with contract terms fully matching the repayment schedule of the long-term loan to protect against the adverse effect of exchange rate fluctuations arising from the foreign-currency denominated loan. The cross currency swap contract does not qualify for hedge accounting in accordance with ASC 815.

As of June 30, 2010, the Company had outstanding cross currency swap contracts with a notional amount of US\$15.7 million all of which will mature before May 2012. Notional amounts are stated in U.S. dollar equivalent spot market exchange rates, as of the respective dates.

As of June 30, 2010, the fair value of foreign currency forward exchange contracts was a loss of approximately US\$2.6 million. The Company does not enter into foreign currency exchange contracts for speculative purposes.

INTEREST RATE RISK

The Company's exposure to interest rate risks relates primarily to the Company's long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The Company's long-term debt obligations are all subject to variable interest rates. The interest rates on the Company's U.S. dollar-denominated loans are linked to the LIBOR. The interest on the Company's EURO denominated loans are linked to the EURIBOR. As a result, the interest on the Company's loans are subject to fluctuations in the underlying interest rates to which they are linked.

The Company has entered into interest rate hedging contracts commencing from May 2009. The interest rate swap contract qualified for hedge accounting in accordance with ASC 815.

As of June 30, 2010, the Company had outstanding interest rate swap contracts with a notional amount of US\$80 million all of which will mature before December 2012.

EMPLOYEES

Pursuant to the shareholders' approval obtained at the annual general meeting held on June 3, 2010, the number of shares reserved for issuance under the 2004 Equity Incentive Plan was increased by an additional 560,522,395 (representing 2.5% of the issued share capital as at March 31, 2010) to a new limit of 1,015,931,725 ordinary shares of the Company.

Save as disclosed in this interim report, there is no material change to the information disclosed in the 2009 annual report of the Company in relation to the number and remuneration of employees, remuneration policies, bonus and share option schemes of employees.

PROSPECTS AND FUTURE PLANS

In the second half of 2010, the Company continues to see revenue growth. We expect third quarter 2010 revenue to grow by 4% to 6% compared to second quarter of 2010. From a technology standpoint, our 65-nanometer process is solid and ramping up, with shipments more than doubling quarter over quarter in the second quarter compared to first quarter of 2010, and likely to double again in the third quarter of 2010. Full year capital expenditure for 2010 is expected to be \$700 to \$750 million. We continue to focus on turning the Company around and target sustainable profitability while carefully increasing scale to match our customers' demand.

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CORPORATE GOVERNANCE REPORT

The Company is committed to remaining an exemplary corporate citizen and maintaining a high level of corporate governance in order to protect the interests of its shareholders.

CORPORATE GOVERNANCE PRACTICES

The HKSE's Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, which contains code provisions to which an issuer, such as the Company, is expected to comply or advise as to reasons for deviations (the "Code Provisions") and recommended best practices to which an issuer is encouraged to comply (the "Recommended Practices"). The Corporate Governance Policy of the Company came into effect on January 25, 2005 after approval by the Board (and was subsequently updated by the Board on July 26, 2005 and April 24, 2009, respectively) (the "CG Policy"). The CG Policy, a copy of which can be obtained on the Company's website at www.smics.com under "Corporate Governance", incorporates all of the Code Provisions of the CG Code except for paragraph E1.3 which relates to the notice period for general meetings of the Company, and many of the Recommended Practices.

In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy. None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, during the financial period from January 1, 2010 to June 30, 2010, in compliance with the CG Policy.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted an Insider Trading Compliance Program (the "Insider Trading Policy") which encompasses the requirements of the Model Code as set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company, having made specific enquiry of all Directors, confirms that all members of the Board have complied with the Insider Trading Policy and the Model Code throughout the six months ended June 30, 2010. The senior management of the Company as well as all officers, Directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

The Board

The Board has a duty to the Company's shareholders to direct and oversee the affairs of the Company in order to maximize shareholder value. The Board acting itself and through the various committees of the Board, actively participates in and is responsible for the determination of the overall strategy of the Company, the establishment and monitoring of the achievement of corporate goals and objectives, the oversight of the Company's financial performance and the preparation of the accounts, the establishment of corporate governance practices and policies, and the review of the Company's system of internal controls. The management of the Company is responsible for the implementation of the overall strategy of the Company and its daily operations and administration. The Board has access to the senior management of the Company to discuss enquiries on management information.

The Board consists of seven Directors and one Alternate Director as at the date of this interim report. Directors may be elected to hold office until the expiration of their respective terms upon a resolution passed at a duly convened shareholders' meeting by holders of a majority of the Company's issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of directors eligible for re-election at each annual general meeting of shareholders.

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Each class of Director will serve a term of three years. The Class I Directors were re-elected for a term of three years at the 2008 AGM (except Gao Yonggang who was elected at the 2009 AGM) to hold office until the 2011 annual general meeting of the Company. The Class II Directors were re-elected for a term of three years at the 2009 AGM (except Chen Shanzhi who was elected at that AGM) to hold office until the 2012 annual general meeting of the Company. The Class III Directors were re-elected at the 2010 AGM for a term of three years to hold office until the 2013 annual general meeting of the Company.

For the six months ended June 30, 2010, the Board at all times complies with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors on the Board, and complied with the requirement that these should include one such director with appropriate professional qualifications or accounting or related financial management expertise. The roles of the chairman and chief executive officer are segregated and such roles are exercised by Jiang Shang Zhou and David N.K. Wang respectively.

The following table sets forth the names, classes and categories of the directors as at the date of this report:

Name of Director	Category of Director	Class of Director
Jiang Shang Zhou	Chairman, Independent Non-executive Director	Class II
David N.K. Wang	President, Chief Executive Officer, Executive Director	Class I
Gao Yonggang	Non-executive Director	Class I
Chen Shanzhi	Non-executive Director	Class II
Lip-Bu Tan	Independent Non-executive Director	Class II
Tsuyoshi Kawanishi	Independent Non-executive Director	Class III
Zhou Jie	Non-executive Director	Class III
Wang Zheng Gang	Alternate Director to Zhou Jie	Class III

On an annual basis, each independent non-executive director confirms his independence to the Company, and the Company considers these directors to be independent as such term is defined in the Listing Rules. There are no relationships among members of the Board, including between the Chairman of the Board and the Chief Executive Officer.

The Board meets in person at least on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting the Company. The Board meeting schedule for the year is planned in the preceding year. The Company Secretary assists the Chairman in preparing the agenda for meetings and the Board in complying with relevant rules and regulations. The relevant papers for the Board meetings were dispatched to Board members in accordance with the CG Code. Directors may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Board meeting, minutes are circulated to all Directors for their comment and review prior to their approval of the minutes at the following or subsequent Board meeting. Transactions in which Directors are considered to have a conflict of interest or material interests are not passed by written resolutions and the interested Directors are not counted in the quorum and abstain from voting on the relevant matters.

