Growing Together with Technology

Annual Report 2007

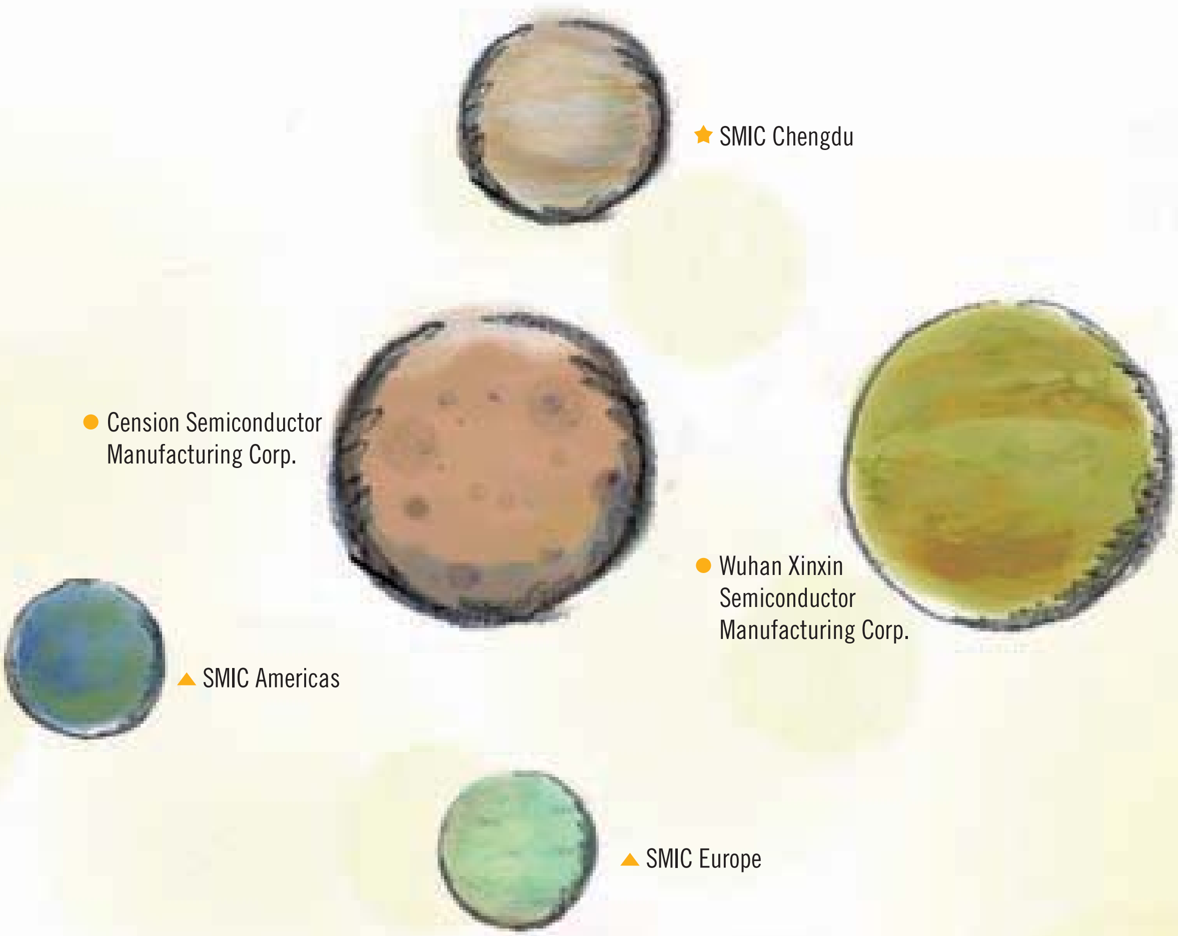
中芯國際集成電路製造有限公司*

Semiconductor Manufacturing International Corporation

(Incorporated in the Cayman Islands with limited liability)

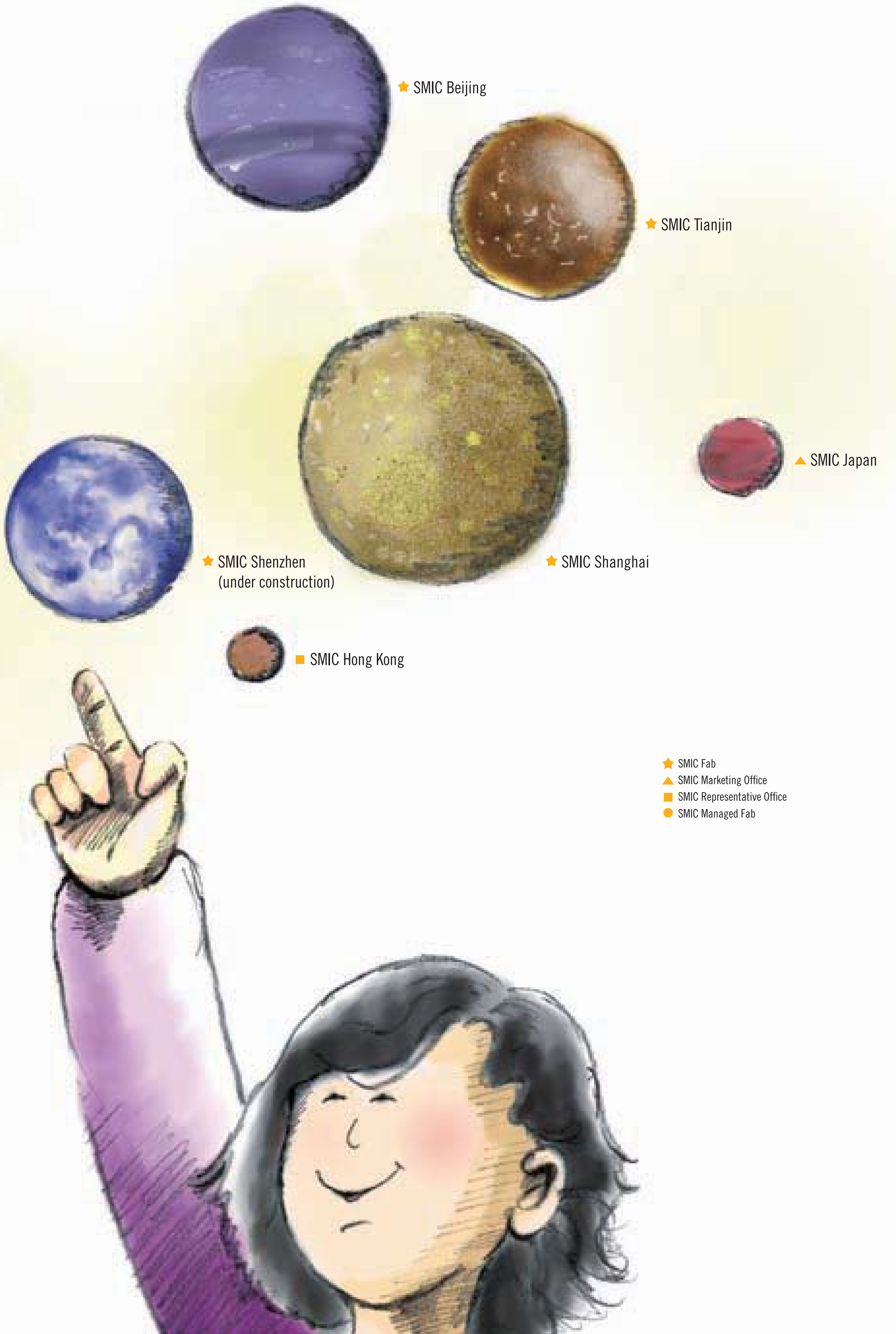
Stock Code: 0981

* For identification purposes only



Building Network

- Largest foundry in China and one of the top players in global IC market
- New IC production project in Shenzhen
- Comprehensive foundry network in China for capturing growth opportunities


SMIC Beijing
SMIC Tianjin
SMIC Japan
SMIC Shenzhen (under construction)
SMIC Shanghai
SMIC Hong Kong
SMIC Fab
SMIC Marketing Office
SMIC Representative Office
SMIC Managed Fab


0.13µm-90nm
65nm
45nm

Transcending Technology Boundaries

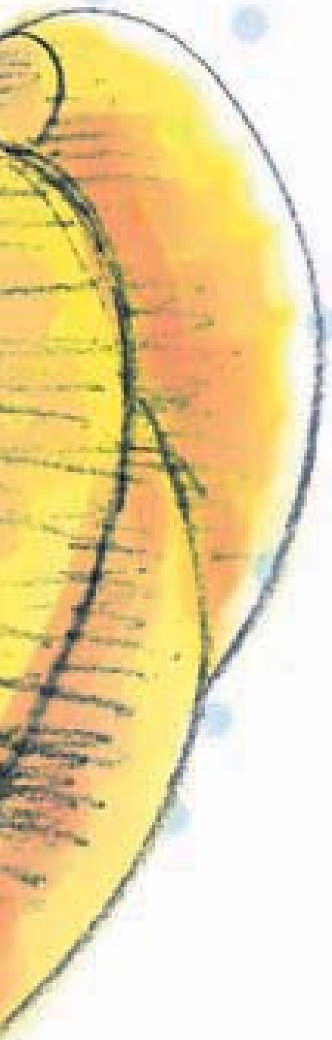
- 0.13µm and more advanced technologies made up 53.1% of total wafer revenue
- Roadmap was extended to 45nm technologies through licensing agreement with IBM
- Strategic agreement was signed with Spansion for 65nm NOR flash development

Expanding Capacity

- 300mm Shanghai fab commenced production in July 2007
- 200mm Chengdu managed fab commenced production in March 2007

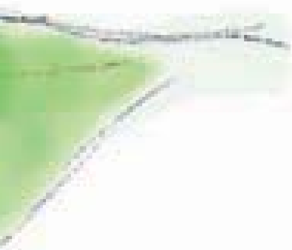
Enhancing Ability

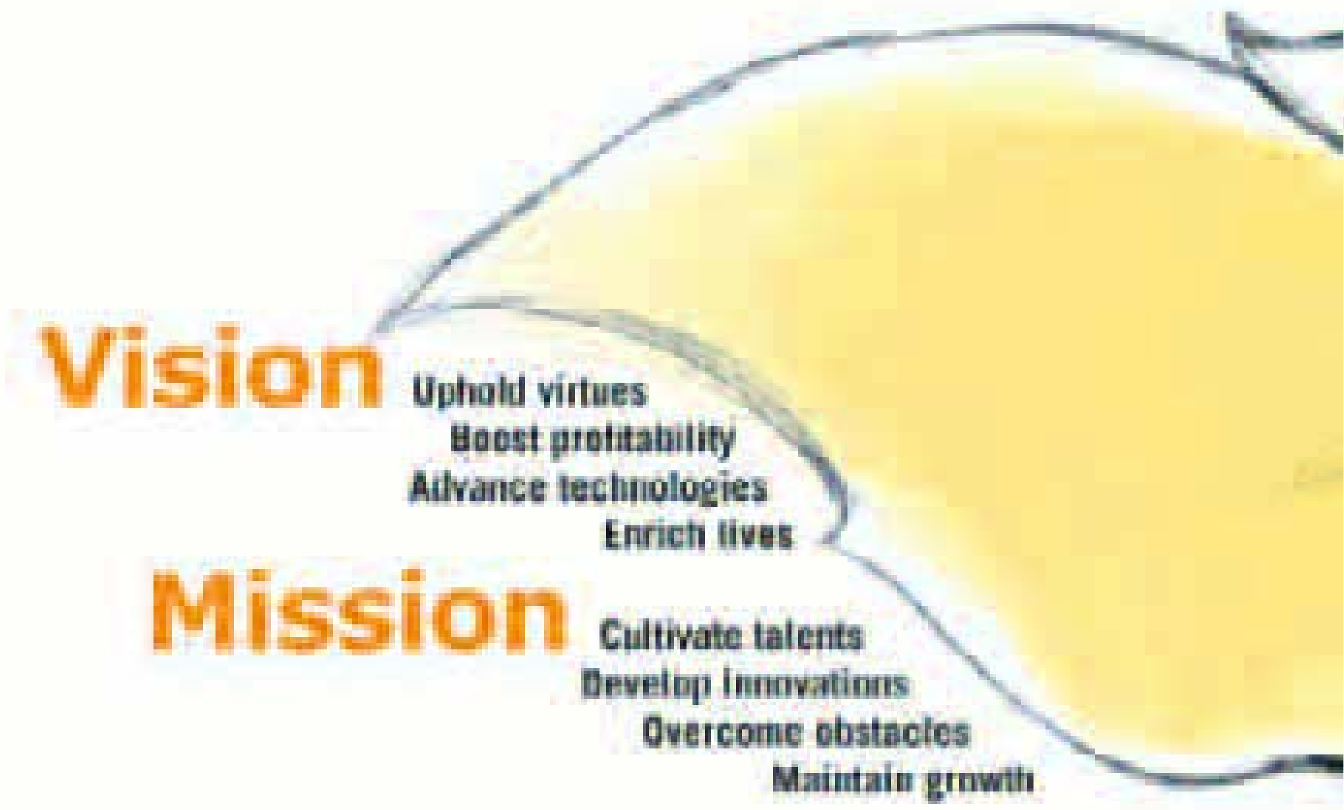
- 90nm reached over 25% of total wafer revenue
- Logic based products from 90nm to 65nm began pilot production, with 45nm products under development



Nurturing Talents and Community

- Nurture our staff with SMIC's values and devotion to excellence
- Focus on caring for the environment and creating a more sustainable society
- Help build a brighter China



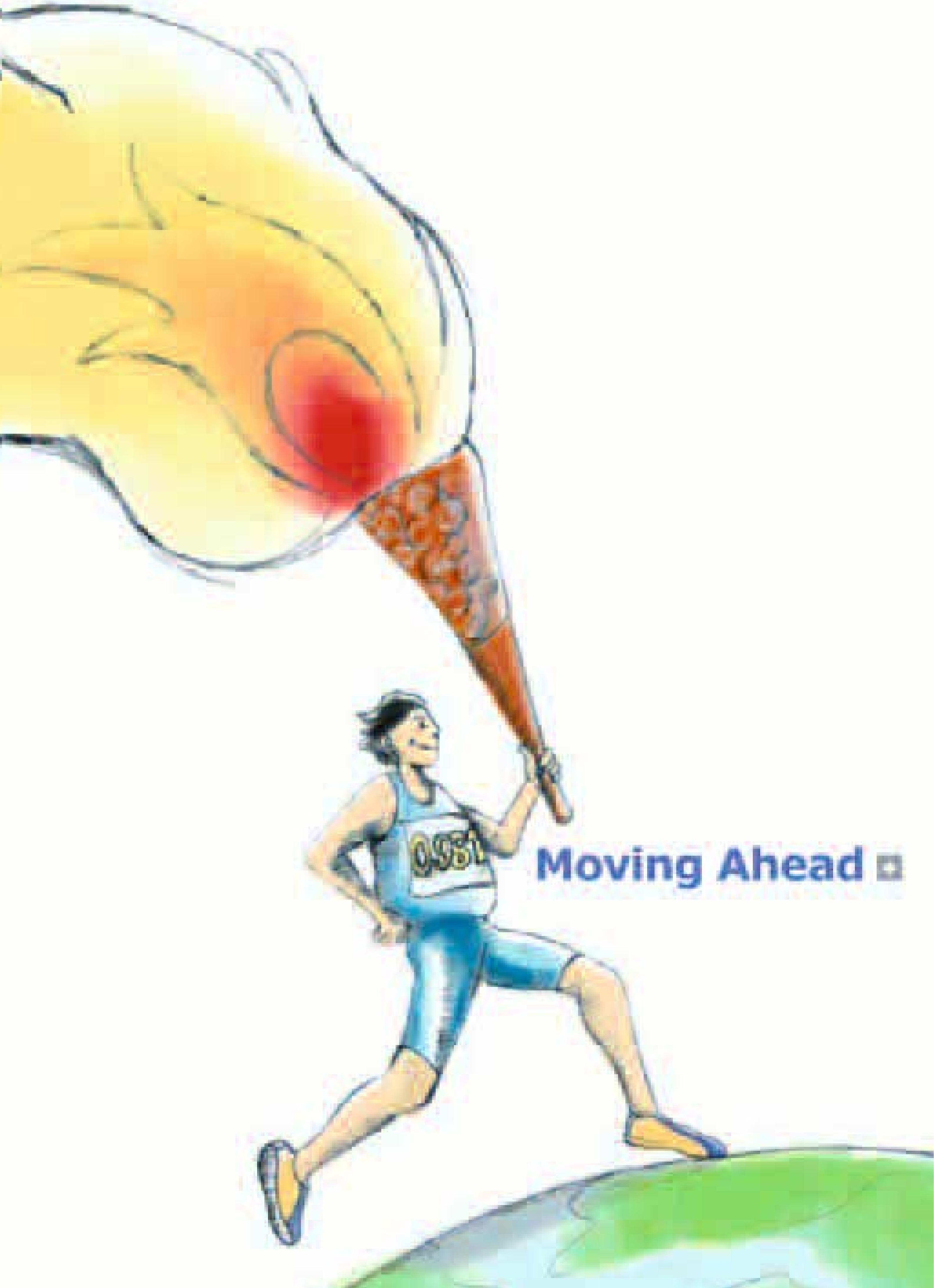


Contents

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

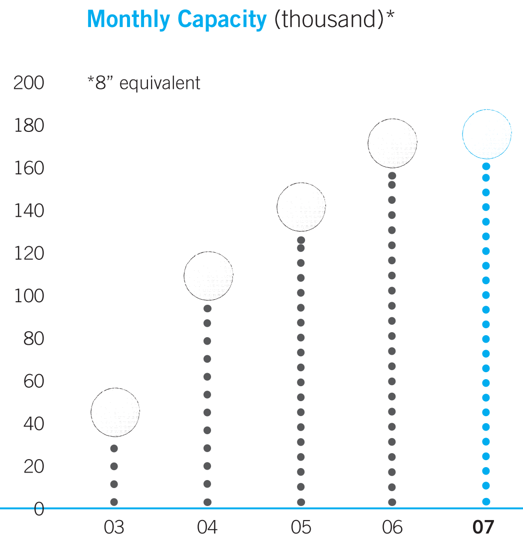
This annual report may contain, in addition to historical information, "forward-looking statements" within the meaning of the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on SMIC's current assumptions, expectations and 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 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 and financial stability in end markets.

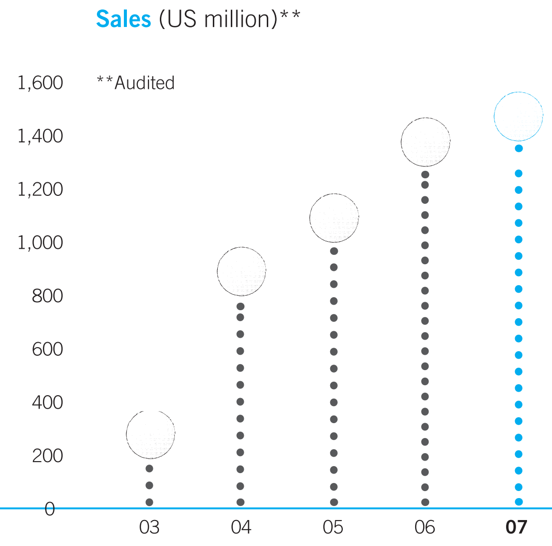
Except as required by law, SMIC undertakes no obligation and does not intend to update any forward-looking statement, whether as a result of new information, future events or otherwise.

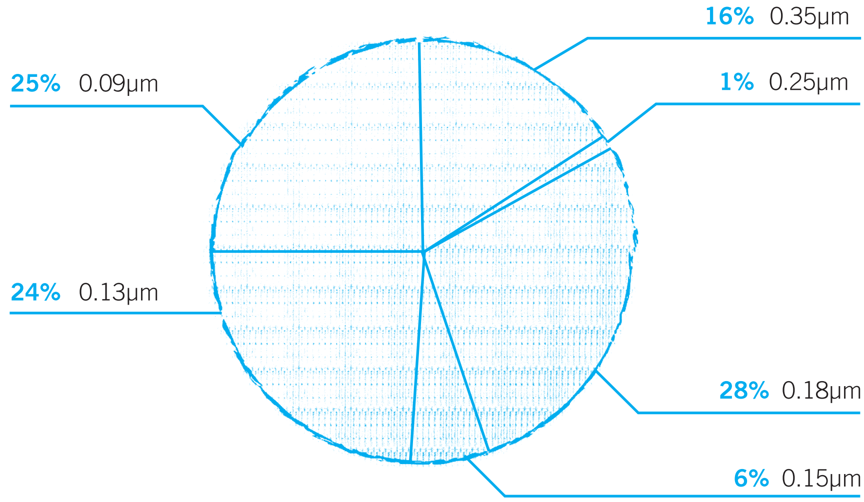


Moving Ahead

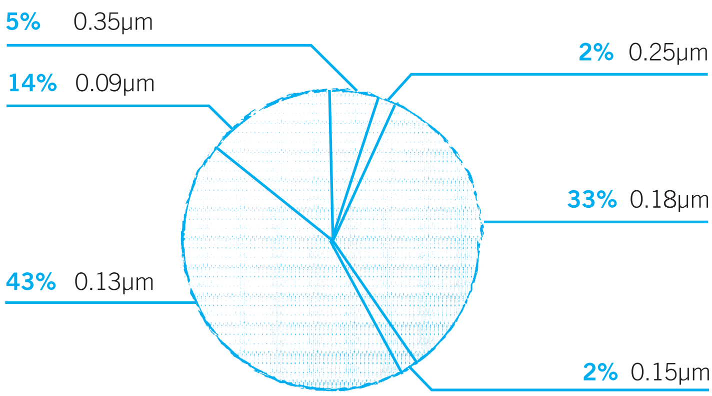
Financial Highlights







4Q 2007



4Q 2006

Corporate Information

Registered name	Semiconductor Manufacturing International Corporation (the "Company")
Chinese name (for identification purposes only)	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 9 Queen's Road Central Hong Kong
Website address	http://www.smics.com
Company secretary	Anne Wai Yui Chen
Authorized representatives	Richard Ru Gin Chang 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)

Financial Calendar

Announcement of 2007 results	April 25, 2008
Book closure period	May 26, 2008 to June 2, 2008, both days inclusive
Annual general meeting	June 2, 2008
Financial year end	December 31

"With DRAM prices declining dramatically, SMIC has retained sufficient flexibility by shifting its production of DRAM to logic products. We have experienced solid growth in our non-DRAM business as indicated by a significant increase of 42% in our logic sales from the 0.13-micron and 90-nanometer technology nodes over 2006, and strong growth is expected to continue in 2008. The Company also plans to begin 65-nanometer logic production at our 12-inch fabrication facilities during the second half of 2008. Switching production capacity from DRAM to logic will remain a key focus of our strategy as we move steadily toward profitability."

