SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
September 30, 2009
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# Form 6-K

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

**For the month of September, 2009**

**Commission File Number: 001-31994**

## Semiconductor Manufacturing International Corporation

(Translation of registrant's name into English)

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

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

þ Form 20-F o Form 40-F

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

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

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

o Yes þ No

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

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

This interim report contains, in addition to historical information, □forward-looking statements□ within the meaning of the □safe harbor□ provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on SMIC□s current assumptions, expectations and projections about future events. SMIC uses words like □believe,□ □anticipate,□ □intend,□ □estimate,□ □expect,□ □project□ and similar expressions to identify forward loo 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 cyclicality 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, the current global financial crisis, orders or judgments from pending litigation 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 22, 2009, 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.



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**ADDITIONAL INFORMATION**

References in this interim report to:

- 2009 AGM are to the Companys Annual General Meeting held on June 23, 2009;
- China or the PRC are to the Peoples 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;
- global offering are to the initial public offering of our ADSs and our ordinary shares, which offering was completed on March 18, 2004;
- HK$ are to Hong Kong dollars;
- Jpy are to Japanese Yen;
- 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, and 65 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; 0.15 micron process technology includes 0.14 micron technology; and 0.13 micron process technology includes 0.11 micron and 0.10 micron technologies. References to U.S. GAAP mean the generally accepted accounting principles in the United States. Unless otherwise indicated, our financial information presented in this interim report has been prepared in accordance with U.S. GAAP.



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**Corporate Information**

| | |
|---|---|
| Registered name | Semiconductor Manufacturing International Corporation |
| Chinese name | |
| Registered office | PO Box 309<br>Ugland House<br>George Town, KY1-1104<br>Cayman Islands |

| | |
|---|---|
| Head office and place of business in PRC | 18 Zhangjiang Road<br>Pudong New Area<br>Shanghai 201203<br>PRC |
| Place of business in Hong Kong registered under Part XI of the Companies Ordinance | Suite 3003, 30th Floor<br>No. 9 Queens Road<br>Central<br>Hong Kong |
| Website address | http://www.smics.com |
| Company secretary | Anne Wai Yui Chen |
| Authorized representatives | Richard R. Chang<br>Anne Wai Yui Chen |
| Places of listing | Hong Kong Stock Exchange<br>New York Stock Exchange |
| Name of share | Semiconductor Manufacturing International Corporation |
| Stock code | 0981 (SEHK)<br>SMI (NYSE) |

* For identification purposes only



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**Chairmans Statement**

Dear Shareholders,

In the challenging and uncertain business environment resulting from the global economic recession in 2009, SMIC remained firmly committed to its business strategy and has experienced a relatively quick rebound from the difficult first quarter as overall market conditions improved. The Company has continued to benefit from the steady growth of the China IC market, spurred on by strong domestic demand and implementation of the stimulus package created by the PRC Government. We are pleased to see that China was able to maintain GDP growth of more than 7% in the first half of 2009. With these driving factors, our revenue for the second quarter of 2009 was more than 80% higher than that in the first quarter of 2009, and we believe that our revenue will continue to improve in the near term. While business is on the recovery and the Company strives toward its profitability target, the Board will continue to be vigilant by implementing strict controls on cost and capital expenditure.

As the new Chairman of the Board, I will make certain that the Board, apart from focusing on strategic issues, will continue to uphold corporate governance by monitoring the performance of the SMIC management team and employees for the long-term best interest of our shareholders. The various policies and guidelines of the Company are reflections of our commitment to maximizing the effectiveness of the Board and senior management in policy and decision-making. In addition, our employees throughout the world are expected to conduct business in accordance with the Code of Business Conduct and Ethics as approved by the Board by maintaining high standards of governance, integrity, responsibility and accountability, which are important to the long-term viability of our business.

On behalf of the Board, I would like to welcome Mr. Gao Yonggang and Mr. Chen Shanzhi who have been appointed as non-executive directors to SMIC as of the date of the 2009 Annual General Meeting. Mr. Gaos extensive financial management experiences in various industries such as retail, industrial, municipal utilities, and from many different organizations such as state-owned enterprises, private enterprises, joint ventures and government agencies will be valuable in guiding SMIC in its financial planning. Mr. Chen, whose expertise in technical standard development, corporate IT, strategic alliances and cooperation, and experience as a member of the Expert Group of Information Technology of the National High Technology Research and Development Program of China (863 Program), will provide invaluable insights to SMIC in its technology development. I am looking forward to working closely with these two gentlemen.