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All Directors have access to the Company Secretary who is responsible for assisting the Board in complying with applicable procedures regarding compliance matters. Every Board member is entitled to have access to documents provided at the Board meeting or filed into the Company's minute-book. Furthermore, the Board has established the procedures pursuant to which a Director, upon reasonable request, may seek independent professional advice at the Company's expense in order for such Director to exercise such Director's duties. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to assist the Company's compliance with and maintenance of good corporate governance practices. Each new Director is provided with training with respect to such Director's responsibilities under the Listing Rules and other regulatory requirements and the Company's corporate governance policies and practices.

Please refer to the section entitled "Update of Directors' Information" below for further details on the changes in certain information relating to the Directors during the course of their respective terms of office.

BOARD COMMITTEES

The Board has established the following principal committees to assist it in exercising its obligations. These committees consist of a majority of Independent Non-executive Directors who have been invited to serve as members. The committees are governed by their respective charters setting out clear terms of reference.

Audit Committee

As of June 30, 2010, the members of the Company's Audit Committee (the "Audit Committee") were Lip-Bu Tan (chairman of Audit Committee), Gao Yonggang and Jiang Shang Zhou. None of these members of the Audit Committee has been an executive officer or employee of the Company or any of its subsidiaries. In addition to acting as Audit Committee member of the Company, Lip-Bu Tan, one of the members of the Audit Committee, currently also serves on the audit committee of two other publicly traded companies, namely SINA Corporation and Flextronics International Ltd. In general and in accordance with section 303A.07(a) of the Listed Company Manual of the New York Stock Exchange, the Board considered and determined that such simultaneous service would not impair the ability of Mr. Tan to effectively serve on the Company's Audit Committee.

The responsibilities of the Audit Committee include, among other things:

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of compensating and overseeing the work of the Company's independent auditor, including reviewing the experience, qualifications and performance of the senior members of the independent auditor team and pre-approving all non-audit services to be provided by the Company's independent auditor;
- approving the remuneration and terms of engagement of the Company's independent auditor;
- reviewing reports from the Company's independent auditor regarding its internal quality-control procedures and any material issues raised in the most recent review or investigation of such procedures and regarding all relationships between the Company and the independent auditor;

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- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding two years;
- reviewing the Company's annual and interim financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
- reviewing the planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (as defined and discussed below) and the quality and effectiveness of the Company's internal controls;
- reviewing the Company's risk assessment and management policies;
- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of the Company's legal and regulatory compliance procedures;
- establishing procedures for the treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters, potential violations of law and questionable accounting or auditing matters; and
- obtaining and reviewing reports from management, the Company's internal auditor and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

The Audit Committee reports its work, findings and recommendations to the Board during each quarterly Board meeting.

The Audit Committee meets in person at least on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting the audit policy of the Company. The meeting schedule for the year is planned in the preceding year. The Company Secretary assists the chairman of the Audit Committee in preparing the agenda for meetings and assists the Audit Committee in complying with the relevant rules and regulations. The relevant papers for the Audit Committee meetings were dispatched to the Audit Committee in accordance with the CG Code. Members of the Audit Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Audit Committee meeting, minutes are circulated to the members of the Audit Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Audit Committee meeting.

At each quarterly Audit Committee meeting, the Audit Committee reviews with the Chief Financial Officer and the Company's outside auditors, the financial statements for the financial period and the financial and accounting principles, policies and controls of the Company and its subsidiaries. In particular, the Committee discusses (i) the changes in accounting policies and practices, if any; (ii) the going concern assumptions, (iii) compliance with accounting standards and applicable rules and other legal requirements in relation to financial reporting and (iv) the internal controls of the Company and the accounting and financial reporting systems. Upon the recommendation of the Audit Committee, the Board approves the financial statements.

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Compensation Committee

As of June 30, 2010, the members of the Company's Compensation Committee (the "Compensation Committee") were Lip-Bu Tan (chairman of Compensation Committee), Tsuyoshi Kawanishi and Zhou Jie (with Wang Zheng Gang as his alternate). None of these members of the Compensation Committee has been an executive officer or employee of the Company or any of its subsidiaries.

The responsibilities of the Compensation Committee include, among other things:

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

The Compensation Committee reports its work, findings and recommendations to the Board during each quarterly Board meeting.

The Compensation Committee meets in person at least on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting the compensation policy of the Company. The meeting schedule for the year is planned in the preceding year. The Company Secretary assists the chairman of the Compensation Committee in preparing the agenda for meetings and assists the Compensation Committee in complying with the relevant rules and regulations. The relevant papers for the Compensation Committee meeting were dispatched to Compensation Committee members in accordance with the CG Code. Members of the Compensation Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Compensation Committee meeting, minutes are circulated to the members of the Compensation Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Compensation Committee meeting.

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Internal Audit Department

The Internal Audit Department works with and supports the Company's management team and the Audit Committee in monitoring the Company's compliance with its internal governance policies. On a regular basis, the internal audit department audits the practices, procedures, expenditure and internal controls of the various departments in the Company. After completing an audit, the internal audit department furnishes the Company's management team and the Audit Committee with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The internal audit department can also conduct reviews and investigations on an ad hoc basis.

CODE OF BUSINESS CONDUCT AND ETHICS

The Board has adopted a code of business conduct and ethics (the "Code of Conduct") which provides guidance about doing business with integrity and professionalism. The Code of Conduct addresses issues including among others, fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in the Company's securities, use of the Company's assets, and relationships with customers and third parties. Any violation of the Code of Conduct is reported to the Compliance Office, which will subsequently report such violation to the Audit Committee.

U.S. Corporate Governance Practices

Companies listed on the New York Stock Exchange must comply with certain corporate governance standards under Section 303A of the New York Stock Exchange Listed Company Manual. However, foreign private issuers such as the Company are permitted to follow home country practices in lieu of the provisions of Section 303A, except that such companies are required to comply with certain rules relating to the audit committee. Please refer to the following website at <http://www.smics.com/website/enVersion/IR/corporateGovernance.htm> for a summary of the significant differences between the Company's corporate governance practices and those required of U.S. companies under New York Stock Exchange listing standards.

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OTHER INFORMATION

1. DIVIDENDS

The Board of the Company proposed not to declare an interim dividend for the period of the six months ended June 30, 2010.

