



中芯國際集成電路製造有限公司\*  
Semiconductor Manufacturing International Corporation

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 0981



Interim Report 2010



Local **REACH**  
**GLOBAL** Bridge

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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 results of new information, future events or otherwise.

## 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; and
- “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.

# CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation (the "Company")
Chinese name	中芯國際集成電路製造有限公司*
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	<a href="http://www.smics.com">http://www.smics.com</a>
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

# 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

# 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.



## 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.

*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.



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.

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.

*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.

## 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.

## 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.

# 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](http://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.



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:

<b>Name of Director</b>	<b>Category of Director</b>	<b>Class of Director</b>
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.

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;

- 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.

### 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.

### **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.

## 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.

	<b>Number of Shares Outstanding</b>
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.



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:

<b>Vesting Dates</b>	<b>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)</b>
<b>2010</b>	
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

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)
<b>2011</b>	
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

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)
<b>2012</b>	
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
<b>2013</b>	
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

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)
<b>2014</b>	
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) <sup>(1)</sup>	16.45%
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	410,008,000 (long position) <sup>(2)</sup> 1,833,269,340 (long position) <sup>(3)</sup>	1.82% 8.16%
Total for SIIC	2,243,277,340 (long position)	9.98%
Taiwan Semiconductor Company Limited ("TSMC")	2,485,407,248 (long position) <sup>(4)</sup>	11.06% <sup>(5)</sup>

## 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.

#### 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:

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

\* Indicates less than 1%.



## 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.

## 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 of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/10	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Employees	3/28/2001	3/28/2001-3/27/2011	89,385,000	\$0.01	4,418,500	—	—	430,000	—	3,988,500	\$0.07	\$0.03
Employees	4/2/2001	4/02/2001-4/01/2011	2,216,000	\$0.01	241,000	21,000	—	10,000	—	210,000	\$—	\$0.03
Employees	4/16/2001	4/16/2001-4/15/2011	575,000	\$0.01	35,000	—	—	—	—	35,000	\$—	\$0.03
Employees	4/28/2001	4/28/2001-4/27/2011	60,000	\$0.01	42,000	—	—	—	—	42,000	\$—	\$0.03
Employees	5/14/2001	5/14/2001-5/13/2011	1,597,000	\$0.01	10,000	—	—	—	—	10,000	\$—	\$0.03
Employees	5/15/2001	5/15/2001-5/14/2011	95,000	\$0.01	35,000	—	—	—	—	35,000	\$—	\$0.03
Employees	7/1/2001	7/1/2001-6/30/2011	745,000	\$0.01	49,000	—	—	—	—	49,000	\$—	\$0.03
Employees	7/15/2001	7/15/2001-7/14/2011	1,045,000	\$0.01	280,000	—	—	20,000	—	260,000	\$—	\$0.03
Employees	7/16/2001	7/16/2001-7/15/2011	2,220,000	\$0.01	63,000	—	—	24,500	—	38,500	\$—	\$0.03
Employees	7/27/2001	7/27/2001-7/26/2011	50,000	\$0.01	50,000	—	—	—	—	50,000	\$—	\$0.03
Employees	7/30/2001	7/30/2001-7/29/2011	140,000	\$0.01	100,000	—	—	—	—	100,000	\$—	\$0.03
Employees	8/1/2001	8/01/2001-7/31/2011	195,000	\$0.01	40,000	—	—	40,000	—	—	\$—	\$0.03
Employees	8/7/2001	8/07/2001-8/06/2011	20,000	\$0.01	20,000	—	—	—	—	20,000	\$—	\$0.03
Employees	8/15/2001	8/15/2001-8/14/2011	100,000	\$0.01	100,000	—	—	100,000	—	—	\$—	\$0.03
Employees	8/20/2001	8/20/2001-8/19/2011	20,000	\$0.01	20,000	—	—	—	—	20,000	\$—	\$0.03
Employees	9/24/2001	9/24/2001-9/23/2011	98,708,500	\$0.01	13,144,700	—	—	1,772,000	—	11,372,700	\$0.05	\$0.03
Employees	9/28/2001	9/28/2001-9/27/2011	50,000	\$0.01	50,000	—	—	—	—	50,000	\$—	\$0.03
Employees	1/24/2002	1/24/2002-1/23/2012	47,653,000	\$0.01	10,184,500	—	—	1,395,000	—	8,789,500	\$0.04	\$0.03
Employees	1/24/2002	1/24/2002-1/23/2012	7,684,500	\$0.02	904,300	15,600	—	107,500	—	781,200	\$0.06	\$0.03
Employees	4/10/2002	4/10/2002-4/09/2012	1,315,000	\$0.01	10,000	—	—	—	—	10,000	\$—	\$0.05
Employees	4/10/2002	4/10/2002-4/09/2012	48,699,000	\$0.02	9,288,900	—	—	340,000	—	8,948,900	\$0.06	\$0.05
Employees	4/11/2002	4/11/2002-4/10/2012	4,100,000	\$0.01	2,100,000	—	—	2,100,000	—	—	\$—	\$0.05
Employees	6/28/2002	6/28/2002-6/27/2012	39,740,000	\$0.02	7,118,000	—	—	790,000	—	6,328,000	\$0.07	\$0.06
Employees	6/28/2002	6/28/2002-6/27/2012	18,944,000	\$0.05	6,697,000	—	—	592,000	—	6,105,000	\$0.06	\$0.06
Kawanishi, Tsuyoshi	7/11/2002	7/11/2002-7/10/2012	500,000	\$0.05	500,000	—	—	—	—	500,000	\$—	\$0.07
Employees	7/11/2002	7/11/2002-7/10/2012	2,780,000	\$0.05	80,000	—	—	50,000	—	30,000	\$—	\$0.07
Service Providers	9/26/2002	9/26/2002-9/25/2012	50,000	\$0.05	50,000	—	—	—	—	50,000	\$—	\$0.03
Employees	9/26/2002	9/26/2005-9/25/2012	5,770,000	\$0.02	1,505,000	—	—	—	—	1,505,000	\$0.07	\$0.08
Employees	9/26/2002	9/26/2005-9/25/2012	65,948,300	\$0.05	15,544,710	21,400	—	1,204,900	—	14,318,410	\$0.08	\$0.08
Employees	1/9/2003	1/09/2003-1/08/2013	53,831,000	\$0.05	15,756,400	860,000	—	1,237,000	—	13,659,400	\$0.08	\$0.10
Employees	4/1/2003	4/01/2003-3/31/2013	18,804,900	\$0.05	6,686,618	123,860	—	657,540	—	5,905,218	\$0.08	\$0.14
Employees	4/15/2003	4/15/2003-4/14/2013	550,000	\$0.05	550,000	—	—	—	—	550,000	\$—	\$0.14
Senior Management	4/24/2003	4/24/2003-4/23/2013	1,850,000	\$0.05	1,450,000	—	—	1,450,000	—	—	\$—	\$0.14
Employees	4/24/2003	4/24/2003-4/23/2013	58,488,000	\$0.05	17,666,400	16,000	—	2,546,000	—	15,104,400	\$0.08	\$0.14
Employees	7/15/2003	7/15/2003-7/14/2013	59,699,900	\$0.05	15,612,760	46,500	—	551,530	—	15,014,730	\$0.08	\$0.17
Employees	10/10/2003	10/10/2003-10/09/2013	49,535,400	\$0.10	17,465,100	1,100,600	—	181,000	—	16,183,500	\$—	\$0.29
Employees	1/5/2004	1/05/2004-1/04/2014	130,901,110	\$0.10	56,460,332	3,192,316	—	691,319	—	52,576,697	\$0.10	\$0.33
Kawanishi, Tsuyoshi	1/15/2004	1/15/2004-1/14/2014	1,000,000	\$0.10	1,000,000	—	—	—	—	1,000,000	\$—	\$0.33
Service Providers	1/15/2004	1/15/2004-3/01/2005	4,100,000	\$0.10	100,000	—	—	—	—	100,000	\$—	\$0.14
Senior Management	1/15/2004	1/15/2004-1/14/2014	2,700,000	\$0.10	2,155,000	200,000	—	—	—	1,955,000	\$—	\$0.14
Others	1/15/2004	1/15/2004-1/14/2014	4,600,000	\$0.10	2,500,000	400,000	—	—	—	2,100,000	\$—	\$0.35
Employees	1/15/2004	1/15/2004-1/14/2014	20,885,000	\$0.10	7,129,000	105,000	—	—	—	7,024,000	\$—	\$0.33
Senior Management	2/16/2004	2/16/2004-2/15/2014	900,000	\$0.25	900,000	400,000	—	—	—	500,000	\$—	\$0.33
Others	2/16/2004	2/16/2004-2/15/2014	12,300,000	\$0.25	6,130,000	4,710,000	—	—	—	1,420,000	\$—	\$0.35
Employees	2/16/2004	2/16/2004-2/15/2014	14,948,600	\$0.10	3,769,500	17,800	—	—	—	3,751,700	\$—	\$0.33
Employees	2/16/2004	2/16/2004-2/15/2014	76,454,880	\$0.25	38,450,580	1,532,500	—	—	—	36,918,080	\$—	\$0.33
			<b>951,954,090</b>		<b>266,462,300</b>	<b>12,762,576</b>	<b>—</b>	<b>16,290,289</b>	<b>—</b>	<b>237,409,435</b>		