We are well aware of the challenges in 2009 and beyond, but we will continue to focus on our core manufacturing business and strengthen our market position, especially in China. We also plan to enhance our advanced technology capabilities and strengthen partnerships with our major customers. I am confident that our commitment, dedication and innovation will better enable us to weather the global crisis and position ourselves as a stronger provider of foundry services.

**Jiang Shang Zhou**
*Chairman of the Board*

Shanghai, PRC
September 21, 2009



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**Chief Executive Officer's Statement**

Dear Shareholders,

The first quarter of 2009 was a very difficult quarter for the overall foundry industry. However, in the second quarter of 2009, SMIC witnessed solid business recovery on all fronts. Total revenue for the second quarter of 2009 increased 82.5% sequentially compared to the first quarter of 2009. Our overall utilization rate increased to 75% in the second quarter of 2009 as our logic shipments increased by 102% quarter-over-quarter. In addition, advanced logic revenue for 0.13-micron and below grew by more than 135% from the first quarter of 2009, equivalent to 41% contribution to the total revenue in the second quarter of 2009, compared to 32% revenue contribution in the first quarter of 2009. Furthermore, our book-to-bill ratio has been greater than 1 for every month from February to June and new tape-outs in the second quarter of 2009 are up 58.5% compared to the first quarter of 2009. This new tape out level achieved a record high as compared to the last six quarters.

This significant recovery was driven primarily by our customers' strong performances in the communications and consumer segments such as handset, PDA, digital TV, and WiFi applications. In addition, demand from both our Greater China and North America markets increased dramatically in the second quarter of 2009 as compared to the first quarter of 2009, while demand from our European market also witnessed a healthy recovery.

While focusing on continued operational execution, we also made significant efforts in strengthening our advanced technology development. First, in the second quarter of 2009, we provided 65nm low leakage process IPs, adopted the HSPICE circuit simulator for the 65nm IP blocks, and provided 65nm RTL-to-GDSII reference design flow. Starting in the third quarter of 2009, we have commenced risk production on our 65nm low-power process. Second, in the second quarter of 2009, we have achieved successful completion of our first 45nm high performance generic process yield lot and have adopted the HSPICE circuit simulator for the 45nm IP blocks, enabling us to further service our customers with competitive advanced technology. In addition, our 45nm low-power technology qualification process is on track with products from various customers under development. Our current aim is to pass the full-scale 45nm technology qualification by the end of year 2009. Moving forward, we believe that our continued efforts to strengthen our technology and overall product mix will lead us closer to our goal of achieving profitability.

Despite the challenging macro-environment, we have achieved a positive EBITDA margin throughout the global economic downturn. We have also continued to exercise tight control over capital expenditures and operating expenses in order to enhance our financial position. For the six-month period ended June 30, 2009, we have spent a total of $44.9 million on capital expenditures while for the same period, we have generated $121.3 million net cash from operations. Our $190 million annual capital expenditure budget for 2009 is unchanged.

We plan to maintain stringent cost control and continue to focus on enhancing our product portfolio. We remain committed in strengthening our operational and financial performances on all fronts as we strive toward our goal of achieving profitability.

Finally, I would like to sincerely thank all of our shareholders, customers, partners and our dedicated employees for their continued support and trust. I am honored to lead SMIC through these opportunities and challenges, and am looking forward to reporting to you our progress throughout 2009 and beyond.

May God bless you and SMIC,

**Richard R. Chang**
*Chief Executive Officer*

Shanghai, PRC
September 21, 2009

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**Management's Discussion and Analysis of Financial Condition and Results of Operations**

The Board of Directors (the "Board") of Semiconductor Manufacturing International Corporation (the "Company") would like to announce the unaudited interim results of operations of the Company and its subsidiaries for the six months ended June 30, 2009, and would like to express their gratitude to the shareholders and their staff for the support of the Company.

**Sales**

Sales decreased by 41.3% from US$705.3 million for the six months ended June 30, 2008 to US$413.9 million for the six months ended June 30, 2009, primarily as a result of worldwide economic downturn. The number of wafers the Company shipped decreased by 40.5%, from 856,373 8-inch wafer equivalents to 509,943 8-inch wafer equivalents, between these two periods. The simplified average selling price of total revenue during this period decreased by 1.5% from US$824 per wafer to US$812 per wafer.