2. SHARE CAPITAL

During the six months ended June 30, 2010, the Company issued 24,920,412 Ordinary Shares to certain of the Company's eligible participants including employees, directors, officers and service providers of the Company ("eligible participants") pursuant to the Company's 2004 stock option plan (the "Stock Option Plan") and 79,746,358 ordinary shares to certain of the eligible participants pursuant to the Company's 2004 equity incentive plan.

	Number of Shares Outstanding
Outstanding Share Capital as of June 30, 2010	22,480,259,472

Under the terms of the Company's 2004 Equity Incentive Plan, the Compensation Committee may grant restricted share units ("Restricted Share Units") to eligible participants. Each Restricted Share Unit represents the right to receive one Ordinary Share. Restricted Share Units granted to new employees generally vest at a rate of 10% upon the second anniversary of the vesting commencement date, an additional 20% on the third anniversary of the vesting commencement date, and an additional 70% upon the fourth anniversary of the vesting commencement date. Restricted Share Units granted to existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date. Upon vesting of the Restricted Share Units and subject to the terms of the Insider Trading Policy and the payment by the participants of applicable taxes, the Company will issue the relevant participants the number of Ordinary Shares underlying the awards of Restricted Share Units.

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For the twelve months ended December 31, 2009, the Compensation Committee granted a total of 787,797 Restricted Share Units. And for the six months ended June 30, 2010, the Compensation Committee granted a total of 203,621,403 Restricted Share Units. The remaining vesting dates of these Restricted Share Units (after deducting the number of Restricted Share Units granted but cancelled due to the departure of eligible participants prior to vesting) approximately are as follows:

Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2010	
1-Jan	15,759,388
22-Jan	12,600
29-Jan	75,000
1-Feb	20,000
13-Feb	75,000
16-Feb	75,000
1-Mar	46,577,288
3-Mar	250,000
23-Mar	175,000
1-Apr	75,000
1-May	75,000
13-May	25,000
15-May	62,500
22-May	8,750
1-Jun	145,090
1-Jul	305,000
1-Sep	671,973
16-Sep	75,000
1-Oct	362,500
16-Oct	222,216
27-Oct	50,000
1-Nov	250,000
10-Nov	6,717,594
6-Dec	100,000
12-Dec	75,000
18-Dec	1,679,399

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Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2011	
1-Jan	18,136,961
22-Jan	12,600
29-Jan	75,000
1-Feb	1,699,398
4-Feb	1,679,399
13-Feb	75,000
16-Feb	75,000
23-Feb	1,679,398
1-Mar	47,519,305
5-Mar	50,000
12-Mar	125,000
16-Mar	50,000
31-Mar	125,000
1-Apr	1,759,993
1-May	75,000
13-May	25,000
15-May	62,500
22-May	8,750
1-Jun	145,090
16-Jun	125,000
21-Jun	75,000
1-Jul	190,000
16-Oct	150,000
27-Oct	50,000
1-Nov	250,000
10-Nov	6,717,594
12-Dec	75,000
18-Dec	1,679,399

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Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2012	
1-Jan	12,880,961
29-Jan	75,000
1-Feb	1,699,398
4-Feb	1,679,399
13-Feb	75,000
16-Feb	75,000
23-Feb	1,679,398
5-Mar	50,000
12-Mar	125,000
16-Mar	50,000
31-Mar	125,000
1-Apr	1,759,993
22-May	8,750
16-Jun	125,000
21-Jun	75,000
27-Oct	50,000
10-Nov	6,717,595
18-Dec	1,679,399
2013	
1-Jan	6,240,573
1-Feb	1,679,398
4-Feb	1,679,399
23-Feb	1,679,399
5-Mar	50,000
12-Mar	125,000
16-Mar	50,000
31-Mar	125,000
1-Apr	1,684,992
16-Jun	125,000
10-Nov	6,717,595
18-Dec	1,679,398

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Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2014	
1-Jan	6,210,194
2-Jan	18,630
1-Feb	1,679,398
4-Feb	1,679,399
23-Feb	1,679,398
5-Mar	50,000
12-Mar	125,000
16-Mar	50,000
31-Mar	125,000
1-Apr	1,684,992
16-Jun	125,000

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

Set out below are the names of the parties (not being a director or chief executive of the Company) which were interested in five 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 of June 30, 2010 as recorded in the register kept by the Company under section 336 of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO").

Name of Shareholder	Number of Shares Held	Percentage Held
Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang")	3,699,094,300 (long position)(1)	16.45%
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	410,008,000 (long position)(2)	1.82%
	1,833,269,340 (long position)(3)	8.16%
Total for SIIC	2,243,277,340 (long position)	9.98%
Taiwan Semiconductor Company Limited ("TSMC")	2,485,407,248 (long position)(4)	11.06%(5)

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Notes:

- (1) As of June 30, 2010, Datang held 3,679,094,300 ordinary shares. All such shares are held by Datang Holdings (Hongkong) Investment Company Limited which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd.
- On August 16, 2010, the Company entered into a subscription agreement with Datang (“Subscription Agreement”) whereupon the Company agreed to issue, and Datang agreed to subscribe for an additional 1,528,038,461 ordinary shares for a total cash consideration of US\$102 million at the price of HK\$0.52 per share, subject to conditions under the Subscription Agreement including (but not limited to) the obtaining of independent shareholders’ approval by the Company.
- (2) All such shares are held by SIIC Treasury (B.V.I.) Limited which is a wholly-owned subsidiary of SIIC.
- (3) All such shares are held by S.I. Technology Production Holdings Limited (“SITPHL”) which is an indirect wholly-owned subsidiary of SIIC. SITPHL is a wholly-owned subsidiary of Shanghai Industrial Financial (Holdings) Company Limited (“SIFHCL”) which in turn is a wholly-owned subsidiary of Shanghai Industrial Financial Holdings Limited (“SIFHL”). By virtue of the SFO, SIIC and its subsidiaries, SIFHCL and SIFHL are deemed to be interested in the 1,833,269,340 Shares held by SITPHL. As at June 30, 2010, the Company’s Director, Zhou Jie, is an executive director and the executive vice president of SIIC. He is also an executive director and the executive deputy CEO of Shanghai Industrial Holdings Limited. Wang Zheng Gang, alternate to Zhou Jie, is the Chief Representative of the Shanghai Representative Office of SIHL and the chairman of SIIC Management (Shanghai) Limited. It is the Company’s understanding that voting and investment control over the Shares beneficially owned by SIIC are maintained by the board of directors of SIIC.
- (4) On November 9, 2009, the Company entered into a share and warrant issuance agreement with TSMC whereupon the Company conditionally agreed to issue to TSMC 1,789,493,218 ordinary shares and a warrant (exercisable within three years of issuance) to subscribe for 695,914,030 shares of SMIC, subject to adjustment, at a purchase price of HK\$1.30 per share (the “Warrant”), subject to receipt of required government and regulatory approvals. The 1,789,493,218 ordinary shares and the Warrant were issued to TSMC on July 5, 2010, pursuant to the share and warrant issuance agreement.
- As of July 5, 2010, the number of shares deliverable to TSMC upon exercise of the Warrant was adjusted to 707,899,976 and as a result, TSMC was interested in 2,497,373,194 shares in total.
- (5) 11.06% was derived from dividing 2,485,407,248 (see note 4 above) by 22,480,259,472, being the outstanding share capital of the Company as of June 30 2010.