## 2001 PREFERENCE SHARE 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 Repurchased of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/10	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted
											(USD)	(USD)
Employees	9/24/2001	9/24/2001-9/23/2011	246,698,700	\$0.11	17,901,200	635,000	—	20,000	—	17,246,200	\$—	\$0.11
Employees	9/28/2001	9/28/2001-9/27/2011	50,000	\$0.11	50,000	—	—	—	—	50,000	\$—	\$0.11
Employees	11/3/2001	11/03/2001-11/02/2011	780,000	\$0.35	485,000	50,000	—	—	—	435,000	\$—	\$0.11
Employees	1/24/2002	1/24/2002-1/23/2012	58,357,500	\$0.11	5,411,300	592,600	—	—	—	4,818,700	\$—	\$0.12
Employees	4/10/2002	4/10/2002-4/09/2012	52,734,000	\$0.11	2,358,900	83,000	—	—	—	2,275,900	\$—	\$0.13
Employees	6/28/2002	6/28/2002-6/27/2012	63,332,000	\$0.11	7,223,000	91,000	—	20,000	—	7,112,000	\$—	\$0.14
Service Providers	7/11/2002	7/11/2002-7/10/2012	462,000	\$0.11	202,000	—	—	—	—	202,000	\$—	\$0.14
Employees	7/11/2002	7/11/2002-7/10/2012	4,530,000	\$0.11	805,000	—	—	—	—	805,000	\$—	\$0.14
Service Providers	9/26/2002	9/26/2002-9/25/2012	50,000	\$0.11	50,000	—	—	—	—	50,000	\$—	\$0.15
Employees	9/26/2002	9/26/2002-9/25/2012	73,804,800	\$0.11	11,356,050	199,600	—	40,000	—	11,116,450	\$—	\$0.15
Employees	1/9/2003	1/09/2003-1/08/2013	12,686,000	\$0.11	1,237,000	—	—	—	—	1,237,000	\$—	\$0.17

## 2004 STOCK OPTION PLAN

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 Repurchased of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/10	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted
												(USD)	(USD)
Senior Management	3/18/2004	3/18/2004-3/17/2014	190,000	\$0.35	190,000	—	80,000	—	—	—	110,000	\$—	\$0.35
Others	3/18/2004	3/18/2004-3/17/2014	20,000	\$0.35	20,000	—	—	—	—	—	20,000	\$—	\$0.35
Employees	3/18/2004	3/18/2004-3/17/2014	49,869,700	\$0.35	24,828,850	—	1,140,700	—	—	—	23,688,150	\$—	\$0.35
Others	4/7/2004	4/07/2004-4/06/2014	100,000	\$0.31	100,000	—	—	—	—	—	100,000	\$—	\$0.31
Employees	4/25/2004	4/25/2004-4/24/2014	22,591,800	\$0.28	10,419,200	—	304,800	—	—	—	10,114,400	\$—	\$0.28
Others	7/27/2004	7/27/2004-7/26/2014	200,000	\$0.20	100,000	—	100,000	—	—	—	—	\$—	\$0.20
Employees	7/27/2004	7/27/2004-7/26/2014	35,983,000	\$0.20	16,111,000	—	640,000	—	—	—	15,471,000	\$—	\$0.20
Kawanishi, Tsuyoshi	11/10/2004	11/10/2004-11/09/2009	500,000	\$0.22	500,000	—	—	—	—	—	500,000	\$—	\$0.22
Employees	11/10/2004	11/10/2004-11/09/2014	52,036,140	\$0.22	19,230,750	—	933,000	—	—	—	18,297,750	\$—	\$0.22
Lip-Bu Tan	11/10/2004	11/10/2004-11/09/2009	500,000	\$0.22	500,000	—	500,000	—	—	—	—	\$—	\$0.22
Others	11/10/2004	11/10/2004-11/09/2009	500,000	\$0.22	500,000	—	500,000	—	—	—	—	\$—	\$0.22
Senior Management	5/11/2005	5/11/2005-5/10/2015	900,000	\$0.20	900,000	—	400,000	—	—	—	500,000	\$—	\$0.20
Others	5/11/2005	5/11/2005-5/10/2015	100,000	\$0.20	100,000	—	—	—	—	—	100,000	\$—	\$0.20
Employees	5/11/2005	5/11/2005-5/10/2015	94,581,300	\$0.20	50,589,737	—	2,077,500	—	—	—	48,512,237	\$—	\$0.20
Others	5/11/2005	5/11/2005-5/10/2015	15,000,000	\$0.20	15,000,000	—	—	—	—	—	15,000,000	\$—	\$0.22
Employees	8/11/2005	8/11/2005-8/10/2015	32,279,500	\$0.22	14,281,500	—	414,000	—	—	—	13,867,500	\$—	\$0.22
Senior Management	11/11/2005	11/11/2005-11/10/2015	11,640,000	\$0.15	10,790,000	—	5,950,000	—	—	—	4,840,000	\$—	\$0.15
Others	11/11/2005	11/11/2005-11/10/2015	3,580,000	\$0.15	3,580,000	—	3,080,000	—	—	—	500,000	\$—	\$0.15
Employees	11/11/2005	11/11/2005-11/10/2015	149,642,000	\$0.15	95,098,500	—	8,175,500	—	—	—	86,923,000	\$—	\$0.15
Employees	2/20/2006	2/20/2006-2/19/2016	62,756,470	\$0.15	35,274,526	—	1,583,445	—	—	—	33,691,081	\$—	\$0.15
Employees	5/12/2006	5/12/2006-5/11/2016	22,216,090	\$0.15	14,400,400	—	155,400	—	—	—	14,245,000	\$—	\$0.15
Kawanishi, Tsuyoshi	9/29/2006	9/29/2006-9/28/2011	500,000	\$0.13	500,000	—	—	—	—	—	500,000	\$—	\$0.13
Employees	9/29/2006	9/29/2006-9/28/2016	40,394,000	\$0.13	25,927,200	—	2,873,200	—	—	—	23,054,000	\$—	\$0.13
Others	9/29/2006	9/29/2006-9/28/2016	500,000	\$0.13	500,000	—	—	—	—	—	500,000	\$—	\$0.13
Lip-Bu Tan	9/29/2006	9/29/2006-9/28/2011	500,000	\$0.13	500,000	—	—	—	—	—	500,000	\$—	\$0.13
Others	9/29/2006	9/29/2006-9/28/2011	500,000	\$0.13	500,000	—	—	—	—	—	500,000	\$—	\$0.13
Others	11/10/2006	11/10/2006-11/09/2016	2,450,000	\$0.13	2,150,000	—	2,000,000	—	—	—	150,000	\$—	\$0.13