Chairman's Statement

Dear Shareholders,

In 2007, SMIC continued to be successful in executing its business plans and reaching important technological milestones, which have allowed the Company to further reinforce its position as China's leading foundry as well as a top player in the global IC market. Despite facing unprecedented difficulties in DRAM market conditions, SMIC was able to remain fully committed to both its business strategy and roadmap, designed to bring forth long-term growth and profitability.

With DRAM prices declining dramatically, SMIC has retained sufficient flexibility by shifting its production of DRAM to logic products. We have experienced solid growth in our non-DRAM business as indicated by a significant increase of 42% in our logic sales from the 0.13-micron and 90-nanometer technology nodes over 2006, and strong growth is expected to continue in 2008. The Company also plans to begin 65-nanometer logic production at our 12-inch fabrication facilities during the second half of 2008. Switching production capacity from DRAM to logic will remain a key focus of our strategy as we move steadily toward profitability.

As the world's largest and most rapidly expanding market for integrated circuits, China has remained a powerful driver of industry growth; its overall IC consumption level reached more than $75 billion in 2007 with an estimated increase to more than $100 billion by 2010 according to IC Insights and CCID reports. SMIC rode this wave to a 56% increase in its China sales in 2007, a growth we expect to continue with the anticipated increase in demand for 0.13-micron and 90-nanometer designs in the DTV, baseband, and digital broadcast markets. Building on its strong presence in Mainland China, the Company announced plans to start a new IC production project in Shenzhen with extensive support from the Shenzhen municipal government. The project is expected to break ground in the first half of 2008. With the Beijing, Tianjin, Shanghai, Chengdu and Wuhan fabs already in place, SMIC now has tremendous geographical advantages with which to capture every growth opportunity on the Mainland.

Global technology advancement is moving at a rapid pace and SMIC has taken the necessary steps to meet the growing demand for cutting-edge technology. By continuing to attract important global business partners such as Synopsys and Spansion, SMIC has been able to accelerate its technology advancement in order to satisfy market demand while enjoying higher gross profit margins. With the licensing agreement signed with IBM in December, the company roadmap is now extended to 45-nanometer technologies, spawning increased customer confidence in seeking our foundry services at multiple offering levels.

Our 2007 milestones in technology advancement and capacity expansion were made possible by the ceaseless efforts of our executive team and world-class experienced staff, whose innovative spirit and creative abilities SMIC continually seeks to nourish. As the Company presses forward into a year of impending challenges and changes, we are mindful of the interests of all of those who contribute to our growth – our employees, our business partners and our shareholders. We also remain highly conscious of our responsibility to protect the environment and to promote energy conservation. By uniting our firm business values with our solid business strategy and management team, we are committed to laying the foundation for stable growth and development, and are well-poised to further strengthen our leading position in Mainland China.

Sincerely,
Yang Yuan Wang
Chairman of the Board

Shanghai, the PRC
April 24, 2008

Chief Executive Officer's Statement

Dear Shareholders,

2007 was a challenging year for SMIC, as we faced a difficult DRAM environment and increasing global competition. However, our success in developing cutting edge technologies, converting DRAM capacity to logic, expanding capacity, and cultivating the China market, has paved the way for continued growth in 2008.

I am pleased to report that SMIC has continued to grow its revenues despite unprecedented depressed conditions in the DRAM market. Our total revenue increased by 5.8% over 2006 to $1.55 billion in 2007. Gross profit was up by 20% to $152.7 million in 2007 from $127.2 million in 2006 due to solid growth in our non-DRAM business. Gross margin was 9.9% in 2007, compared to 8.7% in 2006. Operationally, our capacity at the end of the fourth quarter of 2007 increased to 185,250 8-inch-equivalent wafers per month, with a high utilization rate of 94%. For 2007, our wafer shipments and sales increased by 14.6% and 5.8%, respectively, over 2006.

As part of our plan to mitigate the continuing DRAM pricing erosion, we significantly reduced our DRAM foundry services since the first quarter 2007 and expect DRAM revenue as a portion of total revenue to decrease throughout 2008.

SMIC experienced solid growth in its non-DRAM business. Revenue from our non-DRAM business increased by 13.5% to $1,121 million in 2007, compared to $988 million in 2006. As more of our logic customers migrated to more advanced technology process nodes, our logic sales at 0.13 micron and at 90-nanometer technology nodes also significantly increased by 17.7% and 166%, respectively, over 2006.

As the overall semiconductor market continues to expand rapidly in China, SMIC has participated in this significant growth trend, demonstrated by a 56% growth in our China sales in 2007. We are pleased to see continuous progress from our customers in China and remain committed to further growth and expansion within the China market.

In 2007, we saw strong foundry demand for handset ICs, power management ICs, WLAN, and consumer applications such as STB, DTV and MP3/MPEG4, indicative of demand in the industry at large. We also enjoyed the addition of 77 new customers worldwide in 2007, a large number of which are PRC-based, representing a 23.3% increase in our customer base.

In addition, 2007 was marked by several strategic agreements. SMIC entered into a strategic agreement with Spansion Inc. (NASDAQ:SPSN), in which Spansion will transfer its 65nm MirrorBit® technology to SMIC for foundry services on 300 mm wafers in China. This move would allow SMIC to enter selected segments of the Flash memory market with a license to manufacture and sell 90 nm and 65 nm and potentially future Spansion MirrorBit® Quad products for the China content delivery market.

To complement our ongoing in-house research and development, and to strengthen our capabilities in serving customers, we are pleased to announce that we have entered into a licensing agreement with IBM, in which IBM will license its 45-nanometer bulk CMOS technology to SMIC. This agreement will allow SMIC to accelerate its technology advancement in logic process technology and help provide optimal solutions for customers at our 12-inch facilities. With the roadmap extended to 45 nm technologies, we observed the trend of more customers seeking our foundry services in the 90 nm and 65 nm technology nodes as well.

We expect our capital expenditures to be around $700 million in 2008 as we continue to invest in the development of advanced technology nodes and continue the planned conversion of DRAM capacity to logic in our Beijing fabrication facility.

In terms of operations, we are pleased to announce that SMIC plans to start a new IC production project in Shenzhen. In connection with this project, SMIC has registered an independent legal entity, 中芯國際集成電路製造(深圳)有限公司 (Semiconductor Manufacturing International (Shenzhen) Corporation*), which will set up an IC technology research and development center, an 8-inch wafer production line and a 12-inch fab. In addition to the existing R&D centers in Shanghai and Beijing, in the near future, we plan to add R&D centers in Chengdu and Wuhan.

We believe that as we continue to execute our business plans and reach technological milestones, we are laying a solid foundation for long-term growth and development. As we look ahead, 2008 also marks a very exciting and significant year for China as it celebrates and hosts the 2008 Summer Olympic Games in Beijing. So, as the Beijing Olympics slogan goes, "One World, One Dream", SMIC also wishes to partake in this celebration by continuing to grow our business and sharing our world and dream with our customers and shareholders in 2008 and many years to come.

May God bless you and SMIC,

Richard R. Chang
Chief Executive Officer

Shanghai, the P.R.C.
April 24, 2008

* *For identification purposes only*

Business Review

In 2007, SMIC continued to grow its business despite severe DRAM pricing erosion in the latter half of the year. The overall semiconductor market continued to expand rapidly in China, represented by a 56% growth in our China sales in 2007, thereby affirming SMIC's business strategy.

Overview of Business Developments

Our operations continue to remain strong. At the end of 2007, we had increased our monthly capacity to 185,250 8-inch wafers per month. Our wafer shipments increased from 1,614,888 8-inch wafers in 2006 to 1,849,957 8-inch wafers in 2007, representing a 14.6% increase. According to a leading IC industry market research company, we held 8% of the foundry market in 2007, which represented a growth rate of approximately 24%, the 3rd highest growth rate among the top 10 foundries.

We generated US$672.5 million in cash from operations in 2007. However, our depreciation expenses remain among the highest in the foundry industry. Furthermore, because we are a relatively new foundry with only six years of commercial operations and have continued to expand our capacity to meet the increasing capacity demands of our customers, our depreciation expense as a percentage of revenues remain the highest in the foundry industry.

We believe that we will become profitable by continually improving our product mix, developing leading edge technologies, and establishing key partnerships. In 2007, we entered into a licensing agreement with IBM for 45nm technology, partnered with Spansion for 65nm NOR flash development and worked to keep cost down on maturing technologies. In 2007, 53.1% of our wafer sales came from products that utilized advanced technology of 0.13 micron and below. Revenues generated from 0.13 micron and below technology nodes as a percentage of our logic revenues increased from 26.8% in 2006 to 35.7% in 2007. We expect this upward trend to continue in 2008 as some of our fabless and IDM customers continue to migrate a significant portion of their products to the 0.13 micron and below technology nodes.

Customers and Markets

We target a diversified and global customer base, consisting of leading IDMs, fabless semiconductor companies, and systems and other companies and seek to maintain our leadership position in China.

During year 2007 the worldwide semiconductor industry went through a 3% growth despite the troubled DRAM market since the beginning of the year (according to Gartner and iSuppli sources). Semiconductors for consumer electronics growth also appeared slow and in addition to many players competing for market share, resulted in faster price erosion. SMIC increased its revenue by 5.8% while shipments increased to 14.6% compared to 2006.

Geographically, SMIC's revenue is still led by North America at 42.5%, followed by Europe at 21.2%, Asia Pacific (excluding Japan) at 26.5%, and Japan at 9.8%. Our US customers including both leading IDM and fabless IC companies, showed strong demand in broad application categories such as mobile phone base-band, WLAN (Wireless Local Area Network), Audio and Video, STB (Set-top Box) and PMU (Power Management Units) at 90nm, 130nm and 180nm technology nodes. Our customers in Taiwan showed significant growth in flash controllers and multimedia processors. In 2007, we engaged 77 new customers, bringing the total number of customers to 401. Notably our China revenue has been increasing steadily from both increased shipments and from the number of new designs using more advanced technology nodes such as 130nm and 90nm. New leaders emerged in multimedia processors, RF devices, CMOS image sensors, MP3/MP4 players, DTV/STB and new devices such as Digital Picture Frames. SMIC also has significant participation in implementing China's own standards in communications and broadcasting, such as TD-SCDMA for 3G mobile networks, DMB-T/H for DTV demodulation and CMMB for satellite based mobile TV broadcasting.

As China's largest and most advanced foundry, SMIC reached several milestones in 2007. First, SMIC signed 45nm technology licensing agreement with IBM, allowing a leap forward technology capability in first wave applications from first tier customers. Secondly, our 90nm entered mass production in Beijing's 300mm facility. Thirdly, SMIC's 300mm Fab in Shanghai (Fab 8) went into pilot production and will expand capacity for foundry services for logic-based products from 90nm down to 45nm. In addition, SMIC strengthened its role in advanced NOR flash foundry by signing a foundry agreement with Spansion in manufacturing 65nm MirrorBit® Products.

As our customer base continues to grow, our business becomes capacity constrained, in both 300mm, driven by advanced logic and flash memories, and 200mm, driven by power management, power MOSFET's, analog devices, and LCD/LED driver IC's. SMIC also successfully explored new business models in working with Chinese city or provincial governments in Chengdu and Wuhan. Under this business model, the governments funded the facilities while SMIC manages and operates them, allowing SMIC to expand our service offering for our customers. Additionally, with the support of the Shenzhen municipal government, SMIC plans to begin wafer production operations and research development activities that will introduce advanced process technology licensed from IBM. On the DRAM side, due to the persistent low prices starting at the beginning of 2007, SMIC has decided to reduce DRAM foundry production level aggressively and start converting DRAM fab equipment for logic products.

In summary, during 2007 SMIC continued to demonstrate healthy growth in revenue and in its customer base, a strong influence in China, and a broadened service spectrum by a planned conversion of DRAM capacity into logic production which allowed SMIC to restructure its capacity mix and position itself toward improved profitability and risk diversification in 2008.

Research and Development

The semiconductor industry is characterized by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, our research and development efforts are essential to our overall success. Our research and development expenses were $97.0 million in 2007, which represented 6.3% of our sales. We employ over 500 research and development personnel, combining experienced semiconductor engineers with advanced degrees from leading universities around the world with top graduates from the leading universities in China. We believe this combination has enabled us to quickly bring our technology in line with the semiconductor industry roadmap and ensures that we will have skilled personnel to lead our technology advancement in the future. We are also developing our 65 nanometer technology with one of the top fabless companies in the world.

Joint Ventures

We have established numerous joint ventures in order to expand our service offerings to our customers. In July 2004, we entered into an agreement with Toppan Printing Co., Ltd., to establish Toppan SMIC Electronics (Shanghai) Co., Ltd., a joint venture in Shanghai for the manufacturing of on-chip filters and micro-lenses for image sensors which began mass production in January of 2006.

Our assembly and testing facility in Chengdu, China with United Test and Assembly Center Ltd. began pilot production in the fourth quarter of 2005. We began to provide full-turn-key services in 2006, and continued ramping up in 2007.

Subsequent Events

During the first quarter of 2008, the Company took the decision to exit the commodity DRAM business. The Company considers this an indicator of impairment in regard to the long-lived assets of SMIB in accordance with SFAS 144. The Company is in the process of evaluating whether or not such assets have been impaired. As of December 31, 2007, the carrying value of the total property, plant and equipment at SMIB amounted to approximately $1.2 billion.

Material Litigation

Overview of TSMC Litigation:

Beginning in December 2003 through August 2004, the Company became subject to several lawsuits brought by Taiwan Semiconductor Manufacturing Company, Limited ("TSMC") relating to alleged infringement of certain patents and misappropriation of alleged trade secrets relating to methods for conducting semiconductor fab operations and manufacturing integrated circuits.

On January 31, 2005, the Company entered into a settlement agreement, without admission of liability, which provided for the dismissal of all pending legal actions without prejudice between the two companies (the "Settlement Agreement"). The terms of the Settlement Agreement also included:

1) The Company and TSMC agreed to cross-license each other's patent portfolio for all semiconductor device products, effective from January 2005 through December 2010.

2) TSMC covenanted not to sue the Company for trade secret misappropriation as alleged in TSMC's legal actions as it related to .15µm and larger processes subject to certain conditions ("TSMC Covenant"). The TSMC Covenant did not cover .13µm and smaller technologies after 6 months following execution of the Settlement Agreement (July 31, 2005). Excluding the .13µm and smaller technologies, the TSMC Covenant remains in effect indefinitely, terminable upon a breach by the Company.

3) The Company is required to deposit certain Company materials relating to .13µm and smaller technologies into an escrow account until December 31, 2006 or under certain circumstances for a longer period of time.

4) The Company agreed to pay TSMC an aggregate of $175 million in installments of $30 million for each of the first five years and $25 million in the sixth year.

Accounting under the Settlement Agreement:

In accounting for the Settlement Agreement, the Company determined that there were several components of the Settlement Agreement – settlement of litigation, covenant not to sue, patents licensed by us to TSMC and the use of TSMC's patent license portfolio both prior and subsequent to the settlement date.

The Company does not believe that the settlement of litigation, covenant not to sue or patents licensed by us to TSMC qualify as accounting elements. In regard to the settlement of litigation, the Company cites the following:

1) The settlement agreement reached between TSMC and SMIC clearly stated that there was no admission of liability by either party;

2) The settlement agreement required all parties to bear their own legal costs;

3) There were no other damages associated with the Settlement Agreement;

4) There was a provision in the Settlement Agreement for a grace period to resolve any misappropriation issues had they existed;

5) Albeit a complaint had been filed by TSMC on trade secret infringement, TSMC has never identified which trade secrets it claimed were being infringed upon by the Company;

6) The Settlement Agreement was concluded when the litigation process was still at a relatively early stage and the outcome of the litigation was therefore highly uncertain.

The TSMC covenant not to sue for alleged trade secrets misappropriation does not qualify as a separable asset in accordance with either SFAS 141 or SFAS 142 as TSMC had never specified the exact trade secrets that it claimed were misappropriated, the Company's belief that TSMC's trade secrets may be obtained within the marketplace by other legal means and the Company never obtained the legal right to use TSMC's trade secrets.

In addition, the Company did not attribute any value to the patents licensed to TSMC under the Settlement Agreement due to the limited number of patents held by the Company at the time of the Settlement Agreement.

As a result, the Company determined that only the use of TSMC's patent license portfolio prior and subsequent to the settlement date were considered elements of an arrangement for accounting purposes. In attributing value to these two elements, the Company first discounted the payment terms of the $175 million settlement amount using an annual 3.4464% interest rate to arrive at a net present value of $158 million. This amount was then allocated to the pre- and post-settlement periods based on relative fair value, as further described below.

Based on this approach, $16.7 million was allocated to the pre-settlement period, reflecting the amount that the Company would have paid for use of the patent license portfolio prior to the date of the Settlement Agreement. The remaining $141.3 million, representing the relative fair value of the licensed patent license portfolio, was recorded on the Company's consolidated balance sheets as a deferred cost and is being amortized over a six-year period, which represents the life of the licensed patent license portfolio. The amortization of the deferred cost is included as a component of cost of sales in the consolidated statements of operations.

Valuation of Deferred Cost:

The fair value of the patent license portfolio was calculated by applying the estimated royalty rate to the specific revenue generated and expected to be generated from the specific products associated with the patent license portfolio.

The selected royalty rate was based on the review of median and mean royalty rates for the following categories of licensing arrangements:

a) Existing third-party license agreements with SMIC;

b) The analysis of comparable industry royalty rates related to semiconductor chip/integrated circuit ("IC") related technology; and

c) The analysis of comparable industry royalty rates related to semiconductor fabrication.

On an annualized basis, the amounts allocated to past periods was lower than that allocated to future periods as the Company assumed increases in revenues relating to the specific products associated with the patent license portfolio.

As the total estimated fair value of the patent license portfolio exceeded the present value of the settlement amount, the Company allocated the present value of the settlement amount based on the relative fair value of the amounts calculated prior and subsequent to the settlement date.

Recent TSMC Legal Developments:

On August 25, 2006, TSMC filed a lawsuit against the Company and certain subsidiaries (SMIC (Shanghai), SMIC (Beijing) and SMIC (Americas)) in the Superior Court of the State of California, County of Alameda for alleged breach of the 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 the Settlement Agreement.

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, nor has it set a trial date.

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, 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.

TSMC filed with the California court in January 2007 a motion seeking to enjoin the PRC action. In February 2007, TSMC filed with the Beijing High Court a jurisdictional objection, challenging the competency of the Beijing High Court's jurisdiction over the PRC action.

In March 2007, the California Court denied TSMC's motion to enjoin the PRC action. TSMC has appealed this ruling to California Court of Appeal. On March 26, 2008, the Court of Appeal, in a written opinion, denied TSMC's appeal. TSMC has not yet indicated whether it will petition the California Supreme Court for further review.

In July 2007, the Beijing High Court denied TSMC's jurisdictional objection and issued a court order holding that the Beijing High Court shall have proper jurisdiction to try the PRC action. TSMC has appealed this order to the Supreme Court of the People's Republic of China. On January 7, 2008, the Supreme Court heard TSMC's appeal. It has not yet issued a ruling.

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 attempted to file additional claims that the Company breached the Settlement Agreement by filing an action in the Beijing High Court. Upon the Company's motion, the California Court struck TSMC's new claims as procedurally improper, but granted TSMC leave to replead its claims. The Company thereafter demurred to the new claims as repleaded. The Court sustained a portion of the Company's demurrer, but again gave TSMC leave to replead.

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.

On January 25, 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 will oppose the motion. A hearing has been set on the motion for May 14, 2008.

On March 11, 2008, TSMC filed an application for a right to attach order in the California Court. By its application, TSMC seeks an order securing an amount equal to the remaining balance on the promissory notes issued by the Company in connection with the Settlement Agreement. The order, if granted, would apply only to property of the Company in the State of California. The Company has opposed the application. A hearing was held on April 3, 2008. The court has not yet issued a ruling.

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. We believe that the lawsuit is at a preliminary stage and we are still evaluating whether or not the litigation represents such an event. The Company expects further information to become available to us which will aid us in making a determination. The outcome of any impairment analysis performed under SFAS 144 might result in a material impact to our financial position and results of operations. Because the case is in its preliminary stages, the Company is unable to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of potential loss.

Outlook For 2008

Our main focus in 2008 will be to increase the proportion of shipments from advanced logic products at 0.13 micron and 90 nanometers, expand our advanced logic wafer capacity based on customer demand, and increase the percentage of revenue mix from non-DRAM products. We will also continue to expand our technology offerings to attract more global and domestic customers. During the second half of 2008, we expect to see 65-nanometer logic in commercial production at our 12-inch fabrication facilities. Furthermore, we will transfer and implement the 45-nanometer bulk-CMOS technology from IBM in our Shanghai 12-inch fab with the goal of commencing commercial production in 2009. Our capital expenditure target for 2008 of approximately US$700 million will be adjusted based on anticipated customer demand for our services.

Management's Discussion and Analysis of Financial Condition and Results of Operation

Consolidated Financial Data

The summary consolidated financial data presented below as of and for the years ended December 31, 2005, 2006 and 2007 are derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, the audited consolidated financial statements, including the related notes, included elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2003 and 2004 and for the two years then ended is derived from audited consolidated financial statements not included in this Annual Report. The summary consolidated financial data presented below has been prepared in accordance with United States generally accepted accounting principles (the "U.S. GAAP").