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4. SHAREHOLDING INTERESTS OF THE DIRECTORS OF THE COMPANY

As of June 30, 2010, the interests or short positions of the directors in the Ordinary Shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and SEHK pursuant to the Model Code) were as follows:

Board Member	Nature of Interest	Number of Shares	Percentage of Aggregate Interests to Total Issued Share Capital
Chen Shanzhi	Personal Interest(1)	3,145,319	*
Gao Yonggang	Personal Interest(1)	3,145,319	*
Jiang Shang Zhou	Personal Interest(2)	15,674,388	
	Personal Interest(3)	6,717,594	
	Personal Interest(4)	1,000,000	
Total		23,391,982	*
Tsuyoshi Kawanishi	Personal Interest(2)	3,134,877	
	Personal Interest(4)	1,000,000	
	Personal Interest(5)	500,000	
	Personal Interest(6)	1,500,000	
Total		6,134,877	*
Lip-Bu Tan	Personal Interest(2)	3,134,877	
	Personal Interest(4)	1,000,000	
	Personal Interest(5)	500,000	
Total		4,634,877	*
David N.K. Wang	Personal Interest(2)	62,697,553	
	Personal Interest(7)	26,870,379	
Total		89,567,932	*

* Indicates less than 1%.

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Notes:

- (1) On May 24, 2010, each of Mr. Chen and Mr. Gao was granted an option to purchase 3,145,319 ordinary shares at a price per ordinary share of HK\$0.59. These options will expire on the earlier of May 23, 2020 or 120 days after termination of the director's service to the Board. As at June 30, 2010, none of these options have been exercised.
- (2) On February 23, 2010, Mr. Jiang and Dr. Wang were granted an option to purchase 15,674,388 and 62,697,553 ordinary shares, respectively, at a price per ordinary share of HK\$0.77. On the same day, each of Mr. Kawanishi and Mr. Tan was granted with an option to purchase 3,134,877 ordinary shares, at a price per ordinary share of HK\$0.77. These options will expire on the earlier of February 22, 2020 or 120 days after termination of the director's service to the Board. As at June 30, 2010, none of these options have been exercised.
- (3) On February 23, 2010, Mr. Jiang was granted an award of 6,717,594 Restricted Share Units (each representing the right to receive one ordinary share) pursuant to our 2004 Equity Incentive Plan. These Restricted Share Units shall be fully vested on 23 February 2014.
- (4) On February 17, 2009, each of Mr. Jiang, Mr. Kawanishi and Mr. Tan and was granted an option to purchase 1,000,000 ordinary shares at a price per ordinary share of HK\$0.27. These options will expire on the earlier of February 17, 2019 or 120 days after termination of the director's service to the Board. As at June 30, 2010, none of these options have been exercised.
- (5) On September 29, 2006, each of Mr. Kawanishi and Mr. Tan was granted an option to purchase 500,000 ordinary shares at a price of US\$0.132 per ordinary share. These options were fully vested on May 30, 2008 and will expire on the earlier of September 29, 2016 or 120 days after termination of the director's service to the Board. As of June 30, 2010, these options have not been exercised. Mr. Jiang Shang Zhou has declined receipt of such option.
- (6) Mr. Kawanishi has been granted options to purchase an aggregate of 1,500,000 Ordinary Shares, if fully exercised. As of June 30, 2010, these options have not been exercised.
- (7) On February 23, 2010, Dr. Wang was granted an award of 26,870,379 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to our 2004 Equity Incentive Plan.