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*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/10	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Employees	11/10/2006	11/10/2006-11/09/2016	33,271,000	\$0.11	18,481,000	—	1,226,600	—	7,200	—	17,247,200	\$—	\$0.11
Employees	5/16/2007	5/16/2007-5/15/2017	122,828,000	\$0.15	87,143,500	—	11,718,100	—	—	—	75,425,400	\$—	\$0.15
Senior Management	5/16/2007	5/16/2007-5/15/2017	2,000,000	\$0.15	1,650,000	—	1,050,000	—	—	—	600,000	\$—	\$0.15
Others	5/16/2007	5/16/2007-5/15/2017	5,421,000	\$0.15	5,001,000	—	4,126,000	—	—	—	875,000	\$—	\$0.15
Employees	12/28/2007	12/28/2007-12/27/2017	89,839,000	\$0.10	66,846,400	—	13,597,000	—	3,000	—	53,246,400	\$—	\$0.10
Others	12/28/2007	12/28/2007-12/27/2017	3,800,000	\$0.10	3,800,000	—	3,800,000	—	—	—	—	\$—	\$0.10
Employees	2/12/2008	2/12/2008-2/11/2018	126,941,000	\$0.08	105,541,500	—	13,002,900	—	2,127,400	—	90,411,200	\$—	\$0.08
Senior Management	2/12/2008	2/12/2008-2/11/2018	2,300,000	\$0.08	1,700,000	—	950,000	—	—	—	750,000	\$—	\$0.08
Others	2/12/2008	2/12/2008-2/11/2018	600,000	\$0.08	600,000	—	—	—	—	—	600,000	\$—	\$0.08
Employees	11/18/2008	11/18/2008-11/17/2018	117,224,090	\$0.02	94,026,090	—	13,835,650	—	567,350	—	79,623,090	\$—	\$0.02
Others	11/18/2008	11/18/2008-11/17/2018	1,375,000	\$0.02	1,375,000	—	540,000	—	180,000	—	655,000	\$—	\$0.02
Senior Management	11/18/2008	11/18/2008-11/17/2018	400,000	\$0.02	400,000	—	—	—	—	—	400,000	\$—	\$0.02
Employees	2/17/2009	2/17/2009-2/16/2019	131,943,000	\$0.03	124,693,000	—	18,882,250	—	4,422,250	—	101,388,500	\$—	\$0.03
Lip-Bu Tan	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	—	—	—	—	1,000,000	\$—	\$0.03
Others	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	—	—	—	—	1,000,000	\$—	\$0.03
Jiang Shang Zhou	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	—	—	—	—	1,000,000	\$—	\$0.03
Others	2/17/2009	2/17/2009-2/16/2014	1,000,000	\$0.03	1,000,000	—	1,000,000	—	—	—	—	\$—	\$0.03
Kawanishi, Tsuyoshi	2/17/2009	2/17/2009-2/16/2019	1,000,000	\$0.03	1,000,000	—	—	—	—	—	1,000,000	\$—	\$0.03
Others	2/17/2009	2/17/2009-2/16/2019	400,000	\$0.03	400,000	—	37,500	—	12,500	—	350,000	\$—	\$0.03
Others	2/17/2009	2/17/2009-2/16/2019	1,000,000	\$0.03	1,000,000	—	—	—	—	—	1,000,000	\$—	\$0.03
Senior Management	2/17/2009	2/17/2009-2/16/2019	1,150,000	\$0.03	750,000	—	225,000	—	75,000	—	450,000	\$—	\$0.03
Others	2/17/2009	2/17/2009-2/16/2019	977,500	\$0.03	977,500	—	—	—	—	977,500	—	\$—	\$0.03
Others	2/17/2009	2/17/2009-2/16/2019	5,925,000	\$0.03	5,925,000	—	—	—	—	5,925,000	—	\$—	\$0.03
Senior Management	2/17/2009	2/17/2009-2/16/2019	3,437,200	\$0.03	2,375,200	—	—	—	—	2,375,200	—	\$—	\$0.03
Employees	2/17/2009	2/17/2009-2/16/2019	213,049,193	\$0.03	204,095,227	—	—	—	—	204,095,227	—	\$—	\$0.03
Employees	5/11/2009	5/11/2009-5/10/2019	24,102,002	\$0.04	21,729,000	—	1,990,000	—	300,000	—	19,439,000	\$—	\$0.04
Tsuyoshi Kawanishi	2/23/2010	2/23/2010-2/22/2020	3,134,877	\$0.10	—	3,134,877	—	—	—	—	3,134,877	\$—	\$0.10
Lip Bu Tan	2/23/2010	2/23/2010-2/22/2020	3,134,877	\$0.10	—	3,134,877	—	—	—	—	3,134,877	\$—	\$0.10
Shang Zhou Jiang	2/23/2010	2/23/2010-2/22/2020	15,674,388	\$0.10	—	15,674,388	—	—	—	—	15,674,388	\$—	\$0.10
Nin-Kou David Wang	2/23/2010	2/23/2010-2/22/2020	62,697,553	\$0.10	—	62,697,553	—	—	—	—	62,697,553	\$—	\$0.10
Senior Management	2/23/2010	2/23/2010-2/22/2020	49,498,364	\$0.10	—	49,498,364	642,600	—	—	—	48,855,764	\$—	\$0.10
Employees	2/23/2010	2/23/2010-2/22/2020	337,089,466	\$0.10	—	337,089,466	42,567,137	—	855,423	—	293,666,906	\$—	\$0.10
Others	2/23/2010	2/23/2010-2/22/2020	6,835,000	\$0.10	—	6,835,000	—	—	—	—	6,835,000	\$—	\$0.10
Yonggang Gao	5/24/2010	5/24/2010-5/23/2020	3,145,319	\$0.08	—	3,145,319	—	—	—	—	3,145,319	\$—	\$0.08
Shanzhi Chen	5/24/2010	5/24/2010-5/23/2020	3,145,319	\$0.08	—	3,145,319	—	—	—	—	3,145,319	\$—	\$0.08
Senior Management	5/24/2010	5/24/2010-5/23/2020	15,726,595	\$0.08	—	15,726,595	—	—	—	—	15,726,595	\$—	\$0.08
Employees	5/24/2010	5/24/2010-5/23/2020	18,251,614	\$0.08	—	18,251,614	—	—	—	—	18,251,614	\$—	\$0.08
			<b>2,011,346,357</b>		<b>1,096,101,080</b>	<b>518,333,372</b>	<b>160,098,282</b>	<b>—</b>	<b>8,550,123</b>	<b>213,372,927</b>	<b>1,232,413,120</b>		