**Cost of Sales and Gross Loss**

Cost of sales decreased by 22.5% from US$717.0 million for the six months ended June 30, 2008 to US$556.2 million for the six months ended June 30, 2009. This decline was primarily due to decreased wafer shipments.

The Company had a gross loss of US$142.3 million for the six months ended June 30, 2009 compared to a gross loss of US$11.7 million for the six months ended June 30, 2008. Gross margins decreased to (34)% for the six months ended June 30, 2009 from (2)% for the six months ended June 30, 2008. The decrease in gross margin was primarily due to lower fab utilization.

**Operating Income, Expenses and Loss from Operations**

Operating expenses increased by 1.0% from US$126.8 million for the six months ended June 30, 2008 to US$128.3 million for the six months ended June 30, 2009 (excluding the income from the disposal of properties and the $105.8 million impairment loss).

Research and development expenses decreased by 6.9% from US$71.9 million for the six months ended June 30, 2008 to US$66.9 million for the six months ended June 30, 2009 primarily due to increased government subsidies.

Selling and marketing expenses increased by 20.3% from US$9.2 million for the six months ended June 30, 2008 to US$11.1 million for the six months ended June 30, 2009 due to higher tax expenses related to selling activities.

General and administrative expenses remained relatively flat at US$32.1 million for the six months ended June 30, 2009 as compared to US$31.9 million for the six months ended June 30, 2008.

An asset impairment loss of $105.8 million was recorded in Q1 2008 relating to the Beijing facility as a result of the decision to exit the commodity DRAM business.

Income from the disposal of properties decreased from a gain of US$1.6 million for the six months ended June 30, 2008 to a loss of US$0.2 million for the six months ended June 30, 2009.

The Company's operating loss was US$270.6 million for the six months ended June 30, 2009 compared to operating loss of US$242.6 million for the six months ended June 30, 2008.

The Company's operating margin was (65.4)% for the six months ended June 30, 2009 and (34.4)% for the six months ended June 30, 2008.

**Other Income (Expenses)**

Other expenses increased by 17.0% from US$8.8 million for the six months ended June 30, 2008 to US$10.3 million for the six months ended June 30, 2009. This increase was primarily attributable to foreign exchange loss of US$0.1 million for the six months ended June 30, 2009 from a gain of US$12.8 million for the six months ended June 30, 2008. Also, interest income decreased by 86.3%, from US$7.8 million for the six months ended June 30, 2008 to US$1.1 million for the six months ended June 30, 2009. However, interest expense decreased by 57.3% from US$32.5 million for the six months ended June 30, 2008 to US$13.9 million for the six months ended June 30, 2009.

The Company's net foreign exchange gain and loss, including operating, financing, and investing activities, was a gain of US$4.7 million for the six months ended June 30, 2009 compared to a gain of US$16.5 million for the six months ended June 30, 2008.

**Net Loss**

Due to the factors described above, the Company had a net loss attributable to holders of ordinary shares of US$276.5 million for the six months ended June 30, 2009 compared to a net loss of US$270.5 million for the six months ended June 30, 2008.

**Liquidity and Capital Resources**

As a result of the business downturn in the first half of 2009, the Company has substantially reduced its capital expenditures. The Company incurred capital expenditures of US$44.9 million for the six months ended June 30, 2009 as compared to US$367 million for the six months ended June 30, 2008. The Company has financed substantial capital expenditure requirements through the cash flows from operations and bank borrowings.



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As of June 30, 2009, the Company had US$435.6 million in cash and cash equivalents. 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 decreased by 57.2% from US$283.4 million for the six months ended June 30, 2008 to US$121.3 million for the six months ended June 30, 2009.

The Company's net cash used in investing activities was US$109.1 million for the six months ended June 30, 2009, primarily attributable to purchases of plant and equipment for the Mega Fab in Shanghai, Mega Fab in Beijing, Fab 7 and Fab 8 as well as costs associated with the construction of Fab 8. Net cash used in investing activities was US$473.8 million for the six months ended June 30, 2008, primarily attributable to purchases of plant and equipment for the Mega Fab in Shanghai, Mega Fab in Beijing, Fab 7, and Fab 8 as well as costs associated with the construction of Fab 8.