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2001 STOCK OPTION PLANS

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/09	Options Lapsed During Period	Options Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Lapsed Due to
Employees	3/28/2001	3/28/2001-3/27/2011	89,385,000	\$0.01	4,418,500	—	—	430,000	
Employees	4/2/2001	4/02/2001-4/01/2011	2,216,000	\$0.01	241,000	21,000	—	10,000	
Employees	4/16/2001	4/16/2001-4/15/2011	575,000	\$0.01	35,000	—	—	—	
Employees	4/28/2001	4/28/2001-4/27/2011	60,000	\$0.01	42,000	—	—	—	
Employees	5/14/2001	5/14/2001-5/13/2011	1,597,000	\$0.01	10,000	—	—	—	
Employees	5/15/2001	5/15/2001-5/14/2011	95,000	\$0.01	35,000	—	—	—	
Employees	7/1/2001	7/1/2001-6/30/2011	745,000	\$0.01	49,000	—	—	—	
Employees	7/15/2001	7/15/2001-7/14/2011	1,045,000	\$0.01	280,000	—	—	20,000	
Employees	7/16/2001	7/16/2001-7/15/2011	2,220,000	\$0.01	63,000	—	—	24,500	
Employees	7/27/2001	7/27/2001-7/26/2011	50,000	\$0.01	50,000	—	—	—	
Employees	7/30/2001	7/30/2001-7/29/2011	140,000	\$0.01	100,000	—	—	—	
Employees	8/1/2001	8/01/2001-7/31/2011	195,000	\$0.01	40,000	—	—	40,000	
Employees	8/7/2001	8/07/2001-8/06/2011	20,000	\$0.01	20,000	—	—	—	
Employees	8/15/2001	8/15/2001-8/14/2011	100,000	\$0.01	100,000	—	—	100,000	
Employees	8/20/2001	8/20/2001-8/19/2011	20,000	\$0.01	20,000	—	—	—	
Employees	9/24/2001	9/24/2001-9/23/2011	98,708,500	\$0.01	13,144,700	—	—	1,772,000	
Employees	9/28/2001	9/28/2001-9/27/2011	50,000	\$0.01	50,000	—	—	—	
Employees	1/24/2002	1/24/2002-1/23/2012	47,653,000	\$0.01	10,184,500	—	—	1,395,000	
Employees	1/24/2002	1/24/2002-1/23/2012	7,684,500	\$0.02	904,300	15,600	—	107,500	
Employees	4/10/2002	4/10/2002-4/09/2012	1,315,000	\$0.01	10,000	—	—	—	
Employees	4/10/2002	4/10/2002-4/09/2012	48,699,000	\$0.02	9,288,900	—	—	340,000	
Employees	4/11/2002	4/11/2002-4/10/2012	4,100,000	\$0.01	2,100,000	—	—	2,100,000	
Employees	6/28/2002	6/28/2002-6/27/2012	39,740,000	\$0.02	7,118,000	—	—	790,000	
Employees	6/28/2002	6/28/2002-6/27/2012	18,944,000	\$0.05	6,697,000	—	—	592,000	
Kawanishi, Tsuyoshi	7/11/2002	7/11/2002-7/10/2012	500,000	\$0.05	500,000	—	—	—	
Employees	7/11/2002	7/11/2002-7/10/2012	2,780,000	\$0.05	80,000	—	—	50,000	
Service Providers	9/26/2002	9/26/2002-9/25/2012	50,000	\$0.05	50,000	—	—	—	
Employees	9/26/2002	9/26/2005-9/25/2012	5,770,000	\$0.02	1,505,000	—	—	—	
Employees	9/26/2002	9/26/2005-9/25/2012	65,948,300	\$0.05	15,544,710	21,400	—	1,204,900	
Employees	1/9/2003	1/09/2003-1/08/2013	53,831,000	\$0.05	15,756,400	860,000	—	1,237,000	
Employees	4/1/2003	4/01/2003-3/31/2013	18,804,900	\$0.05	6,686,618	123,860	—	657,540	
Employees	4/15/2003	4/15/2003-4/14/2013	550,000	\$0.05	550,000	—	—	—	
Senior Management	4/24/2003	4/24/2003-4/23/2013	1,850,000	\$0.05	1,450,000	—	—	1,450,000	
Employees	4/24/2003	4/24/2003-4/23/2013	58,488,000	\$0.05	17,666,400	16,000	—	2,546,000	
Employees	7/15/2003	7/15/2003-7/14/2013	59,699,900	\$0.05	15,612,760	46,500	—	551,530	
Employees	10/10/2003	10/10/2003-10/09/2013	49,535,400	\$0.10	17,465,100	1,100,600	—	181,000	
Employees	1/5/2004	1/05/2004-1/04/2014	130,901,110	\$0.10	56,460,332	3,192,316	—	691,319	
Kawanishi, Tsuyoshi	1/15/2004	1/15/2004-1/14/2014	1,000,000	\$0.10	1,000,000	—	—	—	
Service Providers	1/15/2004	1/15/2004-3/01/2005	4,100,000	\$0.10	100,000	—	—	—	
Senior Management	1/15/2004	1/15/2004-1/14/2014	2,700,000	\$0.10	2,155,000	200,000	—	—	
Others	1/15/2004	1/15/2004-1/14/2014	4,600,000	\$0.10	2,500,000	400,000	—	—	
Employees	1/15/2004	1/15/2004-1/14/2014	20,885,000	\$0.10	7,129,000	105,000	—	—	
Senior Management	2/16/2004	2/16/2004-2/15/2014	900,000	\$0.25	900,000	400,000	—	—	
Others	2/16/2004	2/16/2004-2/15/2014	12,300,000	\$0.25	6,130,000	4,710,000	—	—	
Employees	2/16/2004	2/16/2004-2/15/2014	14,948,600	\$0.10	3,769,500	17,800	—	—	
Employees	2/16/2004	2/16/2004-2/15/2014	76,454,880	\$0.25	38,450,580	1,532,500	—	—	
			951,954,090		266,462,300	12,762,576	—	16,290,289	

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2001 PREFERENCE SHARE PLANS

Name/Eligible	Period during which	No. of Options	Exercise Price Per	Options Outstanding	Options Lapsed	Options Repurchased	Options Exercised	Options Cancelled
Employees	Date Granted	Rights Exercisable	Share (USD)	as of 12/31/09	During Period	Shares During Period*	During Period	During Period
Employees	9/24/2001	9/24/2001-9/23/2011	\$0.11	17,901,200	635,000	—	20,000	—
Employees	9/28/2001	9/28/2001-9/27/2011	\$0.11	50,000	—	—	—	—
Employees	11/3/2001	11/03/2001-11/02/2011	\$0.35	485,000	50,000	—	—	—
Employees	1/24/2002	1/24/2002-1/23/2012	\$0.11	5,411,300	592,600	—	—	—
Employees	4/10/2002	4/10/2002-4/09/2012	\$0.11	2,358,900	83,000	—	—	—
Employees	6/28/2002	6/28/2002-6/27/2012	\$0.11	7,223,000	91,000	—	20,000	—
Service Providers	7/11/2002	7/11/2002-7/10/2012	\$0.11	202,000	—	—	—	—
Employees	7/11/2002	7/11/2002-7/10/2012	\$0.11	805,000	—	—	—	—
Service Providers	9/26/2002	9/26/2002-9/25/2012	\$0.11	50,000	—	—	—	—
Employees	9/26/2002	9/26/2002-9/25/2012	\$0.11	11,356,050	199,600	—	40,000	—
Employees	1/9/2003	1/09/2003-1/08/2013	\$0.11	1,237,000	—	—	—	—