## 2004 EQUITY INCENTIVE PLAN

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			Options Outstanding as of 6/30/10	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Vested (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Granted (USD)
								Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period			
Employees	7/1/2004	7/01/2005-6/30/2015	96,856,590	\$0.00	37,500	—	37,500	—	—	—	—	\$0.13	\$0.22
Employees	7/27/2004	7/27/2005-7/26/2015	18,747,520	\$0.00	50,000	—	—	—	50,000	—	—	\$0.07	\$0.20
Employees	5/11/2005	5/11/2006-5/10/2016	4,630,000	\$0.00	35,000	—	—	—	—	—	35,000	\$0.11	\$0.20
Senior Management	8/11/2005	8/11/2005-8/10/2015	916,830	\$0.00	191,633	—	97,695	—	48,848	—	45,090	\$0.11	\$0.22
Others	8/11/2005	8/11/2005-8/10/2015	156,888	\$0.00	9,394	—	—	—	9,394	—	—	\$—	\$0.22
Employees	8/11/2005	8/11/2005-8/10/2015	69,430,022	\$0.00	363,441	—	102,280	—	186,588	—	74,573	\$0.09	\$0.22
Senior Management	11/11/2005	11/11/2005-11/10/2015	2,910,000	\$0.00	727,500	—	212,500	—	515,000	—	—	\$0.11	\$0.15
Others	11/11/2005	11/11/2005-11/10/2015	2,100,000	\$0.00	25,000	—	—	—	25,000	—	—	\$0.11	\$0.15
Employees	11/11/2005	11/11/2005-11/10/2015	40,275,000	\$0.00	6,561,250	—	175,000	—	6,211,250	—	175,000	\$0.11	\$0.15
Employees	2/20/2006	2/20/2006-2/19/2016	3,110,000	\$0.00	225,000	—	—	—	225,000	—	—	\$0.11	\$0.15
Employees	5/12/2006	5/12/2006-5/11/2016	2,700,000	\$0.00	625,000	—	—	—	625,000	—	—	\$0.07	\$0.15
Employees	9/29/2006	9/29/2006-9/28/2016	720,000	\$0.00	105,000	—	—	—	—	—	105,000	\$—	\$0.13
Others	11/10/2006	11/10/2006-11/09/2016	1,688,864	\$0.00	422,216	—	350,000	—	—	—	72,216	\$0.13	\$0.11
Employees	11/10/2006	11/10/2006-11/09/2016	7,340,000	\$0.00	1,062,500	—	102,500	—	—	—	960,000	\$0.13	\$0.11
Employees	5/16/2007	5/16/2007-5/15/2017	33,649,720	\$0.00	12,132,680	—	913,680	—	6,035,000	—	5,184,000	\$0.11	\$0.14
Others	5/16/2007	5/16/2007-5/15/2017	1,000,000	\$0.00	500,000	—	250,000	—	250,000	—	—	\$0.10	\$0.14
Employees	12/28/2007	12/28/2007-12/27/2017	4,910,000	\$0.00	2,955,000	—	650,000	—	237,500	—	2,067,500	\$—	\$0.10
Others	12/28/2007	12/28/2007-12/27/2017	960,000	\$0.00	480,000	—	480,000	—	—	—	—	\$—	\$0.10
Employees	2/12/2008	2/12/2008-2/11/2018	38,597,100	\$0.00	24,505,163	—	2,779,950	—	8,377,188	—	13,348,025	\$—	\$0.08
Others	2/12/2008	2/12/2008-2/11/2018	270,000	\$0.00	202,500	—	—	—	67,500	—	135,000	\$—	\$0.08
Senior Management	2/12/2008	2/12/2008-2/11/2018	960,000	\$0.00	550,000	—	275,000	—	165,000	—	110,000	\$—	\$0.08
Employees	11/18/2008	11/18/2008-11/17/2018	2,080,000	\$0.00	1,560,000	—	600,000	—	320,000	—	640,000	\$—	\$0.02
Employees	5/11/2009	5/11/2009-5/10/2019	787,797	\$0.00	300,000	—	150,000	—	—	—	150,000	\$—	\$0.04
Senior Management	2/23/2010	2/23/2010-2/22/2020	21,459,142	\$0.00	—	21,459,142	353,430	—	653,180	—	20,452,532	\$—	\$0.10
Employees	2/23/2010	2/23/2010-2/22/2020	139,933,819	\$0.00	—	139,933,819	12,385,027	—	55,494,660	—	72,054,132	\$—	\$0.10
Others	2/23/2010	2/23/2010-2/22/2020	500,500	\$0.00	—	500,500	—	—	250,250	—	250,250	\$—	\$0.10
Shang Zhou Jiang	2/23/2010	2/23/2010-2/22/2020	6,717,594	\$0.00	—	6,717,594	—	—	—	—	6,717,594	\$—	\$0.10
Nin-Kou David Wang	2/23/2010	2/23/2010-2/22/2020	26,870,379	\$0.00	—	26,870,379	—	—	—	—	26,870,379	\$—	\$0.10
Senior Management	5/24/2010	5/24/2010-5/23/2020	6,739,969	\$0.00	—	6,739,969	—	—	—	—	6,739,969	\$—	\$0.08
Employees	5/24/2010	5/24/2010-5/23/2020	1,400,000	\$0.00	—	1,400,000	—	—	—	—	1,400,000	\$—	\$0.08
			<b>538,417,734</b>		<b>53,625,777</b>	<b>203,621,403</b>	<b>19,914,562</b>		<b>79,746,358</b>		<b>157,586,260</b>		

## 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.

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

# CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended June 30, 2010 and 2009

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

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

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

# 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
<b>ASSETS</b>			
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
<b>Total current assets</b>		<b>1,009,813</b>	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
<b>TOTAL ASSETS</b>		<b>\$3,444,105</b>	\$3,524,077
<b>LIABILITIES AND EQUITY</b>			
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
<b>Total current liabilities</b>		<b>1,216,316</b>	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
<b>Total long-term liabilities</b>		<b>475,416</b>	661,472
<b>Total liabilities</b>		<b>1,691,732</b>	1,692,995
Noncontrolling interest	12	35,362	34,842



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
<b>TOTAL LIABILITIES NONCONTROLLING INTEREST AND EQUITY</b>	<b>\$3,444,105</b>	<b>\$3,524,077</b>
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.