The Company's net cash used in financing activities was US$27.3 million for the six months ended June 30, 2009. This was primarily resulting from US$398.0 million in proceeds from short-term borrowings, US$15.0 million in the repayment of promissory notes, US$325.6 million in the repayment of short-term borrowings, and US$75.8 million in the repayment of long-term debt.

As of June 30, 2009, the Company's outstanding long-term liabilities primarily consisted of US$616.0 million in secured bank loans, and US$205.3 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 will be 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. As of December 31, 2007, SMIC Shanghai had fully drawn down US$600.0 million on this loan facility. The principal amount is repayable starting from December 2006 in ten semi-annual installments. As of June 30, 2009, SMIC Shanghai has repaid US$397.9 million according to the repayment schedule. The interest rate on this loan facility ranged from 1.8% to 3.2% for the six months ended June 30, 2009. The interest expense incurred for the six months ended June 30, 2009 and 2008 was US$3.1 million and US$9.2 million of which US$0.3 million and US$2.7 million was capitalized additions to assets under construction for the six months ended June 30, 2009 and 2008, 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.

The Company and its related subsidiary have complied with these covenants (unless otherwise waived by the lenders to such agreement) as of June 30, 2009.

*2009 Loan Facility (SMIC Shanghai)*. In June 2009, SMIC Shanghai entered into a new two year USD denominated loan facility arrangement for US$110.0 million with the Export-Import Bank of China. This facility is secured by the manufacturing equipment located in SMIC Shanghai 12-inch fab. This two-year bank facility will be used to finance future expansion and general corporate requirement for SMIC Shanghais 12-inch fab.

As of June 30, 2009, SMIC Shanghai had not drawn down any amount under this facility.



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*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 Beijings fabs. The drawdown period of this facility was twelve months from the sign off date of the agreement. As of December 31, 2006, SMIC Beijing had fully drawn-down US$600.0 million on this loan 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 Beijings financial performance exceeds certain pre-determined benchmarks. The interest rate on this loan facility ranged from 3.3% to 3.5% for the six months ended June 30, 2009. The amendment has been accounted for as a modification as the terms of the amended instrument are not substantially different from the original terms. The interest expense incurred for the six months ended June 30, 2009 and 2008 was US$5.2 million and US$15.9 million of which US$0.2 million and US$1.2 million was capitalized as additions to assets under construction for the six months ended June 30, 2009 and 2008, 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 [Net profit + depreciation + amortization + financial expenses  (increase of accounts receivable and advanced payments + increase of inventory  increase in accounts payable and advanced receipts)]/financial expenses < 1; and

2. (Total liability  borrowings from shareholders, including principal and interest)/Total assets > 60% (when SMIC Beijings capacity is less than 20,000 12-inch wafers per month); and (Total liability  borrowings from shareholders, including principal and interest)/Total assets > 50% (when SMIC Beijings capacity exceeds 20,000 12-inch wafers per month).

SMIC Beijing has complied with these covenants (unless otherwise waived by the lenders to such agreement) as of June 30, 2009.

*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 (equivalent to approximately US$105 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, 2009, Semiconductor Manufacturing International (Tianjin) Corporation (SMIC Tianjin) had drawn down EUR 15.1 million and repaid an aggregated amount of EUR 10.6 million. As of June 30, 2009, the remaining balance is EUR 4.5 million, with the U.S. dollar equivalent of US$6.4 million. The interest rate on this loan facility ranged from 1.4% to 2.8 % for the six months ended June 30, 2009. The interest expense incurred for the six months ended June 30, 2009 and 2008 were US$0.1 million and US$0.4 million of which US$0.03 million and US$0.05 million was capitalized additions to assets under construction for the six months ended June 30, 2009 and 2008, respectively.

As of June 30, 2009, SMIC Shanghai had drawdown EUR 56.9 million and repaid an aggregated amount of EUR 18.5 million. As of June 30, 2009, the remaining balance is EUR 38.4 million, with the US dollar equivalent of US$53.8 million. The interest rate on this loan facility ranged from 1.3% to 2.3% for the six months ended June 30, 2009. The interest expense incurred for the six months ended June 30, 2009 and 2008 was US$0.5 million and US$0.9 million of which US$0.03 million and US$0.3 million was capitalized additions to assets under construction for the six months ended June 30, 2009 and 2008, 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 Tianjins 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. The interest rate on the loan ranged from 2.4% to 3.1% for the six months ended June 30, 2009. The interest expense incurred for the six months ended June 30, 2009 and 2008 were US$5.3 million and US$2.4 million, of which US$1 million and US$0.56 million was capitalized as additions to assets under construction for the six months ended June 30, 2009 and 2008, respectively.