2004 STOCK OPTION PLAN

Name/Eligible	Period during which	No. of Options	Exercise Price Per	Options Outstanding	Additional Options Granted	Options Lapsed	Options Repurchased
Employees	Date Granted	Rights Exercisable	Share (USD)	as of 12/31/09	During Period	During Period	Shares During Period*
Senior Management	3/18/2004	3/18/2004-3/17/2014	\$0.35	190,000	—	80,000	—
Others	3/18/2004	3/18/2004-3/17/2014	\$0.35	20,000	—	—	—
Employees	3/18/2004	3/18/2004-3/17/2014	\$0.35	24,828,850	—	1,140,700	—
Others	4/7/2004	4/07/2004-4/06/2014	\$0.31	100,000	—	—	—
Employees	4/25/2004	4/25/2004-4/24/2014	\$0.28	10,419,200	—	304,800	—
Others	7/27/2004	7/27/2004-7/26/2014	\$0.20	100,000	—	100,000	—
Employees	7/27/2004	7/27/2004-7/26/2014	\$0.20	16,111,000	—	640,000	—
Kawanishi, Tsuyoshi	11/10/2004	11/10/2004-11/09/2009	\$0.22	500,000	—	—	—
Employees	11/10/2004	11/10/2004-11/09/2014	\$0.22	19,230,750	—	933,000	—
Lip-Bu Tan	11/10/2004	11/10/2004-11/09/2009	\$0.22	500,000	—	500,000	—
Others	11/10/2004	11/10/2004-11/09/2009	\$0.22	500,000	—	500,000	—
Senior Management	5/11/2005	5/11/2005-5/10/2015	\$0.20	900,000	—	400,000	—
Others	5/11/2005	5/11/2005-5/10/2015	\$0.20	100,000	—	—	—
Employees	5/11/2005	5/11/2005-5/10/2015	\$0.20	50,589,737	—	2,077,500	—
Others	5/11/2005	5/11/2005-5/10/2015	\$0.20	15,000,000	—	—	—
Employees	8/11/2005	8/11/2005-8/10/2015	\$0.22	14,281,500	—	414,000	—
Senior Management	11/11/2005	11/11/2005-11/10/2015	\$0.15	10,790,000	—	5,950,000	—
Others	11/11/2005	11/11/2005-11/10/2015	\$0.15	3,580,000	—	3,080,000	—
Employees	11/11/2005	11/11/2005-11/10/2015	\$0.15	95,098,500	—	8,175,500	—
Employees	2/20/2006	2/20/2006-2/19/2016	\$0.15	35,274,526	—	1,583,445	—
Employees	5/12/2006	5/12/2006-5/11/2016	\$0.15	14,400,400	—	155,400	—
Kawanishi, Tsuyoshi	9/29/2006	9/29/2006-9/28/2011	\$0.13	500,000	—	—	—
Employees	9/29/2006	9/29/2006-9/28/2016	\$0.13	25,927,200	—	2,873,200	—
Others	9/29/2006	9/29/2006-9/28/2016	\$0.13	500,000	—	—	—
Lip-Bu Tan	9/29/2006	9/29/2006-9/28/2011	\$0.13	500,000	—	—	—
Others	9/29/2006	9/29/2006-9/28/2011	\$0.13	500,000	—	—	—
Others	11/10/2006	11/10/2006-11/09/2016	\$0.13	2,150,000	—	2,000,000	—

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Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/09	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period
Employees	11/10/2006	11/10/2006-11/09/2016	33,271,000	\$0.11	18,481,000	—	1,226,600	—
Employees	5/16/2007	5/16/2007-5/15/2017	122,828,000	\$0.15	87,143,500	—	11,718,100	—
Senior Management	5/16/2007	5/16/2007-5/15/2017	2,000,000	\$0.15	1,650,000	—	1,050,000	—
Others	5/16/2007	5/16/2007-5/15/2017	5,421,000	\$0.15	5,001,000	—	4,126,000	—
Employees	12/28/2007	12/28/2007-12/27/2017	89,839,000	\$0.10	66,846,400	—	13,597,000	—
Others	12/28/2007	12/28/2007-12/27/2017	3,800,000	\$0.10	3,800,000	—	3,800,000	—
Employees	2/12/2008	2/12/2008-2/11/2018	126,941,000	\$0.08	105,541,500	—	13,002,900	—
Senior Management	2/12/2008	2/12/2008-2/11/2018	2,300,000	\$0.08	1,700,000	—	950,000	—
Others	2/12/2008	2/12/2008-2/11/2018	600,000	\$0.08	600,000	—	—	—
Employees	11/18/2008	11/18/2008-11/17/2018	117,224,090	\$0.02	94,026,090	—	13,835,650	—
Others	11/18/2008	11/18/2008-11/17/2018	1,375,000	\$0.02	1,375,000	—	540,000	—
Senior Management	11/18/2008	11/18/2008-11/17/2018	400,000	\$0.02	400,000	—	—	—
Employees	2/17/2009	2/17/2009-2/16/2019	131,943,000	\$0.03	124,693,000	—	18,882,250	—
Lip-Bu Tan	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	—	—
Others	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	—	—
Jiang Shang Zhou	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	—	—
Others	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	1,000,000	—
Kawanishi, Tsuyoshi	2/17/2009	2/17/2009-2/16/2019	1,000,000	\$0.03	1,000,000	—	—	—
Others	2/17/2009	2/17/2009-2/16/2019	400,000	\$0.03	400,000	—	37,500	—
Others	2/17/2009	2/17/2009-2/16/2019	1,000,000	\$0.03	1,000,000	—	—	—
Senior Management	2/17/2009	2/17/2009-2/16/2019	1,150,000	\$0.03	750,000	—	225,000	—
Others	2/17/2009	2/17/2009-2/16/2019	977,500	\$0.03	977,500	—	—	—
Others	2/17/2009	2/17/2009-2/16/2019	5,925,000	\$0.03	5,925,000	—	—	—
Senior Management	2/17/2009	2/17/2009-2/16/2019	3,437,200	\$0.03	2,375,200	—	—	—
Employees	2/17/2009	2/17/2009-2/16/2019	213,049,193	\$0.03	204,095,227	—	—	—
Employees	5/11/2009	5/11/2009-5/10/2019	24,102,002	\$0.04	21,729,000	—	1,990,000	—
Tsuyoshi Kawanishi	2/23/2010	2/23/2010-2/22/2020	3,134,877	\$0.10	—	3,134,877	—	—
Lip Bu Tan	2/23/2010	2/23/2010-2/22/2020	3,134,877	\$0.10	—	3,134,877	—	—
Shang Zhou Jiang	2/23/2010	2/23/2010-2/22/2020	15,674,388	\$0.10	—	15,674,388	—	—
Nin-Kou David Wang	2/23/2010	2/23/2010-2/22/2020	62,697,553	\$0.10	—	62,697,553	—	—
Senior Management	2/23/2010	2/23/2010-2/22/2020	49,498,364	\$0.10	—	49,498,364	642,600	—
Employees	2/23/2010	2/23/2010-2/22/2020	337,089,466	\$0.10	—	337,089,466	42,567,137	—
Others	2/23/2010	2/23/2010-2/22/2020	6,835,000	\$0.10	—	6,835,000	—	—
Yonggang Gao	5/24/2010	5/24/2010-5/23/2020	3,145,319	\$0.08	—	3,145,319	—	—
Shanzhi Chen	5/24/2010	5/24/2010-5/23/2020	3,145,319	\$0.08	—	3,145,319	—	—
Senior Management	5/24/2010	5/24/2010-5/23/2020	15,726,595	\$0.08	—	15,726,595	—	—
Employees	5/24/2010	5/24/2010-5/23/2020	18,251,614	\$0.08	—	18,251,614	—	—
			2,011,346,357		1,096,101,080	518,333,372	160,098,282	