# 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		Total stockholders equity	Total comprehensive loss
	Share	Amount		Accumulated	deficit		
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	—
<b>Balance at June 30, 2010</b>	<b>22,480,259,472</b>	<b>\$8,992</b>	<b>\$3,507,140</b>	<b>\$(1,162)</b>	<b>\$(1,797,959)</b>	<b>\$1,717,011</b>	<b>\$(86,688)</b>
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
<b>Balance at June 30, 2009</b>	<b>22,353,411,672</b>	<b>\$8,941</b>	<b>\$3,494,328</b>	<b>\$100</b>	<b>\$(1,025,047)</b>	<b>\$2,478,322</b>	<b>\$(275,998)</b>

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

# 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	<b>\$(85,391)</b>	\$(276,016)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred taxes	<b>(12,795)</b>	(11,641)
(Gain) loss from sale of equipment and other fixed assets	<b>(312)</b>	218
Depreciation and amortization	<b>319,618</b>	387,905
Non-cash interest expense on promissory notes and long-term payable relating to license agreements	<b>2,250</b>	2,039
Amortization of acquired intangible assets	<b>13,572</b>	17,889
Share-based compensation	<b>6,386</b>	4,903
Loss from equity investment	<b>314</b>	1,355
Impairment loss of long-lived assets	<b>5,138</b>	—
Change in the fair value of commitment to issue shares and warrants	<b>40,609</b>	—
Allowance for doubtful accounts	<b>282</b>	—
Changes in operating assets and liabilities:		
Accounts receivable	<b>(4,848)</b>	38,190
Inventories	<b>(10,195)</b>	(11,375)
Prepaid expense and other current assets	<b>(9,573)</b>	38,493
Long-term receivable	—	(109,632)
Prepaid land use right	<b>(2,137)</b>	—
Accounts payable	<b>28,548</b>	32,590
Accrued expenses and other current liabilities	<b>14,037</b>	6,096
Income tax payable	<b>35</b>	300
Other long term liabilities	<b>15,273</b>	—
Net cash provided by operating activities	<b>320,810</b>	121,314
Investing activities:		
Purchase of plant and equipment	<b>(160,667)</b>	(116,778)
Proceeds from government subsidy to purchase plant and equipment	<b>23,885</b>	20,983
Proceeds from sale of equipment	<b>5,397</b>	1,509
Proceeds received from sale of assets held for sale	<b>5,669</b>	745
Purchase of intangible assets	<b>(29,973)</b>	(15,609)
Purchase of short-term investments	<b>(5,669)</b>	(37,146)
Sale of short-term investments	<b>5,667</b>	53,761
Change in restricted cash	<b>(16,739)</b>	(16,325)
Purchase of equity investment	—	(278)
Net cash used in investing activities	<b>(172,430)</b>	(109,138)

	Six months ended June 30,	
	2010	2009
Financing activities:		
Proceeds from short-term borrowings	299,707	398,049
Repayment of short-term borrowings	(229,184)	(325,629)
Repayment of promissory notes	(40,000)	(15,000)
Proceeds from long-term debt	10,000	—
Repayment of long-term debt	(126,116)	(75,805)
Proceeds from exercise of employee stock options	1,073	53
Redemption of noncontrolling interest	—	(9,013)
Net cash used in financing activities	(84,520)	(27,345)
Effect of exchange rate changes	(776)	552
Net increase (decrease) in cash and cash equivalents	63,084	(14,617)
Cash and cash equivalents, beginning of period	443,463	450,230
Cash and cash equivalents, end of period	\$506,547	\$435,613
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$2,731	\$5,156
Interest paid	\$13,645	\$21,696
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING OR FINANCING ACTIVITIES		
Accounts payable for plant and equipment	\$(104,154)	\$(47,582)
Long-term payable for acquired intangible assets	\$(16,410)	\$(16,488)
Receivable for sales of manufacturing equipment	\$6,731	\$21,440

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2010 and 2009  
(unaudited, in US\$ thousands)

## 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the results of Semiconductor Manufacturing International Corporation and subsidiaries (the "Company"). All inter-company accounts and transactions have been eliminated in consolidation. The interim condensed consolidated financial statement apply the same accounting policy of annual consolidated financial statements. The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with accounting principles generally accepted in the United State of America, or GAAP and applicable rules and regulations of the Securities and Exchange Commission, regarding interim financial reporting and Appendix 16, "Disclosure of financial information," of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto contained in the Company's Annual Report for the year ended December 31, 2009 dated on April 26, 2010. The December 31, 2009 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date, but does not include all other statements and disclosures required by GAAP. In the opinion of management, these interim consolidated financial statements reflect all adjustments of a normal recurring nature necessary to present fairly the Company's results for the interim periods. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates. In addition, the Company's operating results for the six months ended June 30, 2010 may not be indicative of the operating results for the full fiscal year or any other future period.

We have evaluated subsequent events, through the date that the financial statements were issued on August 27, 2010.

## 2. FAIR VALUE

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and we consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

## 2. FAIR VALUE (CONTINUED)

The Company utilizes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company establishes three levels of inputs that may be used to measure fair value that gives the highest priority to observable inputs and the lowest priority to unobservable inputs as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted market prices in active markets that are observable, either directly or indirectly.

Level 3 — Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company performs a thorough analysis of its assets and liabilities that are subject to fair value measurements and disclosures to determine the appropriate level based on the observability of the inputs used in the valuation techniques. Assets and liabilities carried at fair value are classified in the categories described above based on the lowest level input that is significant to the fair value measurement in its entirety.

### Assets/Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured on the Company's balance sheet at fair value on a recurring basis subsequent to initial recognition consisted of the following:

	Fair Value Measurements at June 30, 2010 Using			Total Gains (Losses)
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Forward foreign exchange contracts	\$—	\$200	\$—	\$398
Derivative assets measured at fair value	\$—	\$200	\$—	\$398
Liabilities:				
Forward foreign exchange contracts	\$—	\$252	\$—	\$(3,857)
Interest rate swap contracts	—	1,334	—	(1,771)
Cross-currency interest swap contracts	—	2,577	—	(3,221)
Commitment to issue shares and warrants relating to litigation settlement		160,847		(40,609)
Derivative liabilities measured at fair value	\$—	\$165,010	\$—	\$(49,458)

## 2. FAIR VALUE (CONTINUED)

## Assets/Liabilities Measured at Fair Value on a Recurring Basis (continued)

	Fair Value Measurements at December 31, 2009 Using			Total Gains (Losses)
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Forward foreign exchange contracts	\$—	\$54	\$—	\$3,961
Interest rate swap contracts	—	—	—	104
Cross-currency interest swap contracts	—	504	—	1,087
Derivative assets measured at fair value	\$—	\$558	\$—	\$5,152
Liabilities:				
Forward foreign exchange contracts	\$—	\$483	\$—	\$(3,835)
Interest rate swap contracts	—	530	—	(127)
Cross-currency interest swap contracts	—	389	—	(519)
Commitment to issue shares and warrants relating to litigation settlement		120,238		(30,101)
Derivative liabilities measured at fair value	\$—	\$121,640	\$—	\$(34,582)

We price our derivative financial instruments, consisting of forward foreign exchange contracts and interest rate swap contracts using level 2 inputs such as exchange rates and interest rates for instruments of comparable durations and profiles.