	For the year ended December 31,				
	2003	2004	2005	2006	2007
	(in US$ thousands, except for per share and per ADS data)				
Income Statement Data:					
Sales	$365,824	$974,664	$1,171,319	$1,465,323	$1,549,765
Cost of sales(1)	359,779	716,225	1,105,134	1,338,155	1,397,038
Gross profit (loss)	6,045	258,439	66,185	127,168	152,727
Operating expenses:					
Research and development	34,913	74,113	78,865	94,171	97,034
General and administrative	29,705	54,038	35,701	47,365	74,490
Selling and marketing	10,711	10,384	17,713	18,231	18,716
Litigation settlement	—	16,695	—		
Amortization of acquired intangible assets	3,462	14,368	20,946	24,393	27,071
Income from sale of plant and equipment and other fixed assets	—	—	—	(43,122)	(28,651)
Total operating expenses (income), net	78,791	169,598	153,225	141,038	188,659
Income (loss) from operations	(72,746)	88,841	(87,040)	(13,870)	(35,932)
Other income (expenses):					
Interest income	5,616	10,587	11,356	14,916	12,349
Interest expense	(1,425)	(13,698)	(38,784)	(50,926)	(37,936)
Foreign currency exchange gain (loss)	1,523	8,218	(3,355)	(21,912)	11,250
Other, net	888	2,441	4,462	1,821	2,238
Total other income (expense), net	6,602	7,548	(26,322)	(56,101)	(12,100)
(Loss) Income before income tax	(66,144)	96,389	(113,362)	(69,971)	(48,032)
Income tax credit (expense)	—	(186)	(285)	24,928	29,720
Minority interest	—	—	251	(19)	2,856
Loss from equity investment	—	—	(1,379)	(4,201)	(4,013)
Net (loss) income before cumulative effect of a change in accounting principle	(66,144)	96,203	(114,775)	(49,263)	(19,468)
Cumulative effect of a change in accounting principal	—	—	—	5,154	—
Net (loss) income	(66,144)	96,203	(114,775)	(44,109)	(19,468)
Deemed dividend on preference shares(2)	37,117	18,840	—	—	—
Income (loss) attributable to holders of ordinary shares	$(103,261)	$77,363	$(114,775)	$(44,109)	$(19,468)
Income (loss) per share, basic	$(1.14)	$0.01	$(0.00)	$(0.00)	$(0.00)
Income (loss) per share, diluted	$(1.14)	$0.00	$(0.00)	$(0.00)	$(0.00)
Shares used in calculating basic income (loss) per share(3)(4)	90,983,200	14,199,163,517	18,184,429,255	18,334,498,923	18,501,940,489
Shares used in calculating diluted income (loss) per share(3)(4)	90,983,200	17,934,393,066	18,184,429,255	18,334,498,923	18,501,940,489

(1) Including amortization of deferred stock compensation for employees directly involved in manufacturing activities.

(2) Deemed dividend represents the difference between the sale and conversion prices of warrants to purchase convertible preference shares we issued and their respective fair market values.

(3) Anti-dilutive preference shares, options and warrants were excluded from the weighted average ordinary shares outstanding for the diluted per share calculation. For 2003, 2005, 2006, and 2007, basic income (loss) per share did not differ from diluted loss per share.

(4) All share information has been adjusted retroactively to reflect the 10-for-1 share split effected upon completion of the global offering of ordinary shares in March 2004 (the "Global Offering").

	As of December 31,				
	2003	2004	2005	2006	2007
	(in US$ thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$445,276	$607,173	$585,797	$363,620	$469,284
Short-term investments	27,165	20,364	13,796	57,951	7,638
Accounts receivable, net of allowances	90,539	169,188	241,334	252,185	298,388
Inventories	69,924	144,018	191,238	275,179	248,310
Total current assets	680,882	955,418	1,047,465	1,049,666	1,075,302
Land use rights, net	41,935	39,198	34,768	38,323	57,552
Plant and equipment, net	1,523,564	3,311,925	3,285,631	3,244,401	3,202,958
Total assets	2,290,506	4,384,276	4,586,633	4,541,292	4,708,444
Total current liabilities	325,430	723,871	896,038	677,362	930,190
Total long-term liabilities	479,961	544,462	622,497	817,710	730,790
Total liabilities	805,391	1,268,333	1,518,535	1,495,072	1,660,980
Minority Interest	—	—	38,782	38,800	34,944
Stockholders' equity	$1,485,115	$3,115,942	$3,029,316	$3,007,420	$3,012,519

	For the year ended December 31,				
	2003	2004	2005	2006	2007
	(in US$ thousands, except percentages and operating data)				
Cash Flow Data:					
Net income (loss)	$(66,145)	$96,203	$(114,775)	$(49,263)	$(19,468)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	233,905	456,961	769,472	919,616	706,277
Net cash provided by (used in) operating activities	114,270	518,662	648,105	769,649	672,465
Purchases of plant and equipment	(453,097)	(1,838,773)	(872,519)	(882,580)	(717,171)
Net cash used in investing activities	(454,498)	(1,826,787)	(859,652)	(917,369)	(643,344)
Net cash provided by financing activities	693,497	1,469,764	190,364	(74,440)	76,637
Net increase (decrease) in cash and cash equivalents	$353,412	$161,896	$(21,376)	$(222,177)	$105,664
Other Financial Data:					
Gross margin	1.7%	26.5%	5.7%	8.7%	9.9%
Operating margin	-19.9%	9.1%	-7.4%	-0.9%	-2.3%
Net margin	-18.1%	9.9%	-9.8%	-3.0%	-1.3%
Operating Data:					
Wafers shipped (in units):					
Total[1]	476,451	943,463	1,347,302	1,614,888	1,849,957

(1) Including logic, DRAM, copper interconnects and all other wafers.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Sales

Sales increased by 5.8% from US$1,465.3 million for 2006 to US$1,549.8 million for 2007, primarily as a result of the increase in the Company's manufacturing capacity and ability to use such capacity to increase sales. The number of wafers the Company shipped increased by 14.6%, from 1,614,888 8-inch wafer equivalents to 1,849,957 8-inch wafer equivalents, between these two periods. The average selling price[1] of the wafers the Company shipped decreased by 7.7% from US$907 per wafer to US$838 per wafer primarily due to the decline in DRAM average selling price. The percentage of wafer revenues that used 0.13 micron and below process technology increased from 49.6% to 53.1% between these two periods.

Cost of sales and gross profit (loss)

Cost of sales increased by 4.4% from US$1,338.2 million for 2006 to US$1,397.0 million for 2007. This increase was primarily due to the significant increase in wafer shipments as well as subcontracting costs associated with turn-key services.

The Company had a gross profit of US$152.7 million for 2007 compared to a gross profit of US$127.2 million in 2006. Gross margins were 9.9% in 2007 compared to 8.7% in 2006. The increase in gross margins was primarily due to lower depreciation expenses.

Operating income, expenses and loss from operations

Operating expenses increased by 33.8% from US$141.0 million for 2006 to US$188.7 million for 2007 primarily due to an increase in legal and tax fees associated with general and administrative expenses. Meanwhile, the Company received less income from the sale of plant and equipments from US$43.1 million in 2006 compared to $28.7 million in 2007.

As described in "Note 11. – Acquired intangible assets, net", the amortization of acquired intangible assets increased from US$24.4 million for 2006 to US$27.1 million for 2007.

Research and development expenses increased by 3.0% from US$94.2 million for 2006 to US$97.0 million for 2007. This increase in research and development expenses resulted primarily from an increase in material and other production related expenses associated with 65nm technology development and the start-up costs associated with the New Shanghai 12-inch project.

General and administrative expenses increased by 57.2% to US$74.5 million for 2007 from US$47.4 million for 2006, primarily due to an increase in personnel related expenses, legal fees and tax related expenses.

Selling and marketing expenses increased by 2.7% from US$18.2 million for 2006 to US$18.7 million for 2007, due to an increase in sales and marketing personnel expenses.

As a result, the Company's loss from operations was US$35.9 million in 2007 compared to loss from operations of US$13.9 million in 2006. Operating margin was negative 2.3% and 0.9%, respectively, for these two years.

1 Based on simplified average selling price which is calculated as total revenue divided by total shipments.

Other income (expenses)

Other expenses decreased from US$56.1 million in 2006 to US$12.1 million in 2007. This decrease was primarily attributable to the decrease in interest expense from US$51.0 million in 2006 to US$37.9 million in 2007, and the decrease in foreign exchange loss from US$21.9 million in 2006 to a gain of US$11.2 million in 2007.

Net income (loss)

Due to the factors described above, the Company had a net loss of US$19.5 million in 2007 compared to a net loss of US$44.1 million for 2006.

Bad debt provision

The Company determines its bad debt provision based on the Company's historical experience and the relative aging of receivables. The Company's bad debt provision excludes receivables from a limited number of customers due to a high level of collection confidence. The Company provides bad debt provision based on the age category of the remaining receivables. A fixed percentage of the total amount receivable is applicable to receivables in each past due age category, ranging from 1% for the shortest past due age category to 100% for the longest past due age category. Any receivables deemed non-collectible will be written off against the relevant amount of provision. The Company's bad debt provision made (reversed) in 2005, 2006 and 2007 amounted to US$(0.1M), US$3M and US$0.5M, respectively. The Company reviews, analyzes and adjusts bad debt provisions on a monthly basis.

Debt Arrangements

Set forth in the table below are the aggregate amounts, as of December 31, 2007, of the Company's future cash payment obligations under the Company's existing contractual arrangements on a consolidated basis:

	Payments due by period				
Contractual obligations	Total	Less than 1 year	1-2 years	3-5 years	After 5 years
		(consolidated) (in US$ thousands)			
Short-term borrowings	$107,000	$107,000	$—	$—	$—
Long-term debt secured long-term loans	956,988	340,693	351,043	265,252	—
Operating lease obligations(1)	4,561	581	267	674	3,039
Purchase obligations(2)	296,635	296,635	—	—	—
Other long-term obligations(3)	227,638	104,138	78,900	44,600	—
Total contractual obligations	$1,592,822	$849,047	$430,210	$310,526	$3,039

(1) Represents our obligations to make lease payments to use the land on which our fabs are located in Shanghai and other office equipment we have leased.

(2) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.

(3) Includes the settlement with TSMC for an aggregate of $175 million payable in installments over six years and the other long-term liabilities relating to certain license agreements.

As of December 31, 2007, the Company's outstanding long-term liabilities primarily consisted of US$957.0 million in secured bank loans, which are repayable in installments which commenced in June 2007, with the last payment in August 2012.

2001 Loan Facility (SMIC Shanghai)

In December 2001, Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai") entered into a USD denominated long-term debt agreement for US$432.0 million with a syndicate of four Chinese banks. The withdrawal period of the facility was 18 months starting from the loan agreement date. As of December 31, 2004, SMIC Shanghai had fully drawn down on this loan facility. In 2006, the interest rate on the loan ranged from 6.16% to 7.05%. The interest payment is due on a semi-annual basis. The principal amount is repayable starting in March 2005 in five semi-annual installments of US$86.4 million. The interest expense incurred in 2006 and 2005 was US$6.6 million and US$16.5 million, respectively, of which US$0.8 million and US$3.6 million were capitalized as additions to assets under construction in 2006 and 2005, respectively. As of December 31, 2006 and 2005, this facility was fully repaid.

These long-term loan agreements contained certain financial covenants which initially were superceded by the financial covenants set forth in SMIC Shanghai's long-term agreements from January 2004 and subsequently were superceded by the financial covenants set forth in SMIC Shanghai's long-term agreements from June 2006 as described below.

2004 Loan Facility (SMIC Shanghai)

In January 2004, SMIC Shanghai entered into the second phase USD denominated long-term facility arrangement for US$256.5 million with four Chinese banks. As of December 31, 2005, SMIC Shanghai had fully drawn down on this loan facility. In 2006, the interest rate on the loan ranged from 6.16% to 7.05%. The interest payment is due on a semi-annual basis. The principal amount is repayable starting in March 2006 in seven semi-annual installments of US$36.6 million. The interest expense incurred in 2006 and 2005 was US$7.2 million and US$12.5 million, of which US$0.9 million and US$2.7 million were capitalized as additions to assets under construction in 2006 and 2005, respectively. As of December 31, 2006, the borrowing was fully repaid through the Shanghai new USD syndicate loan.

In connection with the second phase long-term facility arrangement, SMIC Shanghai has a RMB denominated line of credit of RMB235,678,000 (approximately US$28.5 million). In 2005, SMIC Shanghai fully utilized and then repaid in full prior to December 31, 2005. The interest expenses incurred in 2005 was US$0.03 million.

These long-term loan agreements contained certain financial covenants which were superceded by the financial covenants set forth in SMIC Shanghai's long-term agreements from June 2006 as described below.

2006 Loan Facility (SMIC Shanghai)

In June 2006, SMIC Shanghai entered into a new 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 on this loan facility. The principal amount is repayable starting from December 2006 in ten semi-annual installments. As of December 31, 2007, SMIC Shanghai had repaid US$111.1 million according to the repayment schedule and had early repaid US$95.0 million. In 2007, the interest rate on the loan ranged from 5.74% to 6.46%. The interest expense incurred in 2007 and 2006 was US$17.3 and US$13.5 million, of which $3.3 million and $1.6 million were capitalized as additions to assets under construction in 2007 and 2006, respectively.

The total outstanding balance of these long-term facilities is collateralized by certain plant and equipment at the original cost of US$1,883 million as of December 31, 2007.

The following are covenants contained in the long-term loan agreement entered into in June 2006 which SMIC Shanghai is (unless otherwise waived by the lenders to such agreement) required to comply with.

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 31 December 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 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 30 June 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 30 June 2009;
   (b) no more than 1.30x thereafter.

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 drawdown period of this facility was twelve months from the sign off date of the agreement. As of December 31, 2007, SMIC Beijing had fully drawn-down US$600.0 million on this loan facility. The interest rate on this loan facility in 2007 ranged from 6.38% to 7.00%. The principal amount is repayable starting in December 2007 in six semi-annual installments. As of December 2007, SMIC Beijing had repaid the first installment of US$100 million according to the repayment schedule. The interest expense incurred in 2007 and 2006 was US$42.2million and US$28.5 million, of which US$2.3 million and US$0.5 million were capitalized as additions to assets under construction in 2007 and 2006, respectively.

The total outstanding balance of SMIC Beijing USD syndicate loan is collateralized by certain plant and equipment at the original cost of US$1,058.4 million as of December 31, 2007.

Any of the following with respect to SMIC Beijing would constitute an event of default for SMIC Beijing (unless otherwise waived by the lenders to such agreement).

- [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
- (Total liability – borrowings from shareholders, including principal and interest)/Total assets > 60% (when SMIC Beijing's 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 Beijing's capacity exceeds 20,000 12-inch wafers per month).

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 a syndicate of banks and ABN Amro Bank N.V. Commerz Bank (Nederland) N.V. as the leading bank. The drawdown period of the facility ends on the earlier of (i) twenty 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 the Company in ten equal semi-annual installments. SMIC Tianjin had drawn down in 2006 and SMIC Shanghai had drawn down in 2007.

As of December 31, 2007, SMIC Tianjin had drawdown EUR15.1 million and repaid the first four installments with an aggregated amount of EUR 6.0 million. As of December 31, 2007, the remaining balance is EUR 9.1 million, with the US dollar equivalent of US$13.4 million. In 2007, the interest rate on the loan ranged from 3.95% to 5.87%. The interest expense incurred in 2007 and 2006 were US$0.7 and US$0.3 million of which $0.06 million and $0.07 million was capitalized additions to assets under construction in 2007 and 2006, respectively.

The total outstanding balance of the facility is collateralized by SMIC Tianjin's certain plant and equipment at the original cost of EUR 17.8 million as of December 31, 2006.

As of December 31, 2007, SMIC Shanghai had drawdown EUR 28.4 million and repaid the first installment of EUR 2.8 million. As of December 31, 2007, the remaining balance is EUR 25.6 million, with the US dollar equivalent of US$37.7 million. In 2007, the interest rate on the loan ranged from 4.41% to 4.87%. The interest expense incurred in 2007 was US$0.3 million of which $0.06 million were capitalized additions to assets under construction in 2007.

The total outstanding balance of the facility is collateralized by SMIC Shanghai's certain plant and equipment at the original cost of EUR 33.4 million as of December 31, 2007.

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, and our land use rights and plant in proportion to the principal amount outstanding under this facility and the EUR denominated loan. We have guaranteed SMIC Tianjin's obligations under this facility. As of December 31, 2007 SMIC Tianjin had drawn down US$12.0 million from the facility. The remaining amount is available until May 2008. The principal amount is repayable staring from 2010 in six semi-annual installments. In 2007, the interest rate on the loan ranged from 6.03% to 6.58%. The interest expense incurred ended December 31, 2007 was US$0.3 million, of which $ 0.02 million was capitalized as additions to assets under construction in 2007.

The total outstanding balance of the facility is collateralized by certain plant and equipment with an original cost of $207.0 million as of December 31, 2007.

Any of the following with respect to SMIC Tianjin would constitute an event of default for SMIC Tianjin (unless otherwise waived by the lenders to such agreement).

- [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
- 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.

Short-term Credit Agreements. As of December 31, 2007, the Company had fifteen short-term credit agreements that provided total credit facilities up to US$484.4 million on a revolving credit basis. As of December 31, 2007, the Company had drawn down US$107.0 million under these credit agreements and US$377.4 million is available for future borrowings. The outstanding borrowings under the credit agreements are unsecured. The interest expense incurred in 2007 was US$4.5 million. The interest rate on the loans ranged from 5.37% to 6.44% in 2007.

Capitalized Interest

Interest 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 $7.7 million, $4.8 million and $7.6 million, net of government subsidies, has been added to the cost of the underlying assets during the year and is amortized over the respective useful life of the assets. In 2007, 2006, and 2005, the Company recorded amortization expenses relating to the capitalized interest of $5.4 million, $4.7 million, and $3.3 million, respectively.

Commitments

As of December 31, 2007, the Company had commitments of US$57.1 million for facilities construction obligations for the facilities in Chengdu and Wuhan and the Beijing, Tianjin, and Shanghai fabs, and US$239.6 million to purchase machinery and equipment for the testing facility in Chengdu and the Beijing, Tianjin and Shanghai fabs.

Debt to Equity Ratio

As of December 31, 2007, the Company's debt to equity ratio was 35% calculated based on the sum of the short-term borrowings, current portion of long-term debt and long-term debt divided by total shareholders' equity.

Foreign Exchange Rate Fluctuation Risk

The Company's revenue, expense, and capital expenditures are primarily transacted in U.S. dollars. However, since the Company has operations consisting of manufacturing, sales and purchasing activities outside of the U.S., the Company enters into transactions in other currencies. The Company is primarily exposed to changes in exchange rate for the Euro, Japanese Yen, and Rmb.

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 Rmb, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with SFAS No. 133.

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 the exchange rate for the Euro.

To minimize the risk, the company entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the long-term loan to protect against the adverse effect that exchange rate fluctuations arising from foreign-currency denominated loans. The cross currency swap contract does not qualify for hedge accounting in accordance with SFAS No. 133.

Outstanding Foreign Exchange Contracts

As of December 31, 2007, the Company had outstanding foreign currency forward exchange contracts with notional amounts of US$0.4 million. As of December 31, 2007, the fair value of foreign currency forward exchange contracts was approximately a gain of US$0.53 million, which is recorded in other income and other current assets. We had US$0.4 million of foreign currency exchange contracts outstanding as of December 31, 2007, all of which matured during 2008.

The Company had US$35.7 million of foreign currency exchange contracts outstanding as of December 31, 2006, all of which matured in 2007.

The Company had US$245.6 million of foreign currency exchange contracts outstanding as of December 31, 2005, all of which matured in 2006.

The Company does not enter into foreign currency exchange contracts for speculative purposes.

	As of December 31, 2007 Expected maturity date (in US$ thousands)	
	2007	Fair Value
Forward Exchange Agreement		
(Receive Rmb/Pay US$)		
Contract Amount	404.1	530.4
Total Contract Amount	404.1	530.4

Outstanding Cross Currency Swap Contracts

As of December 31, 2007, the Company had outstanding cross currency swap contracts with notional amounts of US$51.1 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2007, the fair value of cross currency swap contracts was approximately a gain of US$1.0 million, which is recorded in other income and other current assets. We had US$51.1 million of cross currency swap contracts outstanding as of December 31, 2007, all of which will mature in 2012.

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 table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the Company's debt obligations outstanding as of December 31, 2007. 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 rate. The interest rates on the Company's EUR-denominated loan is linked to the EURIBOR rate. As a result, the interest rates on the Company's loans are subject to fluctuations in the underlying interest rates to which they are linked.

	As of December 31,				
	2008	2009	2010	2011	2012
			(Forecast)		
			(in US$ thousands, except percentages)		
US$ denominated					
Average balance	578,070	239,860	39,050	4,000	—
Average interest rate	5.82%	5.30%	5.08%	5.05%	—
EUR denominated					
Average balance	38,225	25,392	12,559	4,186	—
Average interest rate	5.08%	4.09%	4.74%	4.73%	—
Weighted average forward interest rate	5.78%	5.27%	5.03%	4.95%	—

Members of the Board who served during 2007 were:

Yang Yuan Wang (Chairman of the Board and Independent Non-executive Director);
Richard Ru Gin Chang (Executive Director, President and Chief Executive Officer of the Company);
Fang Yao (ex Non-executive Director who resigned as of August 30, 2007);
Wang Zheng Gang (Non-executive Director who was appointed as of August 30, 2007);
Ta-Lin Hsu (Independent Non-executive Director);
Tsuyoshi Kawanishi (Independent Non-executive Director);
Henry Shaw (Independent Non-executive Director);
Lip-Bu Tan (Independent Non-executive Director);
Albert Y. C. Yu (Independent Non-executive Director); and
Jiang Shang Zhou (Independent Non-executive Director).