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2004 EQUITY INCENTIVE PLAN

Name/Eligible	Period during which	No. of Options	Exercise Price	Options Outstanding as of	Additional Options Granted	Options Lapsed During	Options Lapsed Due to Repurchase of Ordinary Shares During
Employees	Date Granted	Rights Exercisable	Granted	Per Share (USD)	12/31/09	During Period	Period*
Employees	7/1/2004	7/01/2005–6/30/2015	96,856,590	\$0.00	37,500	—	37,500
Employees	7/27/2004	7/27/2005–7/26/2015	18,747,520	\$0.00	50,000	—	—
Employees	5/11/2005	5/11/2006–5/10/2016	4,630,000	\$0.00	35,000	—	—
Senior Management	8/11/2005	8/11/2005–8/10/2015	916,830	\$0.00	191,633	—	97,695
Others	8/11/2005	8/11/2005–8/10/2015	156,888	\$0.00	9,394	—	—
Employees	8/11/2005	8/11/2005–8/10/2015	69,430,022	\$0.00	363,441	—	102,280
Senior Management	11/11/2005	11/11/2005–11/10/2015	2,910,000	\$0.00	727,500	—	212,500
Others	11/11/2005	11/11/2005–11/10/2015	2,100,000	\$0.00	25,000	—	—
Employees	11/11/2005	11/11/2005–11/10/2015	40,275,000	\$0.00	6,561,250	—	175,000
Employees	2/20/2006	2/20/2006–2/19/2016	3,110,000	\$0.00	225,000	—	—
Employees	5/12/2006	5/12/2006–5/11/2016	2,700,000	\$0.00	625,000	—	—
Employees	9/29/2006	9/29/2006–9/28/2016	720,000	\$0.00	105,000	—	—
Others	11/10/2006	11/10/2006–11/09/2016	1,688,864	\$0.00	422,216	—	350,000
Employees	11/10/2006	11/10/2006–11/09/2016	7,340,000	\$0.00	1,062,500	—	102,500
Employees	5/16/2007	5/16/2007–5/15/2017	33,649,720	\$0.00	12,132,680	—	913,680
Others	5/16/2007	5/16/2007–5/15/2017	1,000,000	\$0.00	500,000	—	250,000
Employees	12/28/2007	12/28/2007–12/27/2017	4,910,000	\$0.00	2,955,000	—	650,000
Others	12/28/2007	12/28/2007–12/27/2017	960,000	\$0.00	480,000	—	480,000
Employees	2/12/2008	2/12/2008–2/11/2018	38,597,100	\$0.00	24,505,163	—	2,779,950
Others	2/12/2008	2/12/2008–2/11/2018	270,000	\$0.00	202,500	—	—
Senior Management	2/12/2008	2/12/2008–2/11/2018	960,000	\$0.00	550,000	—	275,000
Employees	11/18/2008	11/18/2008–11/17/2018	2,080,000	\$0.00	1,560,000	—	600,000
Employees	5/11/2009	5/11/2009–5/10/2019	787,797	\$0.00	300,000	—	150,000
Senior Management	2/23/2010	2/23/2010–2/22/2020	21,459,142	\$0.00	—	21,459,142	353,430
Employees	2/23/2010	2/23/2010–2/22/2020	139,933,819	\$0.00	—	139,933,819	12,385,027
Others	2/23/2010	2/23/2010–2/22/2020	500,500	\$0.00	—	500,500	—
Shang Zhou Jiang	2/23/2010	2/23/2010–2/22/2020	6,717,594	\$0.00	—	6,717,594	—
Nin-Kou David Wang	2/23/2010	2/23/2010–2/22/2020	26,870,379	\$0.00	—	26,870,379	—
Senior Management	5/24/2010	5/24/2010–5/23/2020	6,739,969	\$0.00	—	6,739,969	—
Employees	5/24/2010	5/24/2010–5/23/2020	1,400,000	\$0.00	—	1,400,000	—
			538,417,734		53,625,777	203,621,403	19,914,562

5. REPURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not repurchased, sold or redeemed any of its securities during the six months ended June 30, 2010.

6. MATERIAL LITIGATION AND ARBITRATION

Settlement Agreement with TSMC

On November 10, 2009, the Company announced that it entered into a settlement agreement with TSMC to resolve all pending lawsuits between the parties, including the legal action filed by TSMC in California for which a verdict was returned against the Company on November 4, 2009 and the legal action filed by the Company against TSMC in Beijing.

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As part of the settlement, the Company entered into a share and warrant issuance agreement with TSMC on November 9, 2009, whereupon the Company conditionally agreed to issue to TSMC 1,789,493,218 ordinary shares (the “New Common Shares”) and a warrant (exercisable within three years of issuance) to subscribe for 695,914,030 shares of SMIC, subject to adjustment, at a purchase price of HK\$1.30 per share (which would allow TSMC to obtain total ownership of approximately 10% of SMIC’s issued share capital after giving effect to the share issuances) (the “Warrant”), subject to receipt of required government and regulatory approvals. The 1,789,493,218 shares and the Warrant were issued to TSMC on July 5, 2010, pursuant to the Share and Warrant Issuance Agreement.

7. UPDATE OF DIRECTORS’ INFORMATION

Changes in, and updates to, previously disclosed information relating to the Directors
As required under the Listing Rules, certain changes in, and updates to, the information previously disclosed regarding the Directors during their respective terms of office are set out below:

- Dr. David N.K. Wang was appointed as the President of SMIC Americas in April 2010.
- Mr. Gao Yonggang was appointed as the executive director of Datang Hi-Tech Venture Capital Investment Co., Ltd. in May 2010.
- Mr. Chen Shanzhi was appointed as the Senior Vice President of Datang Telecom Technology & Industry Holdings Co. Ltd. in January 2010.
- Mr. Wang Zheng Gang resigned as the Vice President of Bright Dairy and Food Co. Ltd. in April 2010.
- Mr. Zhou Jie was appointed as the Chairman of the supervisory committee of Shanghai Pharmaceuticals Holding Co., Ltd.

Each of the Directors referred to above has confirmed the accuracy, and accepted responsibility of, the above information.

8. WAIVER FROM COMPLIANCE WITH THE LISTING RULES

Save as disclosed in the prospectus of the Company dated March 8, 2004, the Company has not received any waivers from compliance with the Listing Rules which are still in effect.

9. REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company, the accounting principles and practices accepted by the Group and the interim financial statements of the Company for the six months ended June 30, 2010.