## Assets Measured at Fair Value on a Nonrecurring Basis

Description	Fair Value Measurements at June 30, 2010 Using			Total Gains (Losses)
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-lived assets held for sale	\$—	\$—	\$9,168	\$(5,138)
	\$—	\$—	\$9,168	\$(5,138)

## 2. FAIR VALUE (CONTINUED)

### Assets Measured at Fair Value on a Nonrecurring Basis (continued)

Description	Fair Value Measurements at December 31, 2009 Using			Total Gains (Losses)
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-lived assets held and used	\$—	\$—	\$28,425	\$(5,269)
Long-lived assets held for sale	—	—	8,184	(22,719)
	\$—	\$—	\$36,609	\$(27,988)

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held and used with a carrying amount of \$33.7 million were written down to their fair value of \$28.4 million, resulting in an impairment charge of \$5.3 million, which was included in earnings for the year ended December 31, 2009.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held for sale with a carrying amount of \$30.9 million were written down to their fair value less cost to sell of \$8.2 million, resulting in a loss of \$22.7 million, which was included in earnings for the year ended December 31, 2009. For the six months ended June 30, 2010, long-lived assets held for sale with a carrying amount of \$14.3 million were written down to their fair value of \$9.2 million, resulting in an impairment charge of \$5.1 million.

## 3. REVENUE RECOGNITION

The Company manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Company also sells certain semiconductor standard products to customers. Revenue is recognized when persuasive evidence of an arrangement exists, service has been performed, the fee is fixed or determinable and collectability is reasonably assured. Sales to customers are recognized upon shipment and title transfer, if all other criteria have been met. The Company also provides certain services, such as mask making, testing and probing. Revenue is recognized when the services are completed or upon shipment of semiconductor products, if all other criteria have been met.

Customers have the right of return within one year pursuant to warranty and sales return provisions. The Company typically performs tests of its products prior to shipment to identify yield rate 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 by the customer or for the costs to return products and to ship replacement products to the customer. The Company estimates the amount of sales returns and the cost of replacement products based on the historical trend of returns and warranty replacements relative to sales as well as a consideration of any current information regarding specific known product defects that may exceed historical trends.



### 3. REVENUE RECOGNITION (CONTINUED)

The Company provides management services to certain government-owned foundries. Service revenue is recognized when persuasive evidence of an arrangement exists, service has been performed, the fee is fixed or determinable, and collectability is reasonably assured.

### 4. SHARE-BASED COMPENSATION

The Company grants stock options to its employees and certain non-employees. The Company's total actual share-based compensation expense for the six months ended June 30, 2010 and 2009 are \$6,386,123 and \$4,903,000, respectively.

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

	Six months ended June 30,	
	2010	2009
Average risk-free rate of return	1.63%	1.56%
Expected term	1-4 years	4 years
Volatility rate	61.09%	58.09%
Expected dividend yield	0%	0%

#### Share-based compensation plans

The Company's employee stock option plans (the "Plans") allow the Company to offer a variety of incentive awards to employees, consultants or external service advisors of the Company.

In 2004, the Company adopted the 2004 Stock Option Plan ("2004 Option Plan") whereby the Company grants stock options to attract, retain and motivate employees, directors and service providers. As of June 30, 2010, options to purchase 1,232,413,120 ordinary shares were outstanding. As of June 30, 2010, options to purchase 84,086,880 ordinary shares were available for future grants.

In 2001, the Company adopted the 2001 Stock Option Plan ("2001 Option Plan"). As of June 30, 2010, options to purchase 282,757,685 ordinary shares were outstanding. As of June 30, 2010, options to purchase 817,020,876 ordinary shares were available for future grant. However, following the IPO, the Company no longer issues stock options under the 2001 Option Plan.

#### 4. SHARE-BASED COMPENSATION (CONTINUED)

##### Share-based compensation plans (continued)

A summary of the stock option activities and additional information regarding options outstanding as of June 30, 2010 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at January 1, 2010	1,410,142,830	\$0.10		
Granted	518,333,372	\$0.10		
Exercised	(24,920,412)	\$0.04		
Cancelled or forfeited	(388,384,985)	\$0.07		
Outstanding at June 30, 2010	1,515,170,805	\$0.11	6.89 years	\$15,547,788
Vested or expected to vest at				
June 30, 2010	1,748,672,853	\$0.10	6.86 years	\$24,587,690
Exercisable at June 30, 2010	616,264,539	\$0.13	4.67 years	\$5,993,647

During the six months ended June 30, 2010 and 2009, the total intrinsic value of the options exercised were \$1,336,284 and \$67,372, respectively.

The weighted-averaged grant-date fair value of options granted for the six months ended June 30, 2010 and 2009 was \$0.05 and \$0.02, respectively.

##### Restricted share units

In January 2004, the Company adopted the 2004 Equity Incentive Plan ("2004 EIP") whereby the Company provided additional incentives to the Company's employees, directors and external consultants through the issuance of restricted shares, restricted share units and stock appreciation rights to the participants at the discretion of the Board of Directors. As of June 30, 2010, 157,586,260 restricted share units were outstanding and 19,736,223 ordinary shares were available for future grant through the issuance of restricted shares, restricted share units and stock appreciation rights. The restricted share units vest over a requisite service period of four years and expire 10 years from the date of grant.

A summary of the restricted share unit activities is as follows:

	Number of share units	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at January 1, 2010	53,625,777	\$0.11		
Granted	203,621,403	\$0.10		
Exercised	(79,746,358)	\$0.10		
Cancelled or forfeited	(19,914,562)	\$0.10		
Outstanding at June 30, 2010	157,586,260	\$0.10	9.33 years	\$15,352,044
Vested or expected to vest at				
June 30, 2010	137,378,194	\$0.10	9.2 years	\$13,477,899

#### 4. SHARE-BASED COMPENSATION (CONTINUED)

##### Restricted share units (continued)

Pursuant to the 2004 EIP, the Company granted 203,621,403 restricted share units during the six months ended June 30, 2010 and the fair value of the restricted share units at the date of grant was \$0.10 which is expensed over the vesting period. As a result, the Company has recorded a compensation expense of \$1,880,818 during the six months ended June 30, 2010.

##### Unrecognized compensation cost related to non-vested share-based compensation

As of June 30, 2010, there was \$19,962,936 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2001 Stock Option Plan, 2004 Stock Option Plan and 2004 EIP. The cost is expected to be recognized over a weighted-average period of 0.66 years.

#### 5. RESTRICTED CASH

Restricted cash consists of bank time deposits pledged against short-term loans granted to the Company.

#### 6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has the following notional amount of derivative instruments:

	June 30, 2010	December 31, 2009
Forward foreign exchange contracts	\$4,150	\$9,029
Interest rate swap contracts	80,000	54,000
Cross-currency interest rate swap contracts	15,704	24,700
	<b>\$99,854</b>	<b>\$87,729</b>

The Company purchases foreign-currency forward exchange contracts with contract terms expiring within one year to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated purchase activities, principally the Renminbi, the Japanese Yen and the European Euro. The foreign-currency forward exchange contracts do not qualify for hedge accounting in accordance with ASC 815. Notional amounts are stated in the US dollar equivalents at spot exchange rates at the respective dates.