Re-election of Class I and Class III Directors

Shareholders are invited to re-elect Class I Directors at the 2008 annual general meeting of the Company's shareholders (the "2008 AGM") to fill the vacancies available due to the retirements of the Directors mentioned below.

Three Class I Directors, Richard Ru Gin Chang, Henry Shaw and Albert Y. C. Yu, whose initial appointments as Directors took effect on April 3, 2000, September 25, 2001 (in respect of Richard Ru Gin Chang and Henry Shaw who were re-appointed as Directors and designated as Class I Directors on March 18, 2004 and at the annual general meeting of shareholders held on May 6, 2005) and May 30, 2006 (in respect of Albert Y. C. Yu), respectively, will retire from office at the 2008 AGM pursuant to Article 90 of the Company's Articles of Association. Each of Dr. Chang and Mr. Shaw will offer himself for re-election as a Class I Director. If re-elected, each of Dr. Chang and Mr. Shaw would hold office until the 2011 annual general meeting of the Company.

One Class III Director, Wang Zheng Gang, whose initial appointment as a Director took effect on August 30, 2007, will retire from office at the AGM pursuant to Article 126 of the Articles of Association of the Company. Mr. Wang will offer himself for re-election as a Class III Director. If re-elected, Mr. Wang would hold office until the 2010 annual general meeting of the Company.

Details of the proposed candidates for re-election as Directors at the 2008 AGM are set out in the circular to the shareholders sent together with this annual report.

Board of Directors and Senior Management

Members of the Board are re-elected or elected by the Company's shareholders. As of December 31, 2007, the Board consisted of nine (9) Directors.

The Company's senior management is appointed by, and serves at the discretion of, the Board.

The following table sets forth the names of the Directors and the senior management of the Company, including its founder, as of the date of this annual report.

Name	Age	Position
Directors		
Yang Yuan Wang	73	Chairman, Independent Non-executive Director
Richard Ru Gin Chang	60	Founder, President, Chief Executive Officer and Executive Director
Wang Zheng Gang	56	Non-executive Director
Ta-Lin Hsu	65	Independent Non-executive Director
Jiang Shang Zhou	61	Independent Non-executive Director
Tsuyoshi Kawanishi	79	Independent Non-executive Director
Henry Shaw	54	Independent Non-executive Director
Lip-Bu Tan	49	Independent Non-executive Director
Albert Y. C. Yu	67	Independent Non-executive Director
Senior Management		
Morning Wu	51	Acting Chief Financial Officer, Chief Accounting Officer and Qualified Accountant
Marco Mora	49	Chief Operating Officer
James Sung	50	Senior Vice President of Corporate Marketing & Sales Office
Anne Wai Yui Chen	45	Company Secretary, Hong Kong Representative and Compliance Officer

Brief Biographical Details

Chairman of the Board, Independent Non-executive Director

Yang Yuan Wang is currently the Chairman and has been a Director since 2001. Professorc Wang has more than 41 years of experience related to the semiconductor industry. He is the Chairman of SMIC Shanghai, SMIC Beijing and SMIC Tianjin and is also the Chief Scientist of the Institute of Microelectronics, Peking University, and Academician of Chinese Science Academy. He is a fellow of the Chinese Academy of Sciences, The Institute of Electrical and Electronics Engineers (USA), The Institute of Electrical Engineers (UK) and Chinese Institute of Electronics (China).

Founder, President, Chief Executive Officer and Executive Director

Richard Ru Gin Chang founded the Company in April 2000 and is currently President, Chief Executive Officer and Executive Director. Dr. Chang is also a director of SMIC Shanghai, SMIC Beijing, SMIC Tianjin, Semiconductor Manufacturing International (AT) Corporation, SMIC Solar Cell Corporation and Magnificent Tower Limited. Dr. Chang has over 29 years of semiconductor experience in foundry operations, wafer fabrication and research and development. From 1998 to 1999, Dr. Chang was President of Worldwide Semiconductor Manufacturing Corp., or WSMC, after joining the company in 1997. Prior to joining WSMC, Dr. Chang worked for 20 years at Texas Instruments Incorporated, where he helped build and manage the technology development and operations of ten semiconductor fabs and integrated circuit operations in the United States, Japan, Singapore, Italy and Taiwan. Dr. Chang received a PhD in Electrical Engineering from Southern Methodist University and a master's degree in Engineering Science from the State University of New York. Dr. Chang received many awards from 2003 to 2006. In 2007, Dr. Chang was recognized as "Chinese Semiconductor Manufacturing Character Of The Year" for the Year 2007. In 2008, Dr. Chang was given the Industry Outstanding Contribution Award while the company garnered the SEMI China Social Contribution Award and was honored with the 2007 Fab Person of the Year award and as Movers and Shakers of China's semiconductor industry in 2007 by Semiconductor International China.

Non-executive Director

Wang Zheng Gang has been a Director since 2007. Mr. Wang is the chief representative of the Shanghai Representative Office of Shanghai Industrial Holdings Limited and chairman and managing director of SIIC Management (Shanghai) Ltd. He is also the vice chairman of Bright Dairy and Food Co. Ltd. He was the head of Shanghai Dongfeng Rubber No. 2 Factory, Principal of Shanghai Dongfeng Farm, vice chairman and general manager of Shanghai Agricultural Industrial and Commercial Corp. Ltd. and a director and general manager of SIIC Africa Enterprise Ltd. and general manager of the enterprise management department of Shanghai Industrial Investment (Holdings) Co. Ltd. He graduated from the School of Management of Fudan University with a master's degree in economics and has over 31 years experience in enterprise management.

Independent Non-executive Directors

Ta-Lin Hsu has been a Director since 2001 and is a director of SMIC Beijing. Dr. Hsu is the founder and chairman of H&Q Asia Pacific. Prior to founding H&Q Asia Pacific in 1986, Dr. Hsu was a general partner at Hambrecht & Quist and held the position of senior manager in the Corporate Research Division of IBM. Dr. Hsu has served on the boards of a number of public and private companies, and he currently serves on the board of trustees of the Asia Foundation and as a member of the Council of Foreign Relations. Dr. Hsu received his PhD in Electrical Engineering from the University of California at Berkeley and his undergraduate degree in Physics from National Taiwan University. Dr. Hsu is a member of the Advisory Board of the Haas School of Business at the University of California at Berkeley.

Tsuyoshi Kawanishi has been a Director since 2001 and is also the chairman of SMIC Japan Corporation. Mr. Kawanishi has more than 50 years of experience in the electronics industry with Toshiba Corporation, where he served as, among other positions, senior executive vice president and senior advisor. Mr. Kawanishi currently serves on the board of directors of Asyst Technologies, Inc., FTD Technology Pte. Ltd. and T.C.S. Japan, and acts as an advisor to Accenture Ltd., Kinetic Holdings Corporation and a number of private companies. Mr. Kawanishi is also the chairman of the Society of Semiconductor Industry Seniors in Japan and the Chairman of the SIP Consortium of Japan.

Henry Shaw has been a Director since 2001. Mr. Shaw is currently the senior partner of AsiaVest Partners TCW/YFY Ltd. Prior to joining AsiaVest Partners, Mr. Shaw was a vice president at Transpac Capital Pte. Ltd. and founded and served as chief financial officer of Mosel Vitelic Inc. Mr. Shaw serves on the board of directors of United Test and Assembly Center Ltd. Mr. Shaw received a master's degree in Business Administration from National Cheng-Chi University in Taiwan.

Independent Non-executive Directors

Lip-Bu Tan has been a Director since 2002 and is a director of SMIC Tianjin. Mr. Tan is the founder and chairman of Walden International, a venture capital firm. Mr. Tan currently serves on the board of directors of Cadence Design Systems, Inc., Creative Technology Ltd., Flextronics International Ltd., Mind Tree Ltd. and SINA Corporation, as well as a number of private companies. Mr. Tan received a master's degree in Nuclear Engineering from the Massachusetts Institute of Technology and a master's degree in Business Administration from the University of San Francisco.

Jiang Shang Zhou has been a Director since 2006. Mr. Jiang is currently a committee member of the Shanghai Committee of Chinese People's Political Consultative Conference, officer of and director commissioner of Shanghai State Owned Assets Planning and Investment Committee. Mr. Jiang was also the deputy secretary general of Shanghai Government, officer of the Shanghai Chemical Industrial District Leader Team Office, officer of Shanghai International Automobile City Leader Team Office and officer of the Shanghai Fuel Cell Electric Vehicles (863 major project) Leader Team Office. Mr. Jiang received his master's degree from Tsing Hua University in telecommunications and his doctorate degree from 瑞士副理士聯邦學院通訊研究院 .

Albert Y. C. Yu has been a Director since 2006. Dr. Yu is chairman of OneAngstrom LLC, and has been active in investing and mentoring high technology companies. Dr. Yu retired from Intel Corporation ("Intel") in late 2002, after almost thirty years with Intel. He had been senior vice president, member of the corporate management committee and general manager of Intel's business including microprocessors, chipsets and software for over sixteen years. Under his leadership, Intel's microprocessors from 386™ to the Pentium 4 and Pentium M Processors have become the highest volume microchips that power computers and the Internet and propelled Intel to be the largest semiconductor company in the world. He was also in charge of Intel's corporate strategy that led to its entry into the optoelectronics business and its extensive international expansions. Dr. Yu serves on the boards of a number of high technology companies, venture capital firms and non-profit organizations. In February 2006, he received the "Distinguished Life Time Achievement Award" from CIE-USA, in recognition of his leadership of Intel's microprocessor business. Dr. Yu has published two books: "Insider 's View of Intel" (1995) and "Creating the Digital Future" (1998). Prior to Intel, Dr. Yu was with Fairchild R&D Lab, where he conducted research and development of solid-state devices and circuits. Dr. Yu received his bachelor 's degree from California Institute of Technology and his master's and doctorate degrees from Stanford University, all in electrical engineering.

Senior Management

Morning Wu joined the Company as Associate Vice President of Finance and Accounting in January 2003 and was appointed as Acting Chief Financial Officer, Chief Accounting Officer and Qualified Accountant of the Company as of March 28, 2005. Ms. Wu has over 27 years of experience in the investment and finance field. Prior to joining the Company, Ms. Wu held management positions with First Taiwan Securities Inc. and Grand Cathay Securities Co. Ltd. Her responsibilities at these companies included strategic planning, mergers & acquisitions and designing and monitoring risk management systems. She holds a license for Accounting and Auditor with the Senior Civil Service Examination of Taiwan. Ms. Wu obtained a bachelor's degree in Accounting from the National Chengchi University, Taiwan and received a master's degree in Accounting from the National Taiwan University.

Marco Mora joined the Company in 2000 as Vice President of Operations and was named the Chief Operating Officer in November 2003. Mr. Mora has more than 22 years of experience in the semiconductor industry. Prior to joining the Company, Mr. Mora held management positions with STMicroelectronics N.V., Texas Instruments Italia S.p.A, Micron Technology Italia S.p.A and WSMC. Mr. Mora received a master's degree in Physics from the University of Milan.

James Sung joined the Company as Fellow in Technology Development in 2001 and was appointed as Vice President of Marketing and Sales in 2002. He is currently Senior Vice President of Corporate Marketing and Sales Office in Semiconductor Manufacturing International (Shanghai) Corporation. Dr. Sung has over 21 years of experience in semiconductor industry. Prior to joining SMIC, Dr. Sung has been employed by Etron Technology (Taiwan) as Vice President of Product Development, Vanguard International Semiconductor (Taiwan) as Senior Director of Technology Development and Director of quality reliability assurance, and AT&T Bell Laboratories in Murray Hill, Holmdel, Allentown as CMOS/BiCMOS principle technology researcher for high performance networking applications. Dr. Sung was co-recipient of ISCC Beatrice award in 1994 and an honorable member of Phi-Tau-Phi in 1981. He holds over 60 semiconductor patents. Dr. Sung obtained a bachelor degree and a master degree in Electronic Engineering from National Chiao-Tung University (Taiwan) respectively, and doctorate degree in Electronic Engineering from Princeton University.

Company Secretary

Anne Wai Yui Chen joined the Company in 2001 and is the Company's Hong Kong Representative, Company Secretary and Compliance Officer. Ms. Chen is admitted as a solicitor in Hong Kong, England and Wales and Australia and was admitted as an advocate and solicitor in Singapore. She had served as a deputy adjudicator of the Small Claims Tribunal in Hong Kong in 1999 and had served as the president from 2000 to 2002 and is currently a council member of the Hong Kong Federation of Women Lawyers. Prior to joining the Company in 2001, she had been a practicing solicitor in Hong Kong since 1987.

Subsidiaries

Except as otherwise listed below, the Company owns 100% of the issued and outstanding share capital of its subsidiaries. As of December 31, 2007, these subsidiaries are as follows:

1. 中芯國際集成電路製造(上海)有限公司
   Semiconductor Manufacturing International (Shanghai) Corporation* ("SMIC Shanghai")
   Principal country of operation: Shanghai, PRC
   Place of incorporation: Shanghai, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$5,200,000,000
   Registered capital: US$1,740,000,000
   Equity holder: the Company (100%)

2. Semiconductor Manufacturing International (Beijing) Corporation ("SMIC Beijing")
   Principal country of operation: Beijing, PRC
   Place of incorporation: Beijing, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$3,000,000,000
   Registered capital: US$1,000,000,000
   Equity holder: the Company (100%)

3. 中芯國際集成電路製造(天津)有限公司
   Semiconductor Manufacturing International (Tianjin) Corporation* ("SMIC Tianjin")
   Principal country of operation: Tianjin, PRC
   Place of incorporation: Tianjin, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$1,100,000,000
   Registered capital: US$690,000,000
   Equity holder: the Company (100%)

4. Semiconductor Manufacturing International (Chengdu) Corporation ("SMIC Chengdu")
   Principal country of operation: Chengdu, PRC
   Place of incorporation: Chengdu, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$175,000,000
   Registered capital: US$60,000,000
   Equity holder: the Company (57.3%, indirectly through Semiconductor Manufacturing International (AT) Corporation)

5. エス・エム・アイ・シ－ジャパン株式會社
   SMIC Japan Corporation*
   Principal country of operation: Japan
   Place of incorporation: Japan
   Authorised capital: JPY10,000,000 divided into 200 shares of a par value of JPY50,000
   Equity holder: the Company (100%)

6. SMIC, Americas
   Principal country of operation: U.S.A.
   Place of incorporation: California, US
   Registered capital: No registered capital, authorized to issue 50,000,000 shares of common stock
   Equity holder: the Company (100%)

* For identification purposes only

7. Better Way Enterprises Limited
   Principal country of operation: Samoa
   Place of incorporation: Samoa
   Authorised capital: US$1,000,000 divided into 1,000,000 shares of a par value of US$1.00
   Issued share capital: US$1.00
   Equity holder: the Company (100%)

8. SMIC Europe S.R.L.
   Principal country of operation: Agrate Brianza (Milan), Italy
   Place of incorporation: Agrate Brianza (Milan), Italy
   Registered capital: Euros100,000
   Equity holder: the Company (100%)

9. Garrison Consultants Limited
   Principal Country of operation: Samoa
   Place of incorporation: Samoa
   Authorised capital: US$1,000,000 divided into 1,000,000 shares of a par value of US$1.00
   Issued share capital: US$1.00
   Equity holder: the Company (100%, indirectly through Better Way Enterprises Limited)

10. Semiconductor Manufacturing International (AT) Corporation
    Principal Country of operation: Cayman Islands
    Place of incorporation: Cayman Islands
    Authorised capital: US$1,900,000 divided into 100,000,000 ordinary shares of US$0.01 each and 90,000,000 Series A preference shares of US$0.01 each
    Equity holder: the Company (57.3%)

11. Semiconductor Manufacturing International (Solar Cell) Corporation
    Principal Country of operation: Cayman Islands
    Place of incorporation: Cayman Islands
    Authorised capital: US$11,000
    Equity holder: the Company (100%)

12. 中芯能源科技(上海)有限公司
    SMIC Energy Technology (Shanghai) Corporation*
    Principal country of operation: Shanghai, PRC
    Place of incorporation: Shanghai, PRC
    Legal entity: Wholly foreign-owned enterprise
    Total investment: US$14,090,000
    Registered capital: US$6,000,000
    Equity holder: the Company (100%, indirectly through SMIC Solar Cell (HK) Company Limited)

13. SMIC Commercial Shanghai Limited Company
    (formerly known as "SMIC Consulting Corporation")
    Principal country of operation: Shanghai, PRC
    Place of incorporation: Shanghai, PRC
    Legal entity: Wholly foreign-owned enterprise
    Total investment: US$1,100,000
    Registered capital: US$800,000
    Equity holder: the Company (100%)

* For identification purposes only

14. 中芯國際開發管理(成都)有限公司
SMIC Development (Chengdu) Corporation*
Principal country of operation: Chengdu, PRC
Place of incorporation: Chengdu, PRC
Legal entity: Wholly foreign-owned enterprise
Total Investment: US$12,500,000
Registered capital: US$5,000,000
Equity holder: the Company (100%)

15. Magnificent Tower Limited
Principal Country of operation: British Virgin Islands
Place of incorporation: British Virgin Islands
Authorised capital: US$50,000
Issued share capital: US$1.00
Equity holder: the Company (100%, indirectly through Better Way Enterprises Limited)

16. SMIC Shanghai (Cayman) Corporation
Principal Country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorised capital: US$50,000
Issued share capital: US$0.0004
Equity holder: the Company (100%)

17. SMIC Beijing (Cayman) Corporation
Principal Country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorised capital: US$50,000
Issued share capital: US$0.0004
Equity holder: the Company (100%)

18. SMIC Tianjin (Cayman) Corporation
Principal Country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorised capital: US$50,000
Issued share capital: US$0.0004
Equity holder: the Company (100%)

19. SMIC Shanghai (HK) Company Limited
(formerly known as "Hill Wealth Limited")
Principal Country of operation: Hong Kong
Place of incorporation: Hong Kong
Authorised capital: HK$1,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through SMIC Shanghai (Cayman) Corporation)

20. SMIC Beijing (HK) Company Limited
(formerly known as "Best Harvest Holdings Limited")
Principal Country of operation: Hong Kong
Place of incorporation: Hong Kong
Authorised capital: HK$1,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through SMIC Beijing (Cayman) Corporation)

* For identification purposes only

21. SMIC Tianjin (HK) Company Limited
(formerly known as "Wisdom Faith Limited")
Principal Country of operation: Hong Kong
Place of incorporation: Hong Kong
Authorised capital: HK$1,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through SMIC Tianjin (Cayman) Corporation)

22. SMIC Solar Cell (HK) Company Limited
(formerly known as "Regent Century Limited")
Principal Country of operation: Hong Kong
Place of incorporation: Hong Kong
Authorised capital: HK$10,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through Semiconductor Manufacturing International (Solar Cell) Corporation)

23. SMIC AT (HK) Company Limited
(formerly known as "Brilliant Ford Limited")
Principal Country of operation: Hong Kong
Place of incorporation: Hong Kong
Authorised capital: HK$10,000
Issued share capital: HK$1.00
Equity holder: the Company (57.3%, indirectly through Semiconductor Manufacturing International (AT) Corporation)

24. Semiconductor Manufacturing International (BVI) Corporation
Principal Country of operation: British Virgin Islands
Place of incorporation: British Virgin Islands
Authorised capital: US$10.00
Issued share capital: US$10.00
Equity holder: the Company (100%)

Share Capital

During the year ended December 31, 2007, the Company issued 82,870,089 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" or "SOP") and 43,585,660 ordinary shares to certain of eligible participants pursuant to the 2004 equity incentive plan of the Company (the "EIP").

During the year ended December 31, 2007, the Company repurchased 292,500 ordinary shares from eligible participants pursuant to the terms of the Company's 2001 Preference Shares Stock Plan and 2001 Regulation S Preference Shares Stock Plan (collectively the "2001 Preference Shares Plan").

	Number of Ordinary Shares Outstanding
Outstanding Share Capital as at December 31, 2007	18,558,919,712

Under the terms of the Company's 2004 Equity Incentive Plan, the Compensation Committee of the Company 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, 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 2,039,716 ordinary shares to its eligible participants on or around

January 1, 2007 and July 1, 2007. For the twelve months ended December 31, 2007, the Compensation Committee granted a total of 40,519,720 Restricted Share Units. The remaining vesting dates of these Restricted Share Units (after deducting the number of Restricted Share Units granted but cancelled due to the departure of eligible participants prior to vesting) approximately are as follows:

Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2007	
1-Jan	8,481,250
27-Feb	25,000
1-Mar	200,000
3-Mar	250,000
23-Mar	175,000
25-Apr	50,000
29-Apr	50,000
30-May	250,000
1-Jul	17,835,256
1-Aug	520,000
1-Sep	12,494,152
13-Sep	250,000
16-Sep	75,000
1-Oct	927,500
16-Oct	72,216
1-Nov	75,000
1-Dec	101,930
6-Dec	100,000
2008	
1-Jan	15,755,000
19-Jan	12,500
1-Feb	250,000
27-Feb	25,000
1-Mar	256,184
3-Mar	250,000
23-Mar	175,000
1-Apr	150,000
9-Apr	20,000
24-Apr	50,000
29-Apr	100,000
30-May	250,000
1-Jun	45,090
1-Jul	18,562,756
1-Aug	540,000
1-Sep	12,563,883
13-Sep	250,000
16-Sep	75,000
1-Oct	1,015,000
16-Oct	72,216
1-Nov	75,000
1-Dec	101,930
6-Dec	100,000

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)
2009	
1-Jan	16,062,500
19-Jan	12,500
1-Feb	250,000
27-Feb	25,000
1-Mar	256,184
3-Mar	250,000
23-Mar	175,000
1-Apr	150,000
9-Apr	20,000
25-Apr	50,000
29-Apr	350,000
1-Jun	45,090
1-Jul	1,210,271
1-Aug	640,000
1-Sep	12,563,883
10-Sep	12,600
13-Sep	250,000
16-Sep	75,000
1-Oct	1,015,000
16-Oct	72,216
1-Nov	75,000
1-Dec	101,930
6-Dec	100,000
2010	
1-Jan	15,672,500
19-Jan	12,500
1-Feb	250,000
27-Feb	25,000
1-Mar	256,184
3-Mar	250,000
23-Mar	175,000
9-Apr	20,000
1-Jun	45,090
1-Jul	370,000
1-Sep	767,232
10-Sep	12,600
16-Sep	75,000
1-Oct	1,015,000
16-Oct	72,216
1-Nov	75,000
1-Dec	101,930
6-Dec	100,000

Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2011	
1-Jan	7,401,250
19-Jan	12,500
1-Feb	250,000
1-Mar	56,184
9-Apr	20,000
13-May	25,000
1-Jun	45,090
1-Jul	240,000
1-Sep	69,732
10-Sep	12,600
1-Oct	87,500
2012	
1-Jan	127,500
13-May	25,000
1-Jul	12,500
10-Sep	12,600

Repurchase, Sale or Redemption of Securities

Other than repurchases by the Company of ordinary shares from employees pursuant to the terms of the 2001 Stock Option Plans, as disclosed in the paragraph (Share Capital) above, the Company has not repurchased, sold or redeemed any additional ordinary shares in 2007.