By order of the Board of Directors
Semiconductor Manufacturing International Corporation
David NK Wang
President, Chief Executive Officer and Executive Director

Shanghai, PRC
August 27, 2010

Contents**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

For the six months ended June 30, 2010 and 2009

(in US\$ thousands, except share data)
(unaudited)

		Six months ended June 30,	
	NOTES	2010	2009
Sales	14	\$732,866	\$413,941
Cost of sales		622,025	556,218
Gross profit (loss)		110,841	(142,277)
Operating expenses (income):			
Research and development		86,922	66,945
General and administrative		32,618	32,123
Selling and marketing		13,065	11,112
Amortization of acquired intangible assets		13,572	17,889
Impairment loss of long-lived assets		5,138	—
(Gain) loss from sales of equipment and other fixed assets		(312)	218
Total operating expenses		151,003	128,287
Loss from operations	15	(40,162)	(270,564)
Other income (expense):			
Interest income		1,757	1,071
Interest expense		(14,077)	(13,884)
Change in the fair value of commitment to issue shares and warrants	21	(40,609)	—
Foreign currency exchange loss		(6,405)	(138)
Others, net		5,578	2,669
Total other expense, net		(53,756)	(10,282)
Loss before income tax		(93,918)	(280,846)
Income taxes benefit	13	8,841	6,185
Loss from equity investment		(314)	(1,355)
Net loss		\$(85,391)	\$(276,016)
Accretion of interest to noncontrolling interest		(521)	(521)
Loss attributable to Semiconductor Manufacturing International Corporation		\$(85,912)	\$(276,537)
Loss per share attributed to Semiconductor Manufacturing International Corporation, basic and diluted		\$(0.00)	\$(0.01)
Shares used in calculating basic and diluted loss per share		\$22,438,779,149	\$22,347,864,588

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Contents**CONDENSED CONSOLIDATED BALANCE SHEET**

As of June 30, 2010 and December 31, 2009

(in US\$ thousands, except share data)
(unaudited)

	NOTES	June 30, 2010	December 31, 2009
ASSETS			
Current assets:			
Cash and cash equivalents		\$506,547	\$443,463
Restricted cash	5	37,099	20,360
Accounts receivable, net of allowances of \$77,465 and of \$96,145 on June 30, 2010 and December 31, 2009, respectively	7, 16	208,856	204,291
Inventories	8	203,901	193,705
Prepaid expense and other current assets		38,703	28,882
Asset held for sale		9,168	8,184
Current portion of deferred tax assets		5,539	8,173
Total current assets		1,009,813	907,058
Prepaid land use rights		79,537	78,112
Plant and equipment, net		2,053,713	2,251,614
Acquired intangible assets, net		181,805	182,694
Equity investment		9,244	9,848
Other long-term prepayments		143	392
Deferred tax assets		109,850	94,359
TOTAL ASSETS		\$3,444,105	\$3,524,077
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	9	\$254,967	\$228,883
Short-term borrowings	10	357,387	286,864
Current portion of long-term debts	10	275,294	205,784
Accrued expenses and other current liabilities		113,563	111,087
Current portion of promissory notes	11	54,164	78,608
Commitment to issue shares and warrants relating to litigation settlement	21	160,847	120,238
Income tax payable		94	59
Total current liabilities		1,216,316	1,031,523
Long-term liabilities:			
Non-current portion of promissory notes	11	69,921	83,325
Long-term debt	10	365,027	550,653
Long-term payables relating to license agreements		2,419	4,780
Other long-term liabilities	20	36,952	21,679
Deferred tax liabilities		1,097	1,035
Total long-term liabilities		475,416	661,472
Total liabilities		1,691,732	1,692,995
Noncontrolling interest	12	35,362	34,842

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	NOTES	June 30, 2010	December 31, 2009
Equity:			
Ordinary shares, \$0.0004 par value, 50,000,000,000 authorized, 22,480,259,472 and 22,375,886,604 shares issued and outstanding on June 30, 2010 and December 31, 2009, respectively		8,992	8,950
Additional paid-in capital		3,507,140	3,499,723
Accumulated other comprehensive loss		(1,162)	(386)
Accumulated deficit		(1,797,959)	(1,712,047)
Total equity		1,717,011	1,796,240
TOTAL LIABILITIES NONCONTROLLING INTEREST AND EQUITY		\$3,444,105	\$3,524,077
Net current liabilities		\$206,504	\$124,465
Total assets less current liabilities		\$2,227,789	\$2,492,554

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Contents**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE LOSS**

For the six months ended June 30, 2010 and 2009

(in US\$ thousands, except share data)

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders equity	Total comprehensive loss
	Share	Amount					
Balance at January 1, 2010	22,375,886,604	\$8,950	\$3,499,723	\$(386)	\$(1,712,047)	\$1,796,240	\$—
Exercise of employee stock options	104,372,868	42	1,031	—	—	1,073	—
Share based compensation	—	—	6,386	—	—	6,386	—
Net loss	—	—	—	—	\$(85,912)	(85,912)	(85,912)
Unrealized loss on hedge contracts	—	—	—	(803)	—	(803)	(803)
Foreign currency translation adjustments	—	—	27	—	27	27	—
Balance at June 30, 2010	22,480,259,472	\$8,992	\$3,507,140	\$(1,162)	\$(1,797,959)	\$1,717,011	\$(86,688)
Balance at January 1, 2009	22,327,784,827	\$8,931	\$3,489,382	\$(439)	\$(748,510)	\$2,749,364	\$—
Exercise of employee stock options	25,626,845	10	43	—	—	53	—
Share based compensation	—	—	4,903	—	—	4,903	—
Net loss	—	—	—	—	\$(276,537)	(276,537)	(276,537)
Unrealized loss on hedge contracts	—	—	—	(14)	—	(14)	(14)
Foreign currency translation adjustments	—	—	—	553	—	553	553
Balance at June 30, 2009	22,353,411,672	\$8,941	\$3,494,328	\$100	\$(1,025,047)	\$2,478,322	\$(275,998)

The accompanying notes are in integral part of these unaudited condensed consolidated financial statements.

Contents**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended June 30, 2010 and 2009

(in US\$ thousands)
(unaudited)

	Six months ended June 30,	
	2010	2009
Operating activities:		
Net loss	\$(85,391)	\$(276,016)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred taxes	(12,795)	(11,641)
(Gain) loss from sale of equipment and other fixed assets	(312)	218
Depreciation and amortization	319,618	387,905
Non-cash interest expense on promissory notes and long-term payable relating to license agreements	2,250	2,039
Amortization of acquired intangible assets	13,572	17,889
Share-based compensation	6,386	4,903
Loss from equity investment	314	1,355
Impairment loss of long-lived assets	5,138	—
Change in the fair value of commitment to issue shares and warrants	40,609	—
Allowance for doubtful accounts	282	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,848)	38,190
Inventories	(10,195)	(11,375)
Prepaid expense and other current assets	(9,573)	38,493
Long-term receivable	—	(109,632)
Prepaid land use right	(2,137)	—
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