Settlement currency	Notional amount	US dollar equivalents
As of June 30, 2010		
European Euro	11,255	\$13,736
Renminbi	(65,143)	(9,586)
		<b>\$4,150</b>
As of December 31, 2009		
European Euro	14,825	\$21,265
Renminbi	(83,497)	(12,236)
		<b>\$9,029</b>

## 6. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Company entered into cross-currency interest rate swap agreements to protect against volatility of future cash flows caused by the changes in both interest rates and exchange rates associated with outstanding long-term debt that are denominated in a currency other than the US dollar. The cross-currency interest rate swap agreement does not qualify for hedge accounting in accordance with ASC 815, however, the gains or losses on the interest rate swap contracts were recognized in the interest income or interest expense. As of June 30, 2010, the Company had outstanding cross-currency interest rate swap contracts as follows:

Settlement currency	Notional amount	US dollar equivalents
As of June 30, 2010		
European Euro	12,868	\$15,704
		\$15,704
As of December 31, 2009		
European Euro	17,220	\$24,700
		\$24,700

The Company entered into various interest rates swap agreements to protect against volatility of future cash flows caused by the changes in interest rates associated with outstanding debt. The contracts are designated and qualify as cash flow hedges for which the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive loss and reclassified into earnings in the same periods when interest payments associated with the outstanding debts occurred. The hedging relationships were highly effective and therefore no gain or losses representing hedge ineffectiveness were recorded in the earnings.

As of June 30, 2010, the Company had outstanding interest rate swap contracts with notional amounts of \$80,000,000.

The fair values of each derivative instrument are as follows:\*

	June 30, 2010	December 31, 2009
Forward foreign exchange contracts	\$(52)	\$(429)
Interest rate swap contracts	(1,334)	(530)
Cross-currency interest rate swap contracts	(2,577)	115
	\$(3,963)	\$(844)

\* The interest rate swap contracts are designated as hedging instruments under ASC 815.

## 7. ACCOUNT RECEIVABLE, NET OF ALLOWANCES

The Company determines credit terms ranging from 30 to 60 days for each customer on a case-by-case basis, based on its assessment of such customer's financial standing.

An aging analysis of accounts receivable, net of allowances for doubtful accounts is as follows:

	June 30, 2010	December 31, 2009
Current	<b>\$188,066</b>	\$160,803
Overdue:		
Within 30 days	<b>14,511</b>	30,882
Between 31 to 60 days	<b>5,373</b>	1,642
Over 60 days	<b>906</b>	10,964
	<b>\$208,856</b>	\$204,291

The change in the allowances for doubtful accounts is as follows:

	June 30, 2010	December 31, 2009
Balance, beginning of year	<b>\$96,145</b>	\$5,681
Provision recorded during the year	<b>282</b>	94,705
Write-offs in the year	<b>(18,962)</b>	(4,241)
Balance, end of year	<b>\$77,465</b>	\$96,145

## 8. INVENTORIES

	June 30, 2010	December 31, 2009
Raw materials	<b>\$63,800</b>	\$57,279
Work in progress	<b>107,605</b>	102,539
Finished goods	<b>32,496</b>	33,887
	<b>\$203,901</b>	\$193,705

## 9. ACCOUNTS PAYABLE

An aging analysis of the accounts payable is as follows:

	June 30, 2010	December 31, 2009
Current	<b>\$ 191,174</b>	\$174,834
Overdue:		
Within 30 days	<b>29,675</b>	25,336
Between 31 to 60 days	<b>8,154</b>	8,270
Over 60 days	<b>25,964</b>	20,443
	<b>\$254,967</b>	\$228,883

## 10. INDEBTEDNESS

Long-term and short-term debts are as follows:

			June 30, 2010	December 31, 2009
	<b>Maturity</b>	<b>Interest rate</b>		
Shanghai USD syndicate loan*	2006-2011	1.55%–1.81%	\$62,100	\$127,840
Shanghai USD & RMB loan	2009-2011	2.44%–4.86%	109,431	99,310
Beijing USD syndicate loan	2005-2012	2.64%–2.95%	300,060	300,060
EUR loan	2006-2012	0.97%–1.88%	33,080	50,227
Tianjin USD syndicate loan	2007-2012	1.69%–2.00%	135,650	179,000
			<b>640,321</b>	756,437
Less: Current portion of long-term debts			<b>275,294</b>	205,784
Long-term debts			<b>\$365,027</b>	\$550,653
Short-term debts			<b>\$357,387</b>	\$286,864

\* 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.

## 11. PROMISSORY NOTES

In 2009, the Company reached a new settlement with TSMC. Under this agreement, the remaining promissory note of \$40,000,000 under the prior settlement agreement was cancelled. In connection with the new settlement, the Company issued twelve non-interest bearing promissory notes with an aggregate amount of \$200,000,000 as the settlement consideration. The Company has recorded a discount of \$8,067,071 for the imputed interest on the notes and was recorded as a reduction of the face amounts of the promissory notes. The Company repaid \$40,000,000 in 2010. The outstanding promissory notes are as follows:

	June 30, 2010	
	Face value	Discounted value
<b>Maturity</b>		
2010	\$40,000	\$39,580
2011	30,000	28,964
2012	30,000	28,161
2013	30,000	27,380
Total	<b>\$130,000</b>	<b>\$124,085</b>
Less: Current portion of promissory notes	<b>\$55,000</b>	<b>\$54,164</b>
Non-current portion of promissory notes	<b>\$75,000</b>	<b>\$69,921</b>

## 12. NONCONTROLLING INTEREST

In 2005, AT issued Series A redeemable convertible preference shares ("Series A shares") to certain third parties for cash consideration of \$39 million, representing 43.3% equity interest of AT. In 2007, AT repurchased 1 million preference shares with \$1 million from a noncontrolling stockholder, and equity interest of the noncontrolling stockholders in AT decreased to 42.7% as of December 31, 2007. On January 1, 2009, the noncontrolling interest holders of AT redeemed 8,000,000 Series A shares with a total redemption amount of \$9,013,444 and the equity interest of the noncontrolling stockholders at AT decreased to 33.7%.

At any time after January 1, 2009, if AT has not filed its initial registration statement relating its initial public offering as of such date, the holders of Series A shares (other than SMIC) shall have the right to require AT to redeem such holders' shares upon redemption request by paying cash in an amount per share equal to the initial purchase price at \$1.00 for such Series A shares plus the product of (i) purchase price relating to the Series A shares and (ii) 3.5% per annum calculated on a daily basis from May 23, 2005. As of June 30, 2010, 30 million preferred shares are outstanding to noncontrolling interest holders and are redeemable. The Series A shares are not considered participating securities and have been recorded at their redemption amount as a noncontrolling interest in the consolidated balance sheets. Adjustments to the carrying value of the Series A shares have been recorded as accretion of interest to noncontrolling interest.

The carrying value of the noncontrolling interest was recorded at the higher of the redemption value or the historical cost, increased or decreased for the noncontrolling interest's share of net income or loss and dividend.

### Reconciliation of the Noncontrolling Interest

Balance at January 1, 2010	\$34,841
Accretion of interest	521
Balance at June 30, 2010	\$35,362

### Reconciliation of the Noncontrolling Interest

Balance at January 1, 2009	\$42,795
Redemption	(9,013)
Accretion of interest	521
Balance at June 30, 2009	\$34,303

## 13. INCOME TAXES

The effective tax rate is based on expected income and statutory tax rates. For interim financial reporting, the Company estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the guidance on accounting for income taxes in an interim period. As the year progresses, the Company refines the estimates of the year's taxable income as new information becomes available. This is continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate.