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

1. [Net profit + depreciation + amortization + financial expenses  (increase of accounts receivable and advanced payments + increase of inventory  increase in accounts payable and advanced receipts)]/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 (unless otherwise waived by the lenders to such agreement) as of June 30, 2009.

*Short-term Credit Agreements.* As of June 30, 2009, the Company had short-term credit agreements that provided total credit facilities up to approximately US$346.6 million on a revolving credit basis. As of June 30, 2009, the Company had drawn down approximately US$273.7 million under these credit agreements and approximately US$72.9 million is available for future borrowings. The outstanding borrowings under the credit agreements are unsecured, except for the amount of US$22.6 million, which is secured by term deposits. The interest expense incurred for the six months ended June 30, 2009 and 2008 were US$6.4 million and US$3.0 million, respectively. The interest rate on the loans ranged from 1.1% to 8.8% for the six months ended June 30, 2009.

**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$2.2 million and US$4.7 million have been added to the cost of the underlying assets during the six months ended June 30, 2009 and June 30, 2008, respectively. For the six months ended June 30, 2009 and June 30, 2008, the Company recorded amortization expenses relating to the capitalized interest of US$4.5 million and US$3.4 million, respectively.



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**Commitments**

As of June 30, 2009, the Company had commitments of US$50 million for facilities construction obligations in Chengdu, Beijing, Tianjin and Shanghai, and US$85 million to purchase machinery and equipment for the testing facility in Chengdu and for the Beijing, Tianjin and Shanghai fabs.

**Debt to Equity Ratio**

As of June 30, 2009, the Companys debt to equity ratio was 44% 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**

As of June 30, 2009, the Company did not have any material contingent liabilities.

**Foreign Exchange Rate Fluctuation Risk**

The Companys 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 outside of the U.S., the Company enters into transactions in other currencies and 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 SFAS No. 133. As of June 30, 2009, the Company had outstanding foreign currency forward exchange contracts with a notional amount of US$25.1 million all of which matured in June 2009. Notional amounts are stated in U.S. dollar equivalent spot market exchange rates, as of the respective dates.

As of June 30, 2009, the fair value of foreign currency forward exchange contracts was approximately US$(0.016) million, which is recorded in accrued expenses and other current liabilities. The Company does not enter into foreign currency exchange contracts for speculative purposes.

**Interest Rate Risk**

The Companys exposure to interest rate risks relates primarily to the Companys long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The Companys long-term debt obligations are all subject to variable interest rates. The interest rates on the Companys U.S. dollar-denominated loans are linked to the LIBOR. The interest on the Companys EURO denominated loans are linked to the EURIBOR. As a result, the interest on the Companys 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 SFAS No. 133.

As of June 30, 2009, the Company had outstanding interest rate swap contracts with a notional amount of US$24 million all of which will mature in August 2012.

**Cross Currency Swap Fluctuation Risk**

On December 15, 2005, the Company entered into a long-term loan facility agreement in the aggregate principal amount of EUR 85 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 SFAS No. 133.

As of June 30, 2009, the Company had outstanding cross currency swap contracts with a notional amount of US$30.2 million all of which matured in May 2012. Notional amounts are stated in U.S. dollar equivalent spot market exchange rates, as of the respective dates.

As of June 30, 2009, the fair value of foreign currency forward exchange contracts was a loss of approximately US$0.374 million, which is recorded in accrued expenses and other current liabilities. The Company does not enter into foreign currency exchange contracts for speculative purposes.

**Litigation**

On August 25, 2006, TSMC filed a lawsuit against the Company and certain subsidiaries, namely SMIC (Shanghai), SMIC (Beijing) and SMIC (Americas) in the Superior Court of the State of California, County of Alameda for alleged breach of a settlement agreement, alleged breach of promissory notes and alleged trade secret misappropriation by the Company. TSMC seeks, among other things, damages, injunctive relief, attorneys’ fees, and the acceleration of the remaining payments outstanding under that settlement agreement.