The number of shares that the Company repurchased on a monthly basis in 2007, pursuant to the terms of the Stock Options Plans, is set forth below.

Month	Number of Ordinary Shares Repurchased	Highest Repurchase Price Per Share (in HK$)	Lowest Repurchase Price Per Share (in HK$)	Aggregate Price Paid (in HK$)
January	0	—	—	—
February	0	—	—	—
March	0	—	—	—
April	0	—	—	—
May	0	—	—	—
June	0	—	—	—
July	0	—	—	—
August	0	—	—	—
September	0	—	—	—
October	0	—	—	—
November	0	—	—	—
December	292,500	0.8657	0.3896	167,519.25

Public Float

As of April 24, 2008, being the latest practicable date prior to the printing of this annual report, the public (as defined in the Rules Governing the Listing of Securities on the SEHK ("Listing Rules")) holds more than 25% of the Company's total issued share capital.

Debt to Equity Ratio

As of December 31, 2007, the Company's debt to equity ratio was 35% calculated based on the sum of the short-term borrowings, current portion of long-term debt and long-term debt divided by total shareholders' equity.

Dividends and Dividend Policy

At the end of 2007, the Company's accumulated deficit increased to US$328.8 million from an accumulated deficit of US$288.8 million at the end of 2006. The Company has not declared or paid any cash dividends on the ordinary shares. We intend to retain any earnings for use in the Company's business and do not currently intend to pay cash dividends on the ordinary shares. Dividends, if any, on the outstanding shares will be declared by and subject to the discretion of the Board and must be approved at the annual general meeting of shareholders. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

- the Company's results of operations and cash flow;
- the Company's future prospects;
- the Company's capital requirements and surplus;
- the Company's financial condition;
- general business conditions;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company; and
- other factors deemed relevant by the Board.

The Company's ability to pay cash dividends will also depend upon the amount of distributions, if any, received by the Company from its wholly-owned Chinese operating subsidiaries. Under the applicable requirements of Chinese Company Law, the Company's subsidiaries in China may only distribute dividends after they have made allowances for:

- recovery of losses, if any;
- allocation to the statutory common reserve funds;
- allocation to staff and workers' bonus and welfare funds; and
- allocation to a discretionary common reserve fund if approved by the Company's shareholders.

More specifically, these operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as statutory common reserves and a discretionary percentage of their net profit has been set aside for the staff and workers' bonus and welfare funds. These operating subsidiaries are not required to set aside any of their net profit as statutory common reserves if such reserves are at least 50% of their respective registered capital. Furthermore, if they record no net income for a year, they generally may not distribute dividends for that year.

Contracts of Significance

There were no contracts of significance during the year in which any of the Directors were materially interested.

Major Suppliers and Customers

In 2007, the Company's largest and five largest raw materials suppliers accounted for approximately 14.0% and 48.2%, respectively, of the Company's overall raw materials purchases. None of the Directors or shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) or their respective associates had interests in any of the Company's five largest suppliers. Almost all of the Company's materials are imported free of value-added tax and import duties due to concessions granted to the semiconductor industry in China.

For 2007, the Company's largest and five largest customers accounted for approximately 18.0% and 60.0%, of the Company's total overall sales. The Company's Chief Executive Officer, Richard Ru Gin Chang, and his wife together hold shareholding interests of less than 0.1% in one of the Company's five largest customers in 2007, Texas Instruments Incorporated. None of the other Directors or shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) or their respective associates had interests in any of the Company's five largest customers in 2007.

Pre-emptive Rights

The Company confirms that no pre-emptive rights exist in the law of the Cayman Islands.

Director's Interests

As at December 31, 2007, 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 Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) ("SFO")), which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of t he SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Board Member	Nature of Interest	Number of Shares	Percentage of Aggregate Interests of Total Issued Share Capital
Richard Ru Gin Chang	Personal Interest (1)	35,579,550	
	Personal Interest (2)(6)	17,600,000	
	Corporate Interest (3)	20,000,000	
	Interest of Spouse	9,790,000	
	Interest of Child under 18	11,200,000	
Total:		94,169,550	*
Ta-Lin Hsu	Corporate Interest (4)	15,300,010	
	Personal Interest (5)(6)	1,000,000	
Total:		16,300,010	*
Tsuyoshi Kawanishi	Personal Interest (5)(6)	1,000,000	
	Personal Interest (7)	1,500,000	
Total:		2,500,000	*
Henry Shaw	Personal Interest (5)(6)	1,000,000	*
Lip-Bu Tan	Personal Interest (5)(6)	1,000,000	*
Yang Yuan Wang	Personal Interest (5)(6)	1,000,000	*
Albert Y. C. Yu	Personal Interest	1,350,000	
	Personal Interest (6)(8)	1,000,000	
Total:		2,350,000	*

* Indicates less than 1%.

Notes:

(1) Pursuant to a Charitable Pledge Agreement dated December 1, 2003, Richard Ru Gin Chang and his spouse, Scarlett K. Chang (collectively, the "Donors") have pledged to transfer 10,000,000 of such ordinary shares as a charitable gift to The Richard and Scarlett Chang Family Foundation, a Delaware nonprofit nonstock corporation organized exclusively for religious, charitable, scientific, literary and education purposes within the meaning of Section 501(c)(3) of the US Internal Revenue Code of 1986, as amended, such transfer to be made in full at or prior to the death of the surviving Donor. In addition, 2,639,550 of such ordinary shares are jointly held by Richard Ru Gin Chang and his spouse, Scarlett K. Chang.

(2) The Compensation Committee has granted Dr. Chang options to purchase an aggregate of 15,100,000 ordinary shares if fully exercised, and an award of 2,000,000 RSUs (each representing the right to receive one ordinary share). As at December 31, 2007, none of these options have been exercised and 75% of the RSUs have vested.

(3) These ordinary shares are held by Jade Capital Company, LLC, a Delaware limited liability company (the "LLC"), of which Richard Ru Gin Chang and his spouse, Scarlett K. Chang (collectively, the "Members"), are the sole Members. It is the current intention of the Members that all or a portion of the net income of the LLC be used for philanthropic purposes, including but not limited to contributions to charitable organizations that are tax-exempt under Section 501(c)(3) of the US Internal Revenue Code of 1986, as amended.

(4) Ta-Lin Hsu has a controlling interest in AP3 Co-Investment Partners, LDC, which holds 15,300,010 ordinary shares.

(5) Each independent Non-executive Director and Non-executive Director was granted an option to purchase 500,000 ordinary shares at a price per ordinary share of US$0.22. These options were fully vested on March 19, 2005 and will expire on November 9, 2009. As of December 31, 2007, these options have not been exercised. Lai Xing Cai (who resigned as an Non-executive Director on February 6, 2006) declined such option. The option granted to Mr. Yen-Pong Jou (who retired as an Independent Non-executive Director at the annual general meeting held on May 30, 2006) lapsed and cancelled on September 27, 2006.

(6) Each Director was granted an option to purchase 500,000 ordinary shares at a price per ordinary share of US$0.132. These options were vested as to 50% on May 30, 2007 and the remaining 50% will be vested on May 30, 2008, both options will expire on the earlier of September 29, 2016 or 120 days after termination of the director's service to the Board. As of December 31, 2007, these options have not been exercised. Fang Yao (who resigned as Non-Executive Director on August 30, 2007) and Jiang Shang Zhou have declined such option.

(7) Tsuyoshi Kawanishi has been granted options to purchase an aggregate of 1,500,000 ordinary shares, if fully exercised. As of December 31, 2007, these options have not been exercised.

(8) On September 29, 2006, the Board granted to Dr. Albert Y. C. Yu 500,000 RSUs. 50% of the shares under the RSUs have vested on May 30, 2007, and the remaining 50% will be vested on May 30, 2008.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming AGM has or proposes to have a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Substantial Shareholders

Set out below are the names of the parties (not being a Director or chief executive of the Company) which were interested in 5 percent or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were interested as at December 31, 2007 as recorded in the register kept by the Company under section 336 of the SFO.

Name of Shareholder	Number of Shares Held	Percentage Held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	208,002,000 (long position)[1]	1.12% (long position)
	1,814,991,340 (long position)[2]	9.78% (long position)
	7,272,563 (long position)[3]	0.04% (long position)
Total:	2,030,265,903 (long position)	10.94% (long position)

Notes:

(1) All such ordinary shares are held by SIIC Treasury (B.V.I.) Limited which is a wholly-owned subsidiary of SIIC.

(2) All such ordinary shares are held by S.I. Technology Production Holdings Limited ("SITPHL") which is a wholly-owned subsidiary of Shanghai Industrial Holdings Limited ("SIHL"). SIHL is an indirect non-wholly owned subsidiary of SIIC which are holding SIHL's shares through its wholly-owned subsidiaries namely, SIIC CM Development Limited, SIIC Capital (B.V.I.) Limited and Shanghai Investment Holdings Limited, which together are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of SIHL. By virtue of the SFO, SIIC and its subsidiaries namely, Shanghai Investment Holdings Limited and Shanghai Industrial Investment Treasury Company Limited are deemed to be interested in the 1,814,991,340 Shares held by SITPHL. The Company's Director as of December 31, 2007, Wang Zheng Gang, is the Chief Representative of the Shanghai Representative Office of SIHL and chairman and managing director of SIIC Management (Shanghai) Limited. It is the Company's understanding that voting and investment control over the ordinary shares beneficially owned by SIHL are maintained by the board of directors of SIHL.

(3) All such ordinary shares are held by SIHL Treasury Limited which is a wholly-owned subsidiary of SIHL.

Emoluments to the Directors

The chart below sets forth the emoluments to each of our Directors, including Richard Ru Gin Chang, our President, Chief Executive Officer and Executive Director, in 2007, 2006 and 2005.

	Richard Ru Gin Chang (in US$)	Tsuyoshi Kawanishi (in US$)	Yang Yuan Wang (in US$)	Ta-Lin Hsu (in US$)	Lip-Bu Tan (in US$)	Henry Shaw (in US$)	Fang Yao (in US$)	Albert Y. C. Yu (in US$)	Jiang Shang Zhou (in US$)	Lai Xing Cai (in US$)	Wang Zheng Gang (in US$)	Yen Pong Jou (in US$)	Total (in US$)
2007													
Salaries and other benefits	$195,395	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	$195,395
Stock Option Benefits*	$172,203	$17,189	$17,189	$17,189	$17,189	$17,189	$—	$50,094	$—	$—	$—	$—	$308,242
Total	$367,598	$17,189	$17,189	$17,189	$17,189	$17,189	$—	$50,094	$—	$—	$—	$—	$503,637
2006													
Salaries and other benefits	$192,727	$—	$—	$—	$—	$—	$—		$—	$—	$—	$—	$192,727
Stock Option Benefits*	$156,241	$12,951	$12,951	$12,951	$12,951	$12,951	$—	$37,742	$—	$—	$—	$—	$258,738
Total	$348,968	$12,951	$12,951	$12,951	$12,951	$12,951	$—	$37,742	$—	$—	$—	$—	$451,465
2005													
Salaries and other benefits	$190,724	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	$190,724
Stock Option Benefits (including Restricted Share Units, if any)*	$97,664	$49,026	$8,608	$8,608	$8,608	$8,608	$—	$—	$—	$—	$—	$8,608	$189,730
Total	$288,388	$49,026	$8,608	$8,608	$8,608	$8,608	$—	$—	$—	$—	$—	$8,608	$380,454

* For a description of any options granted and exercised in 2007, please see the summary of grants of options as set forth under "Outstanding Share Options" in this annual report.

In 2007, the Board did not grant options or Restricted Share Units to any Director as compensation for their service on the Board.

On September 29, 2006, the Board granted to each Director an option to purchase 500,000 ordinary shares at a price per ordinary share of US$0.132. These options vested as to 50% on May 30, 2007 and the remaining 50% will be 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. Mr. Fang Yao (who resigned as a Non-executive Director on August 30, 2007) and Mr. Jiang Shang Zhou have declined such option.

On September 29, 2006, the Board granted to Dr. Albert Y. C. Yu 500,000 Restricted Share Units. Shares under the Restricted Share Units were automatically vested as to 50% on May 30, 2007, and the remaining 50% will be vested on May 30, 2008.

In 2005, the Board did not grant options to any Non-executive Director or independent Non-executive Director as compensation for their service on the Board. On May 11, 2005, the Board granted Dr. Richard Ru Gin Chang 2,000,000 Restricted Share Units. 25% of such Restricted Share Units were vested on each of July 1, 2005, July 1, 2006 and July 1, 2007 and 750,000 ordinary shares were issued pursuant to such vesting of Restricted Share Units on each of November 9, 2005, August 3, 2006 and December 4, 2007. The remaining 25% of such Restricted Share Units will automatically vest on July 1, 2008.

On November 10, 2004, the Board granted to each independent Non-executive Director or Non-executive Director, an option to purchase 500,000 ordinary shares at a price per ordinary share of US$0.22. These options were fully vested on March 19, 2005 and will expire on November 9, 2009. As of December 31, 2007, these options have not been exercised. Lai Xing Cai (who resigned as a Non-executive Director on February 6, 2006) has declined such option. The option granted to Mr. Yen-Pong Jou (who retired as an Independent Non-executive Director at the annual general meeting held on May 30, 2006) lapsed and cancelled on September 27, 2006.

Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Company for the year ended December 31, 2007 and 2006, included Richard Ru Gin Chang, the Company's President, Chief Executive Officer and an Executive Director, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining four individuals during the year were as follows:

	2007 (in US$)	2006 (in US$)
Salaries, Housing Allowances, Other Allowances, and Benefits in Kind	$586,065	$518,198
Discretionary Bonuses	$237,969	$233,662
Stock option benefits*	$283,125	$268,527
Amounts paid to induce member to join Board	—	—

* for a description of any options exercised in 2007, please see the summary of grants of options as set forth under "Outstanding Share Options" in this section of the annual report

The five individuals whose emoluments were the highest in the Company for 2007 and 2006 may not be the same.

Emoluments	Number of Individuals	
(in HK$)	2007	2006
$1,000,000–$1,500,000	—	—
$1,500,001–$2,000,000	—	3
$2,000,001–$2,500,000	4	1
$2,500,001–$4,500,000	1	1
$4,500,001–$5,000,000	—	—

Remuneration Policy

The Company's employees are compensated using cash and a variety of additional incentives. In addition to a monthly salary, the Company's employees have the opportunity to earn additional merit-based bonus according to the individual performance. Furthermore, the Company's employees are eligible to participate on a quarterly basis in the Company's profit-sharing plan. Additional benefits include participation in the Company's 2004 global equity incentive compensation program, social welfare benefits for qualified Chinese employees, a global medical insurance plan for overseas employees and optional housing benefits and educational programs for employees with families.

The Directors are compensated for their services as Directors, primarily by grants of options, to purchase ordinary shares under the Stock Option Plan. The compensation committee of the Company (the "Compensation Committee") proposes, and the Board, other than interested Directors, approves, for the Directors, a remuneration package, which is consistent with the compensation received by Board members in other similar publicly-traded companies.

Pursuant to an incentive program involving the offering for sale of housing constructed by the Company to the Directors, employees and certain service providers, the Company sold one property to each of Richard Ru Gin Chang, the Company's President, Chief Executive Officer and an Executive Director, and one to each of the Company's other five highest paid employees, at the same price as that at which other properties of the same type have been sold by the Company under the program.

The Company's local Chinese employees are entitled to a retirement benefit based on their basic salary upon retirement and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. We are required to make contributions to the state-managed retirement plan equivalent to 20.0%–22.5% of the monthly basic salary of current employees. Employees are required to make contributions equivalent to 6%–8% of their basic salary. The employer's contribution of such an arrangement is approximately US$7.2 million, US$5.3 million and US$4.1 million for the years ended December 31, 2007, 2006 and 2005 respectively. The retirement benefits do not apply to expatriate employees.

Auditors

The retiring auditors, Deloitte Touche Tohmatsu, have signified their willingness to continue in office. A resolution will be proposed at the AGM to reappoint them as the auditors of the Company and to authorize the audit committee of the Company (the "Audit Committee") to fix their remuneration.

Connected Transactions

Article 156 of the Company's Articles provides (amongst others) that the Company may indemnify any person who is made a party to any action, suit or proceeding by reason of the fact that the person is or was a director, officer, employee or agent of the Company, or is or was serving at the Company's request as a director, officer, employee or agent of the Company at another entity, subject to certain limitations and applicable conditions.

The Company recognizes the substantial increase in corporate litigation in general, subjecting directors, officers, employees, agents and fiduciaries to expensive litigation risks.

The Company desires to attract and retain the services of highly qualified individuals to serve the Company and, in part, in order to induce such individuals to continue to provide services to the Company, the Company wishes to provide for the indemnification and advancing of expenses of its directors as permitted by law and the Listing Rules.

Original Indemnification Agreements

On or around March 18, 2004, upon completion of the Global Offering, the Company entered into identical indemnification agreements with each director whose appointment as director took effect immediately up on the Global Offering (the "Global Offering Directors"), whereby the Company agreed to (inter alia) indemnify its Global Offering Directors in respect of liability arising from their capacity as Directors of the Company (collectively, the "Original Indemnification Agreements").

Pursuant to the Original Indemnification Agreements, the Company was obliged to indemnify each Global Offering Director, to the fullest extent permitted by law, against all costs, charges, expenses, liabilities, losses and obligations incurred in connection with any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation which might lead to any of the foregoing (an "Applicable Claim") by reason of or arising out of any event or occurrence relating to the fact that he is or was Director of the Company, or any of its subsidiaries, or is or was serving as the Company's request at another corporation or enterprise, or by reason of any activity or inactivity while serving in such capacity (an "Indemnifiable Event"). The Company's obligation to indemnify its Global Offering Directors pursuant to the Original Indemnification Agreements was subject to certain exceptions and limitations set out therein.

New Indemnification Agreements

At the annual general meeting of the Company's shareholders on May 6, 2005 (the "2005 AGM"), the Company's shareholders, other than the Directors, chief executive officers of the Company and their respective Associates (as defined in the Listing Rules) approved an amendment to the form of the Original Indemnification Agreements (the "New Indemnification Agreement").

The New Indemnification Agreement reflects the new requirements under Rules 14A.35 of the Listing Rules to set a term of no longer than three years and a maximum aggregate annual value for each connected transaction (as defined under the Listing Rules). The New Indemnification Agreements executed by each of the Directors superseded the Original Indemnification Agreements which the Company had previously entered into with any existing directors. The terms of the New Indemnification Agreements are the same as the Original Indemnification Agreements, except that the New Indemnification Agreements are subject to a term of three years and an Annual Cap (as defined and described below).

The annual cap in relation to the New Indemnification Agreements will not exceed a maximum aggregate annual value as disclosed in the Company's previous announcement (the "Current Limit"). In the event that the Current Limit is increased, the Company will make a further announcement and seek independent shareholders' approval of the new maximum aggregate annual value of the New Indemnification Agreements.

The New Indemnification Agreement became effective upon execution by each Director. The New Indemnification Agreements will continue in effect with respect to Applicable Claims relating to Indemnifiable Events regardless of whether the relevant Director continues to serve as a Director or to serve at any other enterprise at its request.

For the year ended December 31, 2007, no payment was made to any Director under the New Indemnification Agreements.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the auditors of the Company performed certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The Independent Non-Executive Directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions in relation to the New Indemnification Agreements:

(i) the continuing connected transactions have received the approval of the Board;

(ii) the continuing connected transactions were approved by the shareholders of the Company on May 6, 2005; and

(iii) certain members of the senior management of the Company represented to them that no payment was made by the Company to its Directors under any New Indemnification Agreements for the period from January 1, 2007 to December 31, 2007.

Employees

The following table sets forth, as of the dates indicated, the number of the Company's employees serving in the capacities indicated:

	As of December 31,			
Function	2004	2005	2006	2007
Managers	570	679	871	916
Professionals[1]	3,109	3,648	3,790	4,096
Technicians	3,389	4,127	4,804	4,806
Clerical staff	572	642	583	287
Total[2]	7,640	9,096	10,048	10,105

Notes:

(1) Professionals include engineers, lawyers, accountants and other personnel with specialized qualifications, excluding managers.

(2) Includes 14, 283, 275 and 276 temporary and part-time employees in 2004, 2005, 2006 and 2007 respectively.

The following table sets forth, as of the dates indicated, a breakdown of the number of the Company's employees by geographic location:

	As of December 31,			
Location of Facility	2004	2005	2006	2007
Shanghai	5,481	6,232	6,400	6,292
Beijing	1,026	1,534	1,827	1,877
Tianjin	1,107	1,034	1,073	874
Chengdu	—	261	715	1,023
United States	16	18	16	18
Europe	5	7	7	8
Japan	3	6	7	9
Hong Kong	2	4	3	4
Total	7,640	9,096	10,048	10,105

The Company's success depends to a significant extent upon, among other factors, the Company's ability to attract, retain and motivate qualified personnel.