The effective tax rate for the six-month periods ended June 30, 2009 and 2010 were (4.2%) and 38.2%, respectively.

## 14. SEGMENT AND GEOGRAPHIC INFORMATION

The Company is engaged principally in the computer-aided design, manufacturing, packaging, testing and trading of integrated circuits. The Company'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 Company. The Company believes it operates in one segment. The following table summarizes the Company's net revenues generated from different geographic locations:

	Six months ended June 30,	
	2010	2009
Total sales:		
North America	\$406,047	\$252,647
Europe	21,145	7,043
Asia Pacific (Excluding Japan, Korea and Taiwan)	195,338	82,345
Taiwan	93,478	53,922
Japan	2,776	5,671
Korea	14,082	12,313
	<b>\$732,866</b>	\$413,941

Revenue is attributed to countries based on location of customer's headquarters. Substantially all of the Company's long-lived assets are located in the PRC.

## 15. LOSS FROM OPERATIONS

	Six months ended June 30,	
	2010	2009
Loss from operations is arrived at after charging:		
Depreciation and amortization of property, plant and equipment	\$318,906	\$375,384
Amortization of prepaid land use rights	712	748
Amortization of deferred cost	—	11,773
Amortization of acquired intangible assets	13,572	17,889

## 16. TRANSACTIONS WITH MANAGED GOVERNMENT-OWNED FOUNDRIES

The Company provides management services to Cension Semiconductor Manufacturing Corporation ("Cension") and Wuhan Xinxin Semiconductor Manufacturing Corporation ("Xinxin"), which are government-owned foundries. Management service revenues under these arrangements for the six months ended June 30, 2010 and 2009 were \$nil and \$6,000,000, respectively.

The Company ceased its recognition of management revenue in the second quarter of 2009 due to issues of collectability. Furthermore, the Company recorded a \$115.8 million bad debt provision in the second half of 2009, of which \$93.5 million and \$21.1 million are due to long outstanding overdue debt relating primarily to the revenue for management services rendered and related equipment sold, respectively. The Company also reversed the deferred revenue of \$9 million in relation to the management service rendered.



## 16. TRANSACTIONS WITH MANAGED GOVERNMENT-OWNED FOUNDRIES (CONTINUED)

Starting in 2010, Cension started negotiations with third party potential buyers to sell their business. In anticipation of such sale, in the second quarter of 2010, the Company preliminarily agreed with Cension to settle the remaining balances between the two parties pending outcome of a third party's acquisition of Cension. The major terms of the agreement include the settlement of \$17.4 million amounts payable to Cension and the amounts receivable from Cension of \$86.5 million. Cension also agreed to make cash payment of \$47.2 million to the Company upon the successful acquisition. As the execution of the agreement depends on the outcome of the ongoing acquisition, the Company will recognize the income arising from the extinguishment of liability as well as the collection of \$47.2 million after the completion of the acquisition and the receipt of the cash payment.

## 17. COMMITMENTS

### (a) Purchase commitments

As of June 30, 2010 the Company had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered at the Company's facility by June 30, 2011.

	At June 30, 2010
Facility construction	\$62,699
Machinery and equipment	705,390
	<b>\$768,089</b>

### (b) Royalties

The Company has entered into several license and technology agreements with third parties. The terms of the contracts range from 3 to 10 years. The Company is subject to royalty payments based on a certain percentage of product sales, using the third parties' technology or license. In the six months ended June 30, 2010 and 2009, the Company incurred royalty expenses of \$16,261 and \$8,348, respectively, which was included in costs of sales.

## 18. RECONCILIATION OF BASIC AND DILUTED LOSS PER ORDINARY SHARE

	Six months ended June 30,	
	2010	2009
(in US\$ thousands except per share data)		
Loss attributable to holders of ordinary shares	(85,912)	(276,537)
Weighted average shares used in computing basic and diluted loss per ordinary share	22,438,779,149	22,347,864,588
Net loss per share, basic and diluted	<b>\$(0.00)</b>	\$(0.01)

As of June 30, 2010 and 2009, the Company had 2,144,074,944 and 76,500,537 respectively, ordinary share equivalents outstanding which were excluded in the computation of diluted loss per share, as their effect would have been anti-dilutive due to the net loss reported in such period.

## 19. DIVIDEND

No dividend has been paid or declared by the Company during the six months ended June 30, 2010, and 2009, respectively.

## 20. CONTINGENT LIABILITY

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.

## 21. SETTLEMENT

The Company settled all pending litigation with TSMC on November 9, 2009, including the legal action filed in California for which a verdict was returned by the jury against SMIC on November 4, 2009, with a Settlement Agreement (the "2009 Settlement Agreement") which replaced the 2005 Settlement Agreement. The 2009 Settlement Agreement resolved all pending lawsuits between the parties and the parties have since dismissed all pending litigation between them. The terms of the 2009 Settlement Agreement include the following:

- 1) Entry of judgment and mutual release of all claims that were or could have been brought in the pending lawsuits;
- 2) Termination of SMIC's obligation to make remaining payments under the 2005 Settlement Agreement between the parties (approximately US\$40 million);
- 3) Payment to TSMC of an aggregate of US\$200 million (with US\$15 million paid upon execution, funded from SMIC's existing cash balances, and the remainder to be paid in installments over a period of four years);
- 4) Commitment to grant to TSMC of 1,789,493,218 shares of SMIC (representing approximately 8% of SMIC's issued share capital as of October 31, 2009) and a warrant exercisable within three years of issuance to subscribe for 695,914,030 shares of SMIC, at a purchase price of HK\$1.30 per share. Both the shares and the warrant would allow TSMC to obtain total ownership of approximately 10% of SMIC's issued share capital after giving effect to the share issuances and are subject to receipt of required government and regulatory approvals. The 1,789,493,218 ordinary shares and the Warrant were issued on July 5, 2010, pursuant to the Share and Warrant Issuance Agreement; and
- 5) Certain remedies in the event of breach of this settlement.

## 21. SETTLEMENT (CONTINUED)

Accounting Treatment for the 2009 Settlement Agreement:

In accounting for the 2009 Settlement Agreement, the Company determined that there were three components of the 2009 Settlement Agreement:

- 1) Settlement of litigation via entry of judgment and mutual release of all claims in connection with pending litigation;
- 2) TSMC's covenant not-to-sue with respect to alleged misappropriation of trade secrets; and
- 3) Termination of payment obligation of the remaining payments to TSMC under the 2005 Settlement Agreement of approximately \$40 million.

The Company does not believe that any of the aforementioned qualify as assets under US GAAP. Accordingly, all such items were expensed as of the settlement date. Further, all previously recorded Deferred Cost associated with the 2005 Settlement Agreement were immediately impaired and the commitment to grant shares and warrants was initially measured at fair value and is being accounted for as a derivative with all subsequent changes in fair value being reflected in the consolidated statements of operations. On July 5, 2010, the Company issued shares and warrant to TSMC according to the 2009 Settlement Agreement.



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