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In the present litigation, TSMC alleges that the Company has incorporated TSMC trade secrets in the manufacture of the Company’s 0.13 micron or smaller process products. TSMC further alleges that as a result of this claimed breach, TSMC’s patent license is terminated and the covenant not to sue is no longer in effect with respect to the Company’s larger process products. The Company has vigorously denied all allegations of misappropriation. The Court has made no finding that TSMC’s claims are valid. The Court has set a trial date of September 8, 2009.

On September 13, 2006, the Company announced that in addition to filing a response strongly denying the allegations of TSMC in the United States lawsuit, it filed on September 12, 2006, a cross-complaint against TSMC seeking, among other things, damages for TSMC’s breach of contract and breach of implied covenant of good faith and fair dealing.

On November 16, 2006, the High Court in Beijing, the People’s Republic of China, accepted the filing of a complaint by the Company and its wholly-owned subsidiaries, namely, SMIC (Shanghai) and SMIC (Beijing), regarding the unfair competition arising from the breach of bona fide (i.e. integrity, good faith) principle and commercial defamation by TSMC (“PRC Complaint”). In the PRC Complaint, the Company is seeking, among other things, an injunction to stop TSMC’s infringing acts, public apology from TSMC to the Company and compensation from TSMC to the Company, including profits gained by TSMC from their infringing acts.

On August 14, 2007, the Company filed an amended cross-complaint against TSMC seeking, among other things, damages for TSMC’s breach of contract and breach of patent license agreement. TSMC thereafter denied the allegations of the Company’s amended cross-complaint and subsequently filed additional claims that the Company breached a settlement agreement by filing an action in the Beijing High Court. The Company has denied these additional claims by TSMC.

On August 15–17, 2007, the California Court held a preliminary injunction hearing on TSMC’s motion to enjoin use of certain process recipes in certain of the Company’s 0.13 micron logic process flows.

On September 7, 2007, the Court denied TSMC’s preliminary injunction motion, thereby leaving unaffected the Company’s development and sales. However, the court required the Company to provide 10 days’ advance notice to TSMC if the Company plans to disclose logic technology to non-SMIC entities under certain circumstances, to allow TSMC to object to the planned disclosure.

In May 2008, TSMC filed a motion in the California Court for summary adjudication against the Company on several of the Company’s cross claims. The Company opposed the motion and on August 6, 2008, the Court granted in part and denied in part TSMC’s motion.

On June 23, 2008, the Company filed in the California court a cross-complaint against TSMC seeking, among other things, damages for TSMC’s unlawful misappropriation of trade secrets from SMIC to improve its competitive position against SMIC.

On July 10, 2008, the California Court held a preliminary injunction hearing on TSMC's motion to enjoin disclosure of information on certain process recipes in the Company's 0.30 micron logic process flows to 3rd parties. On August 8, 2008, the Court granted-in-part TSMC's motion and preliminarily enjoined SMIC from disclosing fourteen 0.30 micron process steps. On October 3, 2008, SMIC filed a notice of appeal of the Court's August 8, 2008 Order with the California Court of Appeal. This appeal is currently pending.

During the pre-trial proceedings in the matter, as noted below under "Overview of TSMC Litigation", questions arose regarding the actual terms of the 2005 Settlement Agreement between SMIC and TSMC. Accordingly, the California Court held a preliminary trial on January 13 to 16, 2009, limited to a determination of the terms of the Settlement Agreement and an interpretation of any requirements to "meet and confer" prior to institution of litigation. On March 10, 2009, the Court issued a Statement of Decision finding, in part, that an agreement between the parties was executed on January 30, 2005, and thereafter amended on February 2, 2005, as urged by TSMC. The Company believes the Court's ruling is erroneous. The ruling may be appealed by SMIC following the filing of a final judgment by the Court in this matter.

On May 1, 2009, the Company filed motions for summary adjudication against TSMC's claims for breach of promissory notes and violation of the California Uniform Trade Secrets Act. On July 20, 2009, the Court denied the Company's motions.

On May 1, 2009, TSMC filed a motion for summary adjudication of various of the Company's affirmative defenses. On July 20, 2009, the Court granted in part and denied in part TSMC's motion. The Company believes the Court's ruling, to the extent it granted in part TSMC's motion, is erroneous. The ruling may be appealed by SMIC following the filing of a final judgment by the Court in this matter.