As of December 31, 2007, 1,241 and 151 of the Company's employees held master's degrees and doctorate degrees, respectively. As of the same date, 3,197 of the Company's employees possessed a bachelor's degree. The Company's engineers received an average of 40 hours of continuing training per person in 2007.

The Company has also entered into agreements with Shanghai University, Beijing University of Technology, Tianjin University and University of Electronic Science and Technology of China to offer a bachelor's degree program and Fudan University, Jiatong University, Beijing University and Tianjin University to offer graduate degree programs for its technicians. These employees can earn these degrees in either Microelectronics or solid-state circuitry. In addition, the Company employs many qualified personnel that have relocated back to China after receiving valuable industry experience overseas.

As a supplement to their salaries, the Company's employees have the opportunity to earn additional merit-based bonus according to individual performance. Furthermore, the Company's employees are eligible to participate on a quarterly basis in the Company's profit-sharing plan. Additional benefits include participation in the 2004 global equity incentive compensation program, social welfare benefits for qualified Chinese employees, a global medical insurance plan for overseas employees and optional housing benefits and educational programs for employees with families.

The Company provides occupational health and hygiene management for the welfare of the Company's employees. This includes the monitoring of air quality, illumination, radiation, noise and drinking water. The Company's employees are not covered by any collective bargaining agreements.

Share Option Schemes

The Company's shareholders adopted the Stock Option Plan, the EIP and the Employee Stock Purchase Plan (the "ESPP", together with the Stock Option Plan and the EIP, the "Option Plans") to attract and retain its employees.

Stock Option Plan

The following is a summary of the principal terms of the Stock Option Plan conditionally adopted by the Company by way of shareholders' resolution dated February 16, 2004 and Directors' resolutions passed on January 16, 2004. Adoption of the Stock Option Plan took effect on March 18, 2004 being the first date of dealings in the ordinary shares.

Summary of the terms of the Stock Option Plan

(a) Purpose of the Stock Option Plan

The purposes of the Stock Option Plan are to attract, retain and motivate employees and Directors of, and other service providers to the Company, to provide a means, on and after the Global Offering, of compensating them through the grant of stock options for their contribution to the Company's growth and profits, and to allow such employees, Directors and service providers to participate in such growth and profitability.

(b) Who may join

The Compensation Committee may, at its discretion, invite any employee, officer or other service provider of (including, but not limited to, any professional or other adviser of, or consultant or contractor to) the Company whether located in China, the United States or elsewhere to take up options to subscribe for ordinary shares at a price calculated in accordance with sub-paragraph (e) below. The Compensation Committee may also grant stock options to a Director who is not an employee of the Company ("Non Employee Director").

(c) Stock Options

Stock options granted under the Stock Option Plan ("Stock Options") shall entitle a participant ("Participant") of the Stock Option Plan to purchase a specified number of ordinary shares or ADSs (the "Plan Shares") during a specified period at a price calculated in accordance with sub-paragraph (e) below. Three types of Stock Options may be granted under the Plan, an Incentive Stock Option, a Non-Qualified Stock Option or a Director Option. An Incentive Stock Option is a stock option that falls within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 and may only be granted to employees of the Company and its subsidiaries from time to time. A Non-Qualified Stock Option is a stock option that is not an Incentive Stock Option. A Director Option is a Non-Qualified Stock Option granted to a Non-Employee Director.

The Company shall issue an Award Document to each Participant of the Stock Option Plan who is granted a Stock Option. The Award Document shall set out the terms and provisions of the grant of a Stock Option to a Participant including applicable vesting dates or the attainment of specified performance goals (as determined by the Compensation Committee or the Administrator (as defined below), as the case may be) by the Participant. The Company may allow a Participant to exercise his or her Stock Options prior to vesting, provided the Participant agrees to enter into a repurchase agreement in respect of the Stock Option with the Company. The Compensation Committee may also (i) accelerate the vesting of a Stock Option, (ii) set the date on which any Stock Option may first become exercisable, or (iii) extend the period during which a Stock Option remains exercisable, except that no Stock Options may be exercised after the tenth anniversary of the date of grant.

The Stock Option Plan does not provide for any payment upon application or acceptance of an option.

(d) Administration of the SOP

The Compensation Committee shall be responsible for the administration of the SOP. Its responsibilities include granting Stock Options to eligible individuals, determining the number of Plan Shares subject to each Stock Option, and determining the terms and conditions of each Stock Option. The Compensation Committee is not obliged to grant Stock Options to Participants in uniform terms.

Accordingly, the terms and conditions which may be imposed may vary between Participants. Any determination by the Compensation Committee in relation to the carrying out and administering of the Stock Option Plan shall be final and binding. No member of the Compensation Committee shall be liable for any action or determination made in good faith, and the members of the Compensation Committee shall be entitled to indemnification and reimbursement in the manner provided in the Articles.

The Compensation Committee may delegate some or all of its authority under the Stock Option Plan to an individual or individuals (each an "Administrator") who may either be one or more of the members of the Committee or one or more of the officers of the Company. An individual's status as an Administrator shall not affect his or her eligibility to participate in the SOP. The Compensation Committee shall not delegate its authority to grant Stock Options to executive officers of the Company.

(e) Exercise Price

The exercise price per Plan Share purchasable under a Stock Option shall be fixed by the Committee at the time of grant or by a method specified by the Compensation Committee at the time of grant, but in no event shall be less than the Fair Market Value of a Plan Share on the date such Stock Option is granted.

The Fair Market Value of a Share will be the higher of (i) the closing price of the ordinary shares on the HKSE's daily quotation sheet on the applicable date of grant (which must be a business day), and (ii) the average closing price of the ordinary shares on the HKSE (as stated in the relevant daily quotation sheets of the HKSE) for the five business days immediately preceding the date of grant.

The Fair Market Value of the ADSs shall be the highest of (i) the closing price of the ADSs on the NYSE on the applicable date of grant, and (ii) the average closing price of the ADSs on the NYSE for the five business days immediately preceding the date of grant.

(f) *Limit of the Stock Option Plan*

The number of ordinary shares that may be issued under the Stock Option Plan and the ESPP (the "Global Limit") shall not exceed ten per cent of the issued and outstanding ordinary shares immediately following the closing of the Global Offering (i.e., 1,694,186,849 ordinary shares of the Company, which represents approximately 9% of the total issued shares of the Company as at April 24, 2008).

The number of ordinary shares which may be issued pursuant to any outstanding Stock Options granted and yet to be exercised under the Stock Option Plan and all outstanding purchase rights granted under the Employee Stock Purchase Plan or other employee stock purchase plan of the Company must not exceed in aggregate 30 percent of the issued and outstanding ordinary shares in issuance from time to time.

(g) *Individual Limit*

The total number of ordinary shares underlying Stock Options or other options granted by the Company to, and the total number of ordinary shares that may be purchased under one or more purchase rights granted under the Employee Stock Purchase Plan or any other employee stock purchase plan granted by the Company by, a Participant (including both exercised and outstanding Stock Options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1 percent in the case of an independent Non-executive Director) of the then issued and outstanding ordinary shares unless otherwise allowed under the Listing Rules.

(h) *Exercise of Option*

A Stock Option shall vest, and be exercised, in accordance with the terms of the SOP, the relevant Award Document and any rules and procedures established by the Compensation Committee for this purpose. However, the term of each Stock Option shall not exceed ten years from the date of grant.

(i) *Director Options*

Each non-employee Director may be granted Stock Options to purchase ordinary shares (or an equivalent of ADSs) on the terms set out in the relevant Award Document.

The Directors shall exercise all authority and responsibility with respect to Stock Options granted to Directors subject to the requirements of the Listing Rules.

All non-employee Directors' Stock Options shall only vest provided that the Director has remained in service as a Director through such vesting date. The unvested portion of a Stock Option granted to a Director shall be forfeited in full if the Director's service with the Board ends for any reason prior to the applicable vesting date.

Following termination of a non-employee Director's service on the Board, such non-employee Director (or his or her estate, personal representative or beneficiary, as the case may be) shall be entitled to exercise those of his or her Stock Options which have vested as of the date of such termination within 120 days following such termination.

(j) *Termination or Lapse of Option*

A Stock Option shall terminate or lapse automatically on:

(i) the expiry of ten years from the date of grant;

(ii) the termination of a Participant's employment or service with the Company for a reason set out in sub-paragraph (l) below;

(iii) save as to any contrary directions of the Compensation Committee, in the event of a complete liquidation or dissolution of the Company, all Stock Options outstanding at the time of the liquidation or dissolution shall terminate without further action by any person;

(iv) the sale or other divestiture of a subsidiary, division or operating unit of the Company (where the Participant is employed by such subsidiary, division or operating unit); and

(v) termination of the service relationship with a service provider (where the Participant is a service provider of the Company).

(k) Rights are personal to Participant

A Stock Option is personal to the Participant and shall be exercisable by such Participant or his Permitted Transferee (as defined below) only. An option shall not be transferred other than by will, by the laws of descent and distribution or pursuant to a domestic relations order. The Compensation Committee may also, at its discretion and subject to such terms and conditions as it shall specify, permit the transfer of a Stock Option for no consideration to a Participant's family members or to a trust or partnership established for the benefit of such family members (collectively "Permitted Transferees"). Any Stock Option transferred to a Permitted Transferee shall be further transferable only by will or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant.

(l) Termination of employment or service

If a Participant's employment or service with the Company is terminated for the following reasons:

(i) the failure or refusal of the Participant to substantially perform the duties required of him or her as an employee or officer of, or service provider to, the Company;

(ii) any material violation by the Participant of any law or regulation applicable to any business of the Company, or the Participant's conviction of, or a plea of nolo contendae to, a felony, or any perpetration by the Participant of a common law fraud against the Company; or

(iii) any other misconduct by the Participant that is materially injurious to the financial condition, business or reputation of the Company, then all Stock Options granted to the Participant, whether or not then vested, shall immediately lapse.

The Compensation Committee may permit any Incentive Stock Option to convert into a Non-Qualified Stock Option as of a Participant's termination of employment for purposes of providing such Participant with the benefit of any extended exercise period applicable to Non-Qualified Stock Options when the contract of employment of the holder of Incentive Stock Option terminates.

(m) Change in control of the Company

The Compensation Committee may specify at or after the date of grant of a Stock Option the effect that a Change in Control (as defined in the SOP) will have on such Stock Option. The Compensation Committee may also, in contemplation of a Change in Control, accelerate the vesting, exercisability or payment of Stock Options to a date prior to the Change in Control, if the Compensation Committee determines that such action is necessary or advisable to allow the participants to realise fully the value of their share options in connection with such Change in Control.

(n) Change in the capital structure of the Company

In the event of an alteration in the capital structure of the Company (which includes a capitalisation issue, reduction of capital, consolidation, sub-division of Plan Shares, or rights issue to purchase Plan Shares at a price substantially below market value), the Compensation Committee may equitably adjust the number and kind of Plan Shares authorised for issuance in order to preserve, the benefits or potential benefits intended to be made available under the SOP. In addition, upon the occurrence of any of the foregoing events, the number of outstanding Stock Options and the number and kind of shares subject to any outstanding Stock Option and the purchase price per share under any outstanding Stock Option shall be equitably adjusted so as to preserve the benefits or potential benefits intended to be made available to Participants.

(o) Period of the Stock Option Plan

The Stock Option Plan shall remain in force for a period of ten years commencing on the date of Shareholders' approval of the Plan.

(p) Amendments and Termination

The Stock Option Plan may be altered, amended in whole or in part, suspended and terminated by the Board at any time provided alterations or amendments of a material nature or any change to the terms of the Stock Options granted must be approved by the shareholders of the Company, unless such alteration or amendment takes effect automatically under the terms of the Stock Option Plan. For the avoidance of doubt, any alteration or amendment pursuant to the exercise of any authority granted under the Stock Option Plan shall be deemed to take effect automatically under the terms of the Share Option Plan. Any alteration or amendment must be in accordance with the requirements of the Listing Rules or permitted by the HKSE.

If the Stock Option Plan is terminated early by the Board, no further Stock Options may be offered but unless otherwise stated in the Plan. Stock Options granted before such termination shall continue to be valid and exercisable in accordance with the Stock Option Plan.

(q) Voting and dividend rights

No voting rights shall be exercisable and no dividends shall be payable in relation to Stock Options that have not been exercised.

(r) Cancellation of Stock Options

Stock Options granted but not exercised may not be cancelled unless an offer to cancel share options has been made pursuant to Rule 13 of the Hong Kong Code on Takeovers and Mergers and the Hong Kong Securities and Futures commission has consented to such cancellation.

(s) Ranking of Ordinary Shares

The ordinary shares to be allotted upon the exercise of a Stock Option will be subject to the Articles for the time being in force and will rank pari passu with the Plan Shares in issue on the date of such allotment.

Employee Stock Purchase Plan

The following is a summary of the principal terms of the ESPP conditionally adopted by the Company by way of shareholders' resolutions dated February 16, 2004 and Directors' resolutions passed on January 16, 2004.

Summary of the terms of the ESPP

(a) Purposes of the ESPP

The purposes of the ESPP are to attract, retain and motivate employees of the Company, to provide a means of compensating the employees for their contributions to the growth and profitability by permitting such employees to purchase the ADSs of the Company at a discount and receive favourable U.S. income tax treatment on a subsequent qualifying disposition of such ADSs.

(b) Who may join

Subject to any contrary directions given by the Compensation Committee, all full-time and regular part-time employees (the "Employees") of the Company as at the first business day (the "Offering Date") of a given period specified by the Committee (the "Offering Period") shall be eligible to enroll in the ESPP. To be eligible to purchase ADSs, all Employees must maintain his or her employment status, without interruption, with the Company through the last day of each Offering Period (the "Purchase Date").

(c) *Administration of the ESPP*

The Compensation Committee shall be responsible for the administration of the ESPP. Its responsibility includes determining the maximum amount that any Employee may contribute to his or her account under the ESPP during any calendar year; determining the starting and ending dates of each Offering Period; changing the Offering Periods, limiting the frequency and/or number of changes in the amount withheld during an Offering Period, permitting payroll withholding in excess of the amounts designated by a participant ("Participant") of the ESPP in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, and ensuring that amounts applied towards the purchase of the Plan Shares for each Participant properly correspond with amounts withheld from the Participant's compensation.

Any determination by the Compensation Committee in relation to the carrying out and administering of the ESPP shall be final and binding. The Compensation Committee may delegate some or all of its authority under the ESPP to an Administrator. Any actions undertaken by the Administrator in accordance with the Compensation Committee's delegation of authority shall have the same force and effect as if undertaken directly by the Compensation Committee. No member of the Compensation Committee shall be liable for any action or determination made in good faith, and the members of the Compensation Committee shall be entitled to indemnification and reimbursement in the manner provided by the Company's articles of association as they may be amended from time to time.

(d) *Offering Period*

The ESPP shall be implemented by a series of Offering Periods. An eligible Employee of the Company may elect to participate in the ESPP for any Offering Period by completing the requisite documents. The Compensation Committee shall determine the starting and ending dates of each Offering Period but no Offering Period shall be shorter than 6 months or longer than 27 months.

(e) *Employees' Contributions under the ESPP*

All amounts that a Participant contributes ("Contributions") shall be credited to his or her account under the ESPP. Participants must elect to have payroll deductions made on each payday during the Offering Period in a dollar amount specified in the documents submitted by him or by her. The Compensation Committee may permit Participants to make supplemental Contributions into his or her account, on such terms and subject to such limitations as the Compensation Committee may decide.

Participants may, on one occasion only during an Offering Period, decrease the rate of his or her Contributions to his or her account for the Offering Period, including a decrease to zero. The Participant may restore his or her Contributions to the original level, prior to the earlier of,

(i) six months after the effective date of any such decrease; and

(ii) the end of the relevant Offering Period.

In addition, a Participant who has elected such a decrease in rate of Contribution may, prior to the end of the relevant Offering Period, make one or more supplemental Contributions into his or her account. The aggregate of the supplemental Contributions shall not exceed, in the aggregate, the total Contributions the Participant would have made for that Offering Period had the original rate of Contribution remained in effect throughout the entire Offering Period and the Participant's actual Contributions.

A Participant may change his or her rate of Contribution by filing the requisite documents with the Company. The change in amount shall be effective as at the beginning of the next payroll period following the date of filing of the requisite documents, provided the Participant filed the documents at least five business days prior to the beginning of the next payroll period. Should the Participant fail to file within five business prior to the beginning of the next payroll period, the change in amount shall be effective as of the beginning of the next succeeding payroll period.

(f) Grant of Purchase Right

Each eligible Employee who elects to participate in the ESPP in any given Offering Period shall be granted on the Purchase Date, a right to purchase the Plan Shares (the "Purchase Right"). The Purchase Right of a Participant shall be calculated in accordance with the following formula:

(i) dividing (A) the product of US$25,000 and the number of calendar years during all or part of which the Purchase Right shall be outstanding by (B) the closing price of the Plan Shares on the applicable exchange on which Plan Shares are trading (the "Fair Market Value") on the applicable exchange of the Plan Shares on the Offering Date; and

(ii) subtracting from the quotient thereof (A) the number of Plan Shares that the Employee has purchased during the calendar year in which the Offering Date occurs under the ESPP or under any other employee stock purchase plan of the Company or any subsidiary of the Company which is intended to qualify under Section 423 of the U.S. International Revenue Code of 1986 plus (B) the number of Plan Shares subject on the Offering Date to any outstanding Purchase Rights granted to the Employee under any related Plan.

If application of the above formula would result in the grant of Purchase Rights covering, in the aggregate, more than the number of Plan Shares that the Compensation Committee has made available for the relevant Offering Period, then the Compensation Committee shall adjust the number of Plan Shares subject to the Purchase Right in order that, following such adjustment, the aggregate number of Plan Shares subject to the purchase Right shall remain within the applicable limit.

All Purchase Rights outstanding at the tenth anniversary of the Plan shall remain outstanding through, and may be exercised upon the relevant Purchase Date, but no additional Purchase Right shall be granted under the ESPP.

(g) Exercise of Purchase Right

Unless a Participant withdraws from the ESPP, his or her Purchase Right shall become exercisable automatically, on the Purchase Date of the relevant Offering Period for the number of Plan Shares obtained by dividing the accumulated Contributions credited to the Participant's account as of the Purchase Date by the applicable Purchase Price, being an amount not less than 85 percent of the Fair Market Value of the Plan Shares on the Offering Date or on the Purchase Date, whichever is lower (the "Purchase Price").

The Compensation Committee may credit any Contributions that have been credited to a Participant's account under the ESPP with interest. Any interest credited to a Participant's account shall not be used to purchase ADSs and shall instead be paid to the Participant at the end of the relevant Offering Period.

If any portion of a Participant's accumulated Contributions is not used to purchase ordinary shares on a given Purchase Date, the remaining amount shall be held in the Participant's account and used for the purchase of Plan Shares under the next Offering Period, unless the Participant withdraws from the next Offering Period.

The exercise of the Purchase Right granted under the ESPP is not subject to any performance target.

(h) Limit of the ESPP

The number of ordinary shares that may be issued under the Stock Option Plan and the ESPP (the "Global Limit") shall not exceed ten percent of the issued and outstanding ordinary shares immediately following the closing of the Global Offering (i.e., 1,694,186,849 ordinary shares of the Company, which represents approximately 9% of the total issued shares of the Company as at April 24, 2008).

The number of ordinary shares that may be issued upon exercise of all outstanding Purchase Rights granted under the ESPP or other employee stock purchase plan of the Company or and any outstanding stock options granted under the Stock Option Plan or other stock option plan of the Company must not exceed, in the aggregate, thirty percent of the issued and outstanding ordinary shares in issuance from time to time.

No Employee shall be granted a Purchase Right pursuant to the terms of the ESPP if:

(i) immediately after the grant, such Employee would own capital stock of the Company and/or hold outstanding Purchase Right to purchase stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or of any of its subsidiaries;

(ii) such Purchase Right would permit the Employees' rights to purchase ADSs under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate that exceeds US$25,000 of the Fair Market Value of such ADSs or such lower amount as the Compensation Committee may determine for each calendar year in which such Purchase Right is outstanding at any time; and

(iii) such Purchase Right would permit the Employee's rights to purchase ADSs under all employee purchase plans or option plans of the Company granted to him or her in any twelve-month period to exceed one percent of the then issued and outstanding ordinary shares unless otherwise allowed under the Listing Rules.

(i) Purchase Rights are personal to the Participants

During his or her lifetime, a Participant's Purchase Right shall be exercised by him or her only. Neither contributions credited to a Participant's account under the ESPP nor any rights with regard to the exercise of a Purchase Right to receive Plan Shares under the ESPP may be assigned, transferred, pledged or otherwise disposed in any way by any Participant.

(j) Designation of Beneficiary

A Participant may designate a beneficiary to receive any ADSs and cash, if any, from his or her account under the ESPP in the event of the Participant's death. If a Participant is married and the designated beneficiary is not the spouse, the Company may determine that spousal consent shall be required for such designation to be effective.

A Participant may change a designation of beneficiary at any time by filing the requisite notice. In the event of the death of the Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver ADSs and/or cash from the Participant's account under the ESPP to the executor or administrator of the Participant's estate, or if no such person has been appointed, the Company, in its discretion, may deliver such ADSs and/or cash to the Participant's spouse or to any one or more dependents, relatives, or such other person as the Company may designate.

(k) Voluntary Withdrawal

A Participant may withdraw all but not less than all the Contributions credited to his or her account under the ESPP at any time prior to a Purchase Date by submitting the requisite documents. A Participant's Purchase Right for the current period shall automatically be terminated and cancelled, and no further Contributions for the purchase of ADSs shall be accepted from the Participant during the Offering Period. A Participant's withdrawal from an offering shall not have any effect upon his or her eligibility to participate in the ESPP for the succeeding Offering Period.