On August 10, 2009, TSMC moved for sanctions based on the alleged intentional destruction by the Company of certain documentary evidence relevant to the litigation. The Court granted the motion in part, and ruled that as a sanction, the Company's trade secret cross claims will be severed and continued to a separate trial to allow recovery of files from the Company's archival backups. Additionally, the Court has stated it will instruct the jury that it is allowed, but not required, to decide certain issues at trial against the Company on the basis of loss of evidence. The Company believes the order is erroneous. It is appealable only upon the filing of a final judgment in the lawsuit.

On September 8, 2009, jury trial commenced upon all liability issues related to a selected list of TSMC trade secret claims. It is anticipated that the jury will render a verdict in mid-November, 2009. Following the jury's verdict in this trial, the Court is expected to set a trial date for the Company's trade secret misappropriation cross claims against TSMC.

In the Company's action in the Beijing High People's Court, following an unsuccessful challenge to that Court's jurisdiction by TSMC, the Court has held evidentiary hearings on October 15, October 29, and November 25, 2008. The Court rendered its first-instance judgment on June 10, 2009. Claims of SMIC against TSMC were not supported by the Court in the first-instance judgment. SMIC has appealed the first-instance judgment to the PRC Supreme People's Court.

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Under the provisions of SFAS 144, the Company is required to make a determination as to whether or not this pending litigation represents an event that requires a further analysis of whether the patent license portfolio has been impaired. The company is still evaluating whether or not the litigation represents such an event. The Company cannot predict the outcome of the litigation. However, an adverse judgment on TSMC's claim for breach of contract could result in a termination of the patent license and an adverse judgment on either TSMC's claim for breach of contract or its trade secret misappropriation claim could have a materially adverse affect on the Company's financial position and results of operations. The outcome of any impairment analysis performed under SFAS 144 might result in a material impact to our financial position and results of operations.

**Employees**

Save as disclosed in this interim report, there is no material change to the information disclosed in the 2008 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 2009, the Company expects continued business recovery as the global economy further recovers and customer demand returns. We expect our third quarter 2009 revenue to grow by 14% to 18% sequentially compared to our second quarter 2009 revenue. The Company is focused on its advanced technology capabilities and anticipates 65nm risk production in the third quarter of 2009. Lastly, we will continue to exercise tight capital expenditure control and remain committed to enhancing our product mix.

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**Corporate Governance Report**

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

**CORPORATE GOVERNANCE PRACTICES**

The HKSEs Code on Corporate Governance Practices (the CG Code) as set out in Appendix 14 of the Listing Rules, 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 Companys website at www.smics.com under Corporate Governance, incorporates all of the Code Provisions of the CG Code except for paragraph E1.3 which relates to the notice period for general meetings of the Company, and many of the Recommended Practices.

In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy. None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, during the financial period from January 1, 2009 to June 30, 2009, 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 year ended June 30, 2009. 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 Companys 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 Companys financial performance and the preparation of the accounts, the establishment of corporate governance practices and policies, and the review of the Companys 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 eight 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 Companys 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 Edward S Yang and Gao Yonggang who were re-elected and elected, respectively, 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 2007 AGM for a term of three years (except Zhou Jie who was re-elected at the 2009 AGM) to hold office until the 2010 annual general meeting of the Company.

For the six months ended June 30, 2009, the Board at all times exceeded 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 Richard Ru Gin Chang respectively.

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

| **Name of Director** | **Category of Director** | **Class of Director** |
|---|---|---|
| Jiang Shang Zhou | Chairman, Independent Non-executive Director | Class II |
| Richard Ru Gin Chang | President, Chief Executive Officer, Executive Director | Class I |
| Gao Yonggang | Non-executive Director | Class I |
| Edward S Yang | Independent 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 "Changes in directorate and update of Directors' information" in "Other Information" below for further details on the changes in the members of the Board and certain information relating to the Directors during the course of the 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, 2009, 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;



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- 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 Acting 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, 2009, the members of the Company's Compensation Committee (the "Compensation Committee") were Edward S Yang (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 Companys executive officers; and
- ensuring appropriate oversight of the Companys human resources policies and reviewing strategies established to fulfill the Companys 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.



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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 Companys management team and the Audit Committee in monitoring the Companys 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 Companys 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 Companys securities, use of the Companys 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 Companys corporate governance practices and those required of U.S. companies under New York Stock Exchange listing standards.

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**Other Information**

**1. Dividends**

The Board of the Company proposed not to declare an interim dividend for the six months ended June 30, 2009.