(l) Termination of Employment

If a Participant to the ESPP terminates his or her employment under circumstances that qualify the Participant as a Qualified Terminated Participant, (as defined in the ESPP) and the effective date of the Participant's termination of employment is less than three months prior to the next Purchase Date, then the Participant shall continue to participate in the ESPP for the Offering Period then in progress, and the Participant's Purchase Right for such Offering Period shall be exercised in accordance with sub-paragraph (g) above. However, the Participant's Contribution to his or her account shall cease with the Contribution made from his or her final paycheck, and the Participant shall not be permitted to make any supplemental Contributions to the ESPP save as directed otherwise by the Compensation Committee. The Participant shall not be eligible to participate in any Offering Period that starts after the effective date of his or her termination of employment.

If a Participant terminates his or her employment under circumstances which do not qualify him or her as a Qualified Terminated Participant, the Company shall pay to the Participant all contributions credited to his or her account under the ESPP and the Participant's Purchase Right shall automatically terminate and lapse.

(m) Voting and dividend rights

No voting rights shall be exercisable and no Participants under the ESPP shall have any claim to the dividends in the ADSs covered by his or her rights to purchase the ADSs until such rights have been exercised.

(n) Ranking of the ADSs

ADSs allotted upon the exercise of Purchase Right shall rank pari passu (including, but not limited to, with respect to voting, dividend transfer rights and rights arising upon liquidation of the Company) in all respects with the ADSs in issue on the date of such allotment and will be subject to all the provisions of the Articles for the time being in force.

(o) Change in the capital structure of the Company

In the event of an alteration in the capital structure of the Company (which includes a capitalisation issue, reduction of capital, consolidation, sub-division of Plan Shares, or rights issue to purchase Plan Shares at a price substantially below market value) the Compensation Committee shall have discretion to make the appropriate adjustments in the number and/or the kind of shares which are subject to purchase under outstanding Purchase Rights, including, if the Compensation Committee deems appropriate, the substitution of similar Purchase Rights in shares of another company so that a Participant shall be entitled to the same proportion of the equity capital of the Company as that to which he or she was previously entitled to.

(p) Period of the ESPP

The ESPP shall continue for a term of ten years from the date of its approval by the Shareholders unless terminated in accordance with sub-paragraph (r).

(q) Use of Funds

The Company may, but shall not be obligated to, segregate Contributions under the ESPP and/or arrange for Contributions to be held by a third party financial institution or trustee for the benefit of the Participants. Whether or not segregated, Contributions shall remain the property of the relevant Participants and shall be subjected to the rights of the Participants and not to the claims of the Company's creditors.

(r) Amendments and Termination of the ESPP

The Compensation Committee may at any time amend the ESPP in any respect or terminate the ESPP, except that, without the approval of the Company's shareholders at a meeting duly called, no amendment shall be made in relation to:

(i) increasing the number of ADSs approved for the ESPP; or

(ii) decreasing the Purchase Price per ADSs.

Any alterations or amendments of a material nature or any change to the terms of the Purchase Rights granted must be approved by the shareholders of the Company, unless such alteration or amendment takes effect automatically under the terms of the ESPP. For the avoidance of doubt, any alteration or amendment pursuant to the exercise of any authority granted under the ESPP shall be deemed to take effect automatically under the terms of the ESPP. Any amendment made to the ESPP must be in accordance with the requirements of the Listing Rules or permitted by the SEHK.

If the ESPP is terminated by the Board prior to the tenth anniversary of the date of Board approval, unless the Compensation Committee has also terminated any Offering Period then in progress, Purchase Rights granted before such termination shall continue to be valid and exercisable in accordance with, and subject to, the terms and conditions of the Plan.

Rule 17.03(9) of the Listing Rules provide that the exercise price of any share option scheme operated by listed issuers may not be lower than effectively the market price of the ordinary shares. As a result of the capital intensive nature of the Company's business, we have traditionally relied on share options, rather than cash, as an important means of remunerating its employees. This is common in the industry and we wish to continue this practice. Accordingly, we have applied to and obtained from the SEHK a waiver from strict compliance with Rule 17.03(9) of the Listing Rules such that the Company is allowed to continue to grant options over its ADSs to its employees under the ESPP at an exercise price which is at a discount (up to 15 percent discount) to the lower of market price at the commencement of the offering period or the market price on the purchase date.

Standard Form of Share Option Plan for Subsidiaries

The following is a summary of the principal terms of a standard form of share option plan involving the grant of options over shares in subsidiaries of the Company which adopt such plan to eligible participants such as employees, directors and service providers of the Group (the "Subsidiary Plan") which was approved by the shareholders at the annual general meeting held on May 30, 2006.

(a) Purpose of the Subsidiary Plan

The purposes of the Subsidiary Plan are to attract, retain and motivate employees and directors of and other service providers to the Group, to provide a means of compensating them through the grant of stock options for their contributions to the growth and profits of the Group, and to allow such employees, directors and service providers to participate in such growth and profitability.

(b) Who may join

The Compensation Committee of the board of directors of the relevant subsidiary (the "Subsidiary Committee") may, at its discretion, invite any employee, officer or other service provider of (including, but not limited to, any professional or other adviser of, or consultant or contractor to) the Group whether located in China, the United States or elsewhere to take up options to subscribe for shares ("Subsidiary Shares") in the relevant subsidiary(ies) which has or have adopted the Subsidiary Plan at a price calculated in accordance with sub-paragraph (e) below. The Subsidiary Committee may also grant stock options to a director who is not an employee of the Company or the relevant subsidiary ("Non-Employee Director").

(c) Stock Options

Stock Options granted under the Subsidiary Plan ("Stock Options") shall entitle a participant ("Participant") of the Subsidiary Plan to purchase a specified number of Subsidiary Shares during a specified period at a price calculated in accordance with sub-paragraph (e) below. Three types of Stock Options may be granted under a Subsidiary Plan, an Incentive Stock Option, a Non-Qualified Stock Option or a Director Option. An Incentive Stock Option is a stock option that falls within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 (the "Code") and may only be granted to employees of the Company and its subsidiaries from time to time. A Non Qualified Stock Option is a stock option that is not an Incentive Stock Option. A Director Option is a Non-Qualified Stock Option granted to a Non-Employee Director.

The relevant subsidiary shall issue an Award Document to each Participant of the Subsidiary Plan who is granted a Stock Option. The Award Document shall set out the terms and provisions of the grant of a Stock Option to a Participant including applicable vesting dates or the attainment of specified performance goals (as determined by the Subsidiary Committee or the Administrator (as defined below), as the case may be) by the Participant. The relevant subsidiary may allow a Participant to exercise his or her Stock Options prior to vesting, provided the Participant agrees to enter into a repurchase agreement in respect of the Stock Option with the relevant subsidiary. The Subsidiary Committee may also (i) accelerate the vesting of a Stock Option, (ii) set the date on which any Stock Option may first become exercisable, or (iii) extend the period during which a Stock Option remains exercisable, except that no Stock Options may be exercised after the tenth anniversary of the date of grant.

The Subsidiary Plan does not provide for any payment upon application or acceptance of an option.

(d) Administration of the Subsidiary Plan

The Subsidiary Committee shall be responsible for the administration of the Subsidiary Plan. Its responsibilities include granting Stock Options to eligible individuals, determining the number of Subsidiary Shares subject to each Stock Option, and determining the terms and conditions of each Stock Option. The Subsidiary Committee is not obliged to grant Stock Options to Participants in uniform terms.

Accordingly, the terms and conditions which may be imposed may vary between Participants. Any determination by the Subsidiary Committee in relation to the carrying out and administering of the Subsidiary Plan in accordance with its terms shall be final and binding. No member of the Subsidiary Committee shall be liable for any action or determination made in good faith, and the members of the Subsidiary Committee shall be entitled to indemnification and reimbursement in the manner provided in the articles of association, by-laws or other equivalent constitutional document of the relevant subsidiary.

The Subsidiary Committee may delegate some or all of its authority under the Subsidiary Plan to an individual or individuals (each an "Administrator") who may either be one or more of the members of the Subsidiary Committee or one or more of the officers of the Company or relevant subsidiaries. An individual's status as an Administrator shall not affect his or her eligibility to participate in the Subsidiary Plan. The Subsidiary Committee shall not delegate its authority to grant Stock Options to executive officers of the Company or its subsidiaries.

(e) Exercise Price

The exercise price per Subsidiary Share purchasable under a Stock Option shall be fixed by the Subsidiary Committee at the time of grant or by a method specified by the Subsidiary Committee at the time of grant, but, subject always to and in accordance with applicable requirements of the Listing Rules or permission of the Stock Exchange:

(i) in the case of an Incentive Stock Option:

(1) granted to a Ten Percent Holder, the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and

(2) granted to any other Participant, the exercise price shall be no less than 100% of the Fair Market Value per Subsidiary Share on the date of grant; and

(ii) in the case of any Stock Option:

(1) granted to a Ten Percent Holder who is a resident of the State of California, the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and

(2) granted to any other Participant who is a resident of the State of California, the exercise price shall be no less than 85% of the Fair Market Value per Subsidiary Share on the date of grant.

A Ten Percent Holder is any Participant who owns more than 10% of the total combined voting power of all classes of outstanding securities of the relevant subsidiary or any parent or subsidiary (as such terms are defined in and determined in accordance with the Code) of the relevant subsidiary.

Fair Market Value shall be determined as follows:

(i) If the Subsidiary Shares are listed on any established stock exchange or a national market system, including without limitation the NYSE, The Nasdaq Global Market or The Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such Subsidiary Shares (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Subsidiary Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Subsidiary Shares on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Subsidiary Shares, the Fair Market Value thereof shall be determined in good faith by the Subsidiary Committee in accordance with any applicable law, rule or regulation.

(f) Limit of the Subsidiary Plan

The number of Subsidiary Shares that may be issued under the Subsidiary Plan and all other schemes of the relevant subsidiary involving the grant by such subsidiary of options over or other similar rights to acquire new shares or other new securities of such subsidiary ("Other Schemes") shall not exceed ten percent of the issued and outstanding Subsidiary Shares of such subsidiary on the date of approval of the Subsidiary Plan by the board of directors of the relevant subsidiary (the "Subsidiary Board").

The number of Subsidiary Shares which may be issued pursuant to any outstanding Stock Options granted and yet to be exercised under the Subsidiary Plan and all Other Schemes of the relevant subsidiary must not exceed in aggregate 30 percent of the issued and outstanding Subsidiary Shares of the relevant subsidiary in issuance from time to time.

(g) Individual Limit

The total number of Subsidiary Shares underlying Stock Options or other options granted by the relevant subsidiary to a Participant (including both exercised and outstanding Stock Options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1 percent in the case of an independent non-executive Director of the Company) of the then issued and outstanding Subsidiary Shares unless otherwise allowed under the Listing Rules.

(h) Exercise of Option

A Stock Option shall vest, and be exercised, in accordance with the terms of the Subsidiary Plan, the relevant Award Document and any rules and procedures established by the Subsidiary Committee for this purpose. However, the term of each Stock Option shall not exceed ten years from the date of grant, provided that any Incentive Stock Option granted to a Ten Percent Holder shall not by its terms be exercisable after the expiration of five (5) years from the date of grant.

(i) Director Options

Each Non-Employee Director may be granted Stock Options to purchase Subsidiary Shares on the terms set out in the relevant Award Document.

The directors shall exercise all authority and responsibility with respect to Stock Options granted to directors subject to the requirements of the Listing Rules.

All Non-Employee Directors' Stock Options shall only vest provided that the director has remained in service as a director through such vesting date. The unvested portion of a Stock Option granted to a director shall be forfeited in full if the director 's service with the Company or the relevant subsidiary ends for any reason prior to the applicable vesting date.

Following termination of a Non-Employee Director 's service on the Board, such Non-Employee Director (or his or her estate, personal representative or beneficiary, as the case may be) shall be entitled to exercise those of his or her Stock Options which have vested as of the date of such termination within 120 days following such termination.

(j) Termination or lapse of Option

A Stock Option shall terminate or lapse automatically on:

(i) the expiry of ten years from the date of grant;

(ii) the termination of a Participant's employment or service with the Company for a reason set out in sub-paragraph (l) below;

(iii) save as to any contrary directions of the Subsidiary Committee with the prior approval of the Board of Directors of the Company, in the event of a complete liquidation or dissolution of the relevant subsidiary, all Stock Options outstanding at the time of the liquidation or dissolution shall terminate without further action by any person;

(iv) the sale or other divestiture of a subsidiary, division or operating unit of the Company (where the Participant is employed by such subsidiary, division or operating unit); and

(v) termination of the service relationship with a service provider (where the Participant is a service provider of the Company or its subsidiaries).

(k) Rights are personal to Participant

A Stock Option is personal to the Participant and shall be exercisable by such Participant or his Permitted Transferee (as defined below) only. An option shall not be transferred other than by will, by the laws of descent and distribution or pursuant to a domestic relations order. The Subsidiary Committee may also, at its discretion and subject to such terms and conditions as it shall specify, permit the transfer of a Stock Option for no consideration to a Participant's family members or to a trust or partnership established for the benefit of such family members (collectively "Permitted Transferees"). Any Stock Option transferred to a Permitted Transferee shall be further transferable only by will or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant.

(l) Termination of employment or service

If a Participant's employment or service with the relevant member(s) of the Group is terminated for the following reasons:

(i) the failure or refusal of the Participant to substantially perform the duties required of him or her as an employee or officer of, or service provider to, the relevant member(s) of the Group;

(ii) any material violation by the Participant of any law or regulation applicable to any business of any relevant member(s) of the Group, or the Participant's conviction of, or a plea of nolo contendae to, a felony, or any perpetration by the Participant of a common law fraud against any relevant member(s) of the Group; or

(iii) any other misconduct by the Participant that is materially injurious to the financial condition, business or reputation of the Group, then all Stock Options granted to the Participant, whether or not then vested, shall immediately lapse.

The Subsidiary Committee may permit any Incentive Stock Option to convert into a Non-Qualified Stock Option as of a Participant's termination of employment for purposes of providing such Participant with the benefit of any extended exercise period applicable to Non-Qualified Stock Options when the contract of employment of the holder of Incentive Stock Option terminates.

(m) Change in control of the Company

The Subsidiary Committee must seek the prior approval of the Board of Directors of the Company and may, subject to such prior approval by the Board of Directors of the Company, specify at or after the date of grant of a Stock Option the effect that a Change in Control (as defined in the Subsidiary Plan) will have on such Stock Option. The Subsidiary Committee may also, subject to such prior approval by the Board of Directors of the Company, in contemplation of a Change in Control, accelerate the vesting, exercisability or payment of Stock Options to a date prior to the Change in Control, if the Subsidiary Committee determines that such action is necessary or advisable to allow the participants to realise fully the value of their share options in connection with such Change in Control.

(n) Change in the capital structure of the Company

In the event of an alteration in the capital structure of the relevant subsidiary (which includes a capitalisation issue, reduction of capital, consolidation, sub-division of Subsidiary Shares, or rights issue to purchase Subsidiary Shares at a price substantially below market value), the Subsidiary Committee may equitably adjust the number and kind of Subsidiary Shares authorised for issuance in order to preserve, the benefits or potential benefits intended to be made available under the Subsidiary Plan. In addition, upon the occurrence of any of the foregoing events, the number of outstanding Stock Options and the number and kind of shares subject to any outstanding Stock Option and the purchase price per share under any outstanding Stock Option shall be equitably adjusted so as to preserve the benefits or potential benefits intended to be made available to Participants.

(o) Period of the Subsidiary Plan

The form of the Subsidiary Plan shall be approved by the shareholders of the Company and of the relevant subsidiary respectively, and shall become effective upon its approval by the Subsidiary Board in accordance with the terms thereof. Each Subsidiary Plan shall remain in force for a period of ten years commencing on the date of Subsidiary Board approval of the relevant Subsidiary Plan.

(p) Amendments and Termination

The Subsidiary Plan may be changed, altered, amended in whole or in part, suspended and terminated by the Subsidiary Board, subject to such prior approval by the Board of Directors of the Company, at any time provided alterations or amendments of a material nature or any change to the terms of the Stock Options granted, or any change to the authority of the Subsidiary Board or the Subsidiary Committee in relation to any alteration to the terms of the Subsidiary Plan, must be approved by the shareholders of the Company, unless such change, alteration or amendment takes effect automatically under the terms of the Subsidiary Plan. For the avoidance of doubt, any change, alteration or amendment pursuant to the exercise of any authority granted under a Subsidiary Plan shall be deemed to take effect automatically under the terms of the relevant Subsidiary Plan. Any change, alteration or amendment must be in accordance with the requirements of the Listing Rules or permitted by the Hong Kong Stock Exchange.

The Subsidiary Board may, subject to prior approval by the Board of Directors of the Company, at any time and from time to time make such changes, alterations or amendments to the Subsidiary Plan as may be necessary or desirable, including (without limitation) changes, alterations or amendments:

(i) relating to local legal, regulatory and/or taxation requirements and/or implications applicable to the relevant subsidiary and/or Eligible Participants; and/or

(ii) for the purposes of clarification, improvement or facilitation of the interpretation, and/or application of the terms of the Subsidiary Plan and/or for the purposes of improving or facilitating the administration of the Subsidiary Plan, and other changes, alterations or amendments of a similar nature.

If the Subsidiary Plan is terminated early by the Subsidiary Board, subject to prior approval by the Board of Directors of the Company, no further Stock Options may be offered but unless otherwise stated in the Subsidiary Plan. Stock Options granted before such termination shall continue to be valid and exercisable in accordance with the Subsidiary Plan.

(q) Voting and dividend rights

No voting rights shall be exercisable and no dividends shall be payable in relation to Stock Options that have not been exercised.

(r) Cancellation of Stock Options

If the relevant subsidiary is or becomes a public company (within the meaning of the Hong Kong Code on Takeovers and Mergers), then in the case of a Change in Control of the relevant subsidiary, Stock Options granted but not exercised may not be cancelled unless an offer or proposal in respect of the Stock Options has, where applicable, been made pursuant to Rule 13 of The Hong Kong Code on Takeovers and Mergers and the Hong Kong Securities and Futures Commission has consented to such cancellation.

(s) Ranking of Subsidiary Shares

The Subsidiary Shares to be allotted upon the exercise of a Stock Option will be subject to the articles of association (or equivalent constitutional document) of the relevant subsidiary for the time being in force and will rank pari passu with the Subsidiary Shares in issue on the date of such allotment.

The Subsidiary Plans will be administered by the relevant Subsidiary Committees and no other trustee is expected to be appointed in respect of any Subsidiary Plan.

As of December 31, 2006, none of the subsidiaries of the Company has adopted the Subsidiary Plan.

Outstanding Share Options

Details of the Stock Option Plans and the Stock Option Plan are as follows:

2001 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 12/31/06	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 12/31/07	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	28/3/2001	3/28/2001 - 3/27/2011	89,385,000	$0.01	5,338,500	—	—	582,000	—	4,756,500	$0.14	$0.03
Employees	2/4/2001	4/02/2001 - 4/01/2011	2,216,000	$0.01	316,000	—	—	35,000	—	281,000	$0.15	$0.03
Employees	16/4/2001	4/16/2001 - 4/15/2011	575,000	$0.01	35,000	—	—	—	—	35,000	$—	$0.03
Employees	28/4/2001	4/28/2001 - 4/27/2011	60,000	$0.01	42,000	—	—	—	—	42,000	$—	$0.03
Employees	14/5/2001	5/14/2001 - 5/13/2011	1,597,000	$0.01	25,000	—	—	—	—	25,000	$—	$0.03
Employees	15/5/2001	5/15/2001 - 5/14/2011	95,000	$0.01	35,000	—	—	—	—	35,000	$—	$0.03
Employees	1/6/2001	6/01/2001 - 5/31/2011	80,000	$0.01	40,000	—	—	—	—	40,000	$—	$0.03
Employees	1/7/2001	7/01/2001 - 6/30/2011	745,000	$0.01	69,000	—	—	20,000	—	49,000	$0.14	$0.03
Employees	15/7/2001	7/15/2001 - 7/14/2011	1,045,000	$0.01	422,000	—	—	108,000	—	314,000	$0.14	$0.03
Employees	16/7/2001	7/16/2001 - 7/15/2011	2,220,000	$0.01	88,000	—	—	—	—	88,000	$—	$0.03
Employees	27/7/2001	7/27/2001 - 7/26/2011	50,000	$0.01	50,000	—	—	—	—	50,000	$—	$0.03
Employees	30/7/2001	7/30/2001 - 7/29/2011	140,000	$0.01	100,000	—	—	—	—	100,000	$—	$0.03
Employees	1/8/2001	8/01/2001 - 7/31/2011	195,000	$0.01	74,000	—	—	20,000	—	54,000	$0.11	$0.03
Employees	7/8/2001	8/07/2001 - 8/06/2011	20,000	$0.01	20,000	—	—	—	—	20,000	$—	$0.03
Employees	15/8/2001	8/15/2001 - 8/14/2011	100,000	$0.01	100,000	—	—	—	—	100,000	$—	$0.03
Employees	20/8/2001	8/20/2001 - 8/19/2011	20,000	$0.01	20,000	—	—	—	—	20,000	$—	$0.03
Employees	24/9/2001	9/24/2001 - 9/23/2011	98,708,500	$0.01	23,963,200	160,000	—	5,266,500	—	18,536,700	$0.14	$0.03
Employees	28/9/2001	9/28/2001 - 9/27/2011	50,000	$0.01	50,000	—	—	—	—	50,000	$—	$0.03
Employees	24/1/2002	1/24/2002 - 1/23/2012	47,653,000	$0.01	18,686,500	—	—	6,850,000	—	11,836,500	$0.13	$0.03

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/06	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 12/31/07	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	24/1/2002	1/24/2002 - 1/23/2012	7,684,500	$0.02	1,969,650	1,000	—	811,850	—	1,156,800	$0.13	$0.03
Employees	10/4/2002	4/10/2002 - 4/09/2012	1,315,000	$0.01	45,000	—	—	35,000	—	10,000	$0.14	$0.05
Employees	10/4/2002	4/10/2002 - 4/09/2012	47,349,000	$0.02	18,318,300	345,000	—	6,057,400	—	11,915,900	$0.14	$0.05
Employees	11/4/2002	4/11/2002 - 4/10/2012	4,100,000	$0.01	2,100,000	—	—	—	—	2,100,000	$—	$0.05
Employees	28/6/2002	6/28/2002 - 6/27/2012	39,740,000	$0.02	17,234,000	—	—	6,690,000	—	10,544,000	$0.14	$0.06
Employees	28/6/2002	6/28/2002 - 6/27/2012	18,944,000	$0.05	9,656,000	—	—	1,922,000	—	7,734,000	$0.14	$0.06
Kawanishi, Tsuyoshi	11/7/2002	7/11/2002 - 7/10/2012	500,000	$0.05	500,000	—	—	—	—	500,000	$—	$0.07
Employees	11/7/2002	7/11/2002 - 7/10/2012	1,700,000	$0.02	750,000	—	—	750,000	—	—	$0.14	$0.07
Employees	11/7/2002	7/11/2002 - 7/10/2012	2,780,000	$0.05	80,000	—	—	—	—	80,000	$—	$0.07
Service Providers	26/9/2002	9/26/2002 - 9/25/2012	50,000	$0.05	50,000	—	—	—	—	50,000	$—	$0.03
Employees	26/9/2002	9/26/2005 - 9/25/2012	5,770,000	$0.02	2,195,000	—	—	640,000	—	1,555,000	$0.14	$0.08
Employees	26/9/2002	9/26/2005 - 9/25/2012	65,948,300	$0.05	30,655,800	454,650	—	10,194,840	—	20,006,310	$0.14	$0.08
Employees	9/1/2003	1/09/2003 - 1/08/2013	53,831,000	$0.05	29,125,000	8,000	—	8,026,600	—	21,090,400	$0.14	$0.10
Employees	10/1/2003	1/10/2003 - 1/09/2013	720,000	$0.05	720,000	—	—	—	—	720,000	$—	$0.10
Employees	22/1/2003	1/22/2003 - 1/21/2013	1,060,000	$0.05	1,060,000	—	—	—	—	1,060,000	$—	$0.10
Employees	1/4/2003	4/01/2003 - 3/31/2013	18,804,900	$0.05	11,164,784	26,480	—	3,142,666	—	7,995,638	$0.14	$0.14
Employees	15/4/2003	4/15/2003 - 4/14/2013	550,000	$0.05	550,000	—	—	—	—	550,000	$—	$0.14
Senior Management	24/4/2003	4/24/2003 - 4/23/2013	1,500,000	$0.05	1,450,000	—	—	—	—	1,450,000	$—	$0.14
Employees	24/4/2003	4/24/2003 - 4/23/2013	58,838,000	$0.05	31,095,700	550,600	180,000	7,175,700	—	23,369,400	$0.13	$0.14
Employees	15/7/2003	7/15/2003 - 7/14/2013	59,699,900	$0.05	29,362,110	1,226,271	—	7,788,819	—	20,347,020	$0.13	$0.17
Employees	10/10/2003	10/10/2003 - 10/09/2013	49,535,400	$0.10	26,270,140	1,055,040	—	1,053,200	—	24,161,900	$0.14	$0.29
Employees	5/1/2004	1/05/2004 - 1/04/2014	130,901,110	$0.10	79,276,141	4,175,206	—	6,502,618	—	68,598,317	$0.14	$0.33

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/06	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 12/31/07	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)
Kawanishi, Tsuyoshi	15/1/2004	1/15/2004 - 1/14/2014	1,000,000	$0.10	1,000,000	—	—	—	—	1,000,000	$—	$0.33
Service Providers	15/1/2004	1/15/2004 - 3/01/2005	4,100,000	$0.10	100,000	—	—	—	—	100,000	$—	$0.14
Senior Management	15/1/2004	1/15/2004 - 1/14/2014	10,700,000	$0.10	2,055,000	100,000	—	—	—	1,955,000	$—	$0.14
Others	15/1/2004	1/15/2004 - 1/14/2014	4,600,000	$0.10	2,500,000	—	—	—	—	2,500,000	$—	$0.35
Employees	15/1/2004	1/15/2004 - 1/14/2014	20,885,000	$0.10	8,729,000	325,000	—	400,000	—	8,004,000	$0.13	$0.33
Senior Management	16/2/2004	2/16/2004 - 2/15/2014	900,000	$0.25	900,000	200,000	—	—	—	700,000	$—	$0.33
Others	16/2/2004	2/16/2004 - 2/15/2014	12,300,000	$0.25	7,380,000	1,250,000	—	—	—	6,130,000	$—	$0.35
Employees	16/2/2004	2/16/2004 - 2/15/2014	14,948,600	$0.10	5,362,200	166,525	—	242,175	—	4,953,500	$0.11	$0.33
Employees	16/2/2004	2/16/2004 - 2/15/2014	76,454,880	$0.25	49,936,480	5,320,120	—	—	—	44,616,360	$—	$0.33

Options to purchase ordinary shares issued to new employees generally vest at a rate of 10% upon the second anniversary, an additional 20% on the third anniversary and an additional 70% upon the fourth anniversary of the vesting commencement date. Beginning in January 2004, options to purchase ordinary shares issued to then-existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date.

The Company has not issued stock options under the 2001 Stock Option Plans since the completion of the Global Offering.

2001 Preference Share Plan

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/06	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 12/31/07	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	24/9/2001	9/24/2001 - 9/23/2011	249,098,700	$ 0.11	24,090,200	155,000	—	1,661,000	—	22,274,200	$ 0.14	$ 0.11
Employees	28/9/2001	9/28/2001 - 9/27/2011	50,000	$ 0.11	50,000	—	—	—	—	50,000	$ —	$ 0.11
Employees	3/11/2001	11/03/2001 - 11/02/2011	780,000	$ 0.35	547,500	32,500	—	—	—	515,000	$ —	$ 0.11
Employees	24/1/2002	1/24/2002 - 1/23/2012	58,357,500	$ 0.11	7,444,150	1,114,000	—	558,650	—	5,771,500	$ 0.13	$ 0.12
Employees	10/4/2002	4/10/2002 - 4/09/2012	51,384,000	$ 0.11	4,662,800	102,000	—	1,208,900	—	3,351,900	$ 0.14	$ 0.13
Employees	28/6/2002	6/28/2002 - 6/27/2012	63,332,000	$ 0.11	12,912,500	760,000	—	2,870,000	—	9,282,500	$ 0.14	$ 0.14
Service Providers	11/7/2002	7/11/2002 - 7/10/2012	462,000	$ 0.11	202,000	—	—	—	—	202,000	$ —	$ 0.14
Employees	11/7/2002	7/11/2002 - 7/10/2012	4,530,000	$ 0.11	805,000	—	—	—	—	805,000	$ —	$ 0.14
Service Providers	26/9/2002	9/26/2002 - 9/25/2012	50,000	$ 0.11	50,000	—	—	—	—	50,000	$ —	$ 0.15
Employees	26/9/2002	9/26/2002 - 9/25/2012	73,804,800	$ 0.11	14,734,320	649,550	112,500	1,700,870	—	12,383,900	$ 0.15	$ 0.15
Employees	9/1/2003	1/09/2003 - 1/08/2013	12,686,000	$ 0.11	1,237,000	—	—	—	—	1,237,000	$ —	$ 0.17

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

The options to purchase preference shares converted into options to purchase ordinary shares immediately prior to the completion of the Global Offering.

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 12/31/06	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 12/31/07	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)
Senior Management	18/3/2004	3/18/2004 - 3/17/2014	150,000	$0.35	150,000	—	—	—	—	—	150,000	$ —	$ 0.35
Others	18/3/2004	3/18/2004 - 3/17/2014	20,000	$0.35	20,000	—	—	—	—	—	20,000	$ —	$ 0.35
Employees	18/3/2004	3/18/2004 - 3/17/2014	49,949,700	$0.35	33,519,900	—	3,786,300	—	—	—	29,733,600	$ —	$ 0.35
Richard Chang	7/4/2004	4/07/2004 - 4/06/2014	100,000	$0.31	100,000	—	—	—	—	—	100,000	$ —	$ 0.31
Employees	25/4/2004	4/25/2004 - 4/24/2014	22,591,800	$0.28	16,036,900	—	1,525,000	—	—	—	14,511,900	$ —	$ 0.28
Others	27/7/2004	7/27/2004 - 7/26/2014	200,000	$0.20	200,000	—	100,000	—	—	—	100,000	$ —	$ 0.20
Employees	27/7/2004	7/27/2004 - 7/26/2014	35,983,000	$0.20	21,593,900	—	2,336,900	—	—	—	19,257,000	$ —	$ 0.20
Kawanishi, Tsuyoshi	10/11/2004	11/10/2004 - 11/09/2009	500,000	$0.22	500,000	—	—	—	—	—	500,000	$ —	$ 0.22
Employees	10/11/2004	11/10/2004 - 11/09/2014	52,036,140	$0.22	33,402,300	—	6,277,175	—	—	—	27,125,125	$ —	$ 0.22
Ta-Lin Hsu	10/11/2004	11/10/2004 - 11/09/2009	500,000	$0.22	500,000	—	—	—	—	—	500,000	$ —	$ 0.22
Henry Shaw	10/11/2004	11/10/2004 - 11/09/2009	500,000	$0.22	500,000	—	—	—	—	—	500,000	$ —	$ 0.22
Lip-Bu Tan	10/11/2004	11/10/2004 - 11/09/2009	500,000	$0.22	500,000	—	—	—	—	—	500,000	$ —	$ 0.22
Wang Yang Yuan	10/11/2004	11/10/2004 - 11/09/2009	500,000	$0.22	500,000	—	—	—	—	—	500,000	$ —	$ 0.22
Senior Management	11/5/2005	5/11/2005 - 5/10/2015	1,100,000	$0.20	1,100,000	—	400,000	—	—	—	700,000	$ —	$ 0.20
Others	11/5/2005	5/11/2005 - 5/10/2015	100,000	$0.20	100,000	—	—	—	—	—	100,000	$ —	$ 0.20
Employees	11/5/2005	5/11/2005 - 5/10/2015	94,381,300	$0.20	68,976,207	—	6,534,971	—	—	—	62,441,236	$ —	$ 0.20
Richard Chang	11/5/2005	5/11/2005 - 5/10/2015	15,000,000	$0.20	15,000,000	—	—	—	—	—	15,000,000	$ —	$ 0.22
Employees	11/8/2005	8/11/2005 - 8/10/2015	32,279,500	$0.22	23,066,500	—	5,244,800	—	—	—	17,821,700	$ —	$ 0.22
Senior Management	11/11/2005	11/11/2005 - 11/10/2015	11,640,000	$0.15	11,640,000	—	3,400,000	—	—	—	8,240,000	$ —	$ 0.15

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/06	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 12/31/07	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)
Others	11/11/2005	11/11/2005 - 11/10/2015	3,580,000	$0.15	3,580,000	—	—	—	—	—	3,580,000	$ —	$ 0.15
Employees	11/11/2005	11/11/2005 - 11/10/2015	149,642,000	$0.15	127,270,000	—	12,533,800	—	—	—	114,736,200	$ —	$ 0.15
Employees	20/2/2006	2/20/2006 - 2/19/2016	62,756,470	$0.15	55,528,321	—	10,345,835	—	94,510	—	45,087,976	$ 0.16	$ 0.15
Others	12/5/2006	5/12/2006 - 5/11/2016	100,000	$0.15	100,000	—	100,000	—	—	—	—	$ —	$ 0.15
Employees	12/5/2006	5/12/2006 - 5/11/2016	22,216,090	$0.15	19,462,090	—	2,143,090	—	—	—	17,319,000	$ —	$ 0.15
Kawanishi, Tsuyoshi	29/9/2006	9/29/2006 - 9/28/2011	500,000	$0.13	500,000	—	—	—	—	—	500,000	$ —	$ 0.13
Others	29/9/2006	9/29/2006 - 9/28/2011	400,000	$0.13	400,000	—	—	—	—	—	400,000	$ —	$ 0.13
Employees	29/9/2006	9/29/2006 - 9/28/2016	40,394,000	$0.13	38,396,000	—	6,036,500	—	—	—	32,359,500	$ —	$ 0.13
Richard Chang	29/9/2006	9/29/2006 - 9/28/2016	500,000	$0.13	500,000	—	—	—	—	—	500,000	$ —	$ 0.13
Ta-Lin Hsu	29/9/2006	9/29/2006 - 9/28/2011	500,000	$0.13	500,000	—	—	—	—	—	500,000	$ —	$ 0.13
Henry Shaw	29/9/2006	9/29/2006 - 9/28/2011	500,000	$0.13	500,000	—	—	—	—	—	500,000	$ —	$ 0.13
Lip-Bu Tan	29/9/2006	9/29/2006 - 9/28/2011	500,000	$0.13	500,000	—	—	—	—	—	500,000	$ —	$ 0.13
Wang Yang Yuan	29/9/2006	9/29/2006 - 9/28/2011	500,000	$0.13	500,000	—	—	—	—	—	500,000	$ —	$ 0.13
Albert Y.C. Yu	29/9/2006	9/29/2006 - 9/28/2011	500,000	$0.13	500,000	—	—	—	—	—	500,000	$ —	$ 0.13
Others	10/11/2006	11/10/2006 - 11/09/2016	2,450,000	$0.13	2,450,000	—	300,000	—	—	—	2,150,000	$ —	$ 0.13
Employees	10/11/2006	11/10/2006 - 11/09/2016	33,271,000	$0.11	32,133,000	—	7,223,000	—	89,000	—	24,821,000	$ 0.13	$ 0.11
Employees	16/5/2007	5/16/2007 - 5/15/2017	123,528,000	$0.15	—	123,528,000	10,553,000	—	—	—	112,975,000	$ —	$ 0.15
Senior Management	16/5/2007	5/16/2007 - 5/15/2017	1,300,000	$0.15	—	1,300,000	—	—	—	—	1,300,000	$ —	$ 0.15
Others	16/5/2007	5/16/2007 - 5/15/2017	5,421,000	$0.15	—	5,421,000	—	—	—	—	5,421,000	$ —	$ 0.15
Employees	28/12/2007	12/28/2007 - 12/27/2017	89,839,000	$0.10	—	89,839,000	—	—	—	—	89,839,000	$ —	$ 0.10
Others	28/12/2007	12/28/2007 - 12/27/2017	3,800,000	$0.10	—	3,800,000	—	—	—	—	3,800,000	$ —	$ 0.10

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

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 12/31/06	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 12/31/07	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)
Employees	1/7/2004	7/01/2005 - 6/30/2015	96,856,590	$0.00	33,700,090	—	3,352,663	—	15,571,817	—	14,775,610	$0.14	$0.22
Senior Management	27/7/2004	7/27/2005 - 7/26/2015	1,130,000	$0.00	515,000	—	200,000	—	57,500	—	257,500	$0.14	$0.20
Employees	27/7/2004	7/27/2005 - 7/26/2015	19,447,520	$0.00	6,148,760	—	362,500	—	2,699,380	—	3,086,880	$0.14	$0.20
Employees	11/5/2005	5/11/2006 - 5/10/2016	4,630,000	$0.00	1,285,000	—	120,000	—	425,000	—	740,000	$0.12	$0.20
Richard Chang	11/5/2005	5/11/2006 - 5/10/2016	2,000,000	$0.00	1,000,000	—	—	—	500,000	—	500,000	$0.12	$0.20
Senior Management	11/8/2005	8/11/2005 - 8/10/2015	916,830	$0.00	736,471	—	195,390	—	131,513	—	409,568	$0.12	$0.22
Others	11/8/2005	8/11/2005 - 8/10/2015	156,888	$0.00	28,182	—	—	—	9,394	—	18,788	$0.12	$0.22
Employees	11/8/2005	8/11/2005 - 8/10/2015	69,430,022	$0.00	41,752,779	—	4,446,848	—	12,147,657	—	25,158,274	$0.12	$0.22
Senior Management	11/11/2005	11/11/2005 - 11/10/2015	2,910,000	$0.00	2,910,000	—	850,000	—	515,000	—	1,545,000	$0.14	$0.15
Others	11/11/2005	11/11/2005 - 11/10/2015	2,100,000	$0.00	1,600,000	—	25,000	—	500,000	—	1,075,000	$0.14	$0.15
Employees	11/11/2005	11/11/2005 - 11/10/2015	40,275,000	$0.00	35,080,000	—	2,478,750	—	8,555,000	—	24,046,250	$0.14	$0.15
Employees	20/2/2006	2/20/2006 - 2/19/2016	3,110,000	$0.00	3,010,000	—	660,000	—	702,500	—	1,647,500	$0.14	$0.15
Employees	12/5/2006	5/12/2006 - 5/11/2016	2,700,000	$0.00	2,600,000	—	—	—	150,000	—	2,450,000	$0.13	$0.15
Employees	29/9/2006	9/29/2006 - 9/28/2016	720,000	$0.00	720,000	—	200,000	—	130,000	—	390,000	$0.14	$0.13
Albert Y.C. Yu	29/9/2006	9/29/2006 - 9/28/2016	500,000	$0.00	500,000	—	—	—	—	—	500,000	$—	$0.13
Others	10/11/2006	11/10/2006 - 11/09/2016	1,688,864	$0.00	1,688,864	—	—	—	72,216	—	1,616,648	$0.12	$0.11
Employees	10/11/2006	11/10/2006 - 11/09/2016	7,340,000	$0.00	7,020,000	—	1,610,000	—	985,000	—	4,425,000	$0.12	$0.11
Employees	16/5/2007	5/16/2007 - 5/15/2017	33,649,720	$0.00	—	33,649,720	3,617,000	—	101,930	—	29,930,790	$0.14	$0.14
Others	16/5/2007	5/16/2007 - 5/15/2017	1,000,000	$0.00	—	1,000,000	—	—	—	—	1,000,000	$—	$0.14
Employees	28/12/2007	12/28/2007 - 12/27/2017	4,910,000	$0.00	—	4,910,000	—	—	—	—	4,910,000	$—	$0.10
Others	28/12/2007	12/28/2007 - 12/27/2017	960,000	$0.00	—	960,000	—	—	—	—	960,000	$—	$0.10

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

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, are 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"). At the meeting of the Board on January 25, 2005, the Board approved the Corporate Governance Policy (the "CG Policy") with effect from such date. The updated CG Policy, a copy of which can be obtained on the Company's website at www.smics.com under "Corporate Governance", incorporates all of the Code Provisions of the CG Code 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 provision 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, 2007 to December 31, 2007, 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 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 December 31, 2007. The senior management 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 nine Directors as at the date of the annual 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 outstanding shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with no more than one class eligible for re-election at any annual general meeting of shareholders.

Each class of Director will serve terms of three years. The Class I Directors were re-elected for a term of three years at the 2005 AGM (except Dr. Albert Y. C. Yu who was elected at the 2006 AGM) and are eligible for re-election at the 2008 AGM for a term of three years. The Class II Directors were re-elected for a term of three years at the 2006 AGM (except Mr. Jiang Shang Zhou who was elected at the 2008 AGM). The Class III Directors (except Mr. Wang Zheng Gang who was appointed as a Director by the Board on August 30, 2007 and is eligible for re-election at the 2008 AGM to hold office until 2010 AGM) were re-elected at the 2007 AGM for a term of three years.

The following table sets forth the names, classes and categories of the Directors:

Name of Director	Category of Director	Class of Director
Yang Yuan Wang	Chairman, Independent Non-executive Director	Class III
Richard Ru Gin Chang	President, Chief Executive Officer, Executive Director	Class I
Henry Shaw	Independent Non-executive Director	Class I
Albert Y. C. Yu	Independent Non-executive Director	Class I
Ta-Lin Hsu	Independent Non-executive Director	Class II
Jiang Shang Zhou	Independent Non-executive Director	Class II
Lip-Bu Tan	Independent Non-executive Director	Class II
Tsuyoshi Kawanishi	Independent Non-executive Director	Class III
Wang Zheng Gang	Non-executive Director	Class III

Brief biographical details for Board members are set out on pages 38 through 41. During the year ended December 31, 2007, 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 Prof. Yang Yuan Wang and Dr. Richard Ru Gin Chang, respectively.

At the 2008 AGM, Richard Ru Gin Chang, Henry Shaw and Albert Y. C. Yu will retire from office on the date of the AGM pursuant to Article 90 of the Articles. Dr. Chang and Mr. Shaw will each offer himself for re-election at the AGM. If re-elected, each of Dr. Chang and Mr. Shaw would hold office until the 2011 AGM.

At the 2008 AGM, Mr. Wang Zheng Gang will retire from office on the date of the AGM pursuant to Article 126 of the Articles. Mr. Wang will offer himself for re-election at the AGM. If re-elected, Mr. Wang would hold office until the 2010 AGM.

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 a 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.

During the year ended December 31, 2007, the Board held a total of nine (9) meetings. Details of Directors' attendance at the Board meetings for the period of their appointments are set forth below:

	Number of Meetings Attended	Attendance Rate
From January to August, 2007		
Wang Yang Yuan	7/7	100%
Richard Ru Gin Chang	7/7	100%
Fang Yao[1]	6/7	86%
Ta-Lin Hsu	7/7	100%
Jiang Shang Zhou [2a]	6/7	86%
Tsuyoshi Kawanishi [3a]	5/7	72%
Henry Shaw	7/7	100%
Lip-Bu Tan	7/7	100%
Albert Y. C. Yu [4a]	5/7	72%
Average Attendance Rate		91%
From September to December, 2007		
Wang Yang Yuan	2/2	100%
Richard Ru Gin Chang	2/2	100%
Wang Zheng Gang [5]	2/2	100%
Ta-Lin Hsu	2/2	100%
Jiang Shang Zhou [2b]	2/2	100%
Tsuyoshi Kawanishi [3b]	2/2	100%
Henry Shaw	2/2	100%
Lip-Bu Tan	2/2	100%
Albert Y. C. Yu [4b]	2/2	100%
Average Attendance Rate		100%

(1) Mr. Yao resigned as Non-executive Director on August 30, 2007
(2a) 4 of these meetings were attended by proxy
(2b) 1 of these meetings was attended by proxy
(3a) 3 of these meetings were attended by proxy
(3b) 1 of these meetings was attended by proxy
(4a) 2 of these meetings were attended by proxy