**2. Share Capital**

During the six months ended June 30, 2009, the Company issued 1,772,000 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 23,854,845 ordinary shares to certain of the eligible participants pursuant to the Company's 2004 equity incentive plan.

| | Number of Shares Outstanding |
|---|---|
| Outstanding Share Capital as of June 30, 2009 | 22,353,411,672 |

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



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For the twelve months ended December 31, 2004, the Compensation Committee granted a total of 118,190,824 Restricted Share Units pursuant to which the Company issued an aggregate of 18,536,451 ordinary shares to its eligible participants on or around July 1, 2005. For the twelve months ended December 31, 2005, the Compensation Committee granted a total of 122,418,740 Restricted Share Units pursuant to which the Company issued an aggregate of 27,591,342 ordinary shares to its eligible participants on or around January 1, 2006 and July 1, 2006. For the twelve months ended December 31, 2006, the Compensation Committee granted a total of 16,058,864 Restricted Share Units pursuant to which the Company issued an aggregate of 3,407,216 ordinary shares to its eligible participants on or around January 1, February 27, March 1, March 3, March 23, May 30, July 1, September 1, September 16, October 1 and October 16, 2007. For the twelve months ended December 31, 2007, the Compensation Committee granted a total of 40,519,720 Restricted Share Units and for the six months ended June 30, 2008, the Compensation Committee granted a total of 39,827,100 Restricted Share Units. And for the six months ended June 30, 2009, the Compensation Committee granted a total of 787,797 Restricted Share Units. The remaining vesting dates of these Restricted Share Units (after deducting the number of Restricted Share Units granted but cancelled due to the departure of eligible participants prior to vesting) approximately are as follows:

| Vesting Dates | Approximate Restricted Share Units (the actual number may change due to the departure of employees prior to vesting) |
|---|---|
| **2009** | |
| 1-Jan | 22,009,600 |
| 21-Jan | 200,000 |
| 22-Jan | 8,400 |
| 29-Jan | 75,000 |
| 1-Feb | 270,000 |
| 13-Feb | 75,000 |
| 16-Feb | 75,000 |
| 1-Mar | 225,000 |
| 3-Mar | 250,000 |
| 23-Mar | 175,000 |
| 30-Mar | 16,667 |
| 1-Apr | 75,000 |
| 1-May | 75,000 |
| 15-May | 62,500 |
| 22-May | 8,750 |
| 31-May | 16,333 |
| 1-Jun | 122,545 |
| 16-Jun | 250,000 |
| 21-Jun | 112,500 |
| 1-Jul | 866,564 |
| 1-Aug | 640,000 |
| 1-Sep | 10,756,175 |
| 13-Sep | 250,000 |
| 16-Sep | 125,000 |
| 30-Sep | 131,250 |
| 1-Oct | 743,334 |
| 16-Oct | 222,216 |
| 27-Oct | 100,000 |
| 1-Nov | 333,333 |
| 14-Nov | 100,000 |
| 1-Dec | 101,930 |
| 6-Dec | 100,000 |
| 12-Dec | 75,000 |



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| Vesting Dates | Approximate Restricted Share Units (the actual number may change due to the departure of employees prior to vesting) |
|---|---|
| **2010** | |
| 1-Jan | 15,195,850 |
| 21-Jan | 200,000 |

| | |
|---|---|
| 22-Jan | 8,400 |
| 29-Jan | 75,000 |
| 1-Feb | 270,000 |
| 13-Feb | 75,000 |
| 16-Feb | 75,000 |
| 1-Mar | 52,870 |
| 30-Mar | 16,667 |
| 1-Apr | 75,000 |
| 1-May | 75,000 |
| 15-May | 62,500 |
| 22-May | 8,750 |
| 31-May | 16,333 |
| 1-Jun | 122,545 |
| 16-Jun | 250,000 |
| 21-Jun | 112,500 |
| 1-Jul | 579,917 |
| 1-Sep | 741,951 |
| 16-Sep | 125,000 |
| 30-Sep | 131,250 |
| 1-Oct | 743,334 |
| 16-Oct | 222,216 |
| 27-Oct | 100,000 |
| 1-Nov | 333,333 |
| 14-Nov | 100,000 |
| 1-Dec | 101,930 |
| 6-Dec | 100,000 |
| 12-Dec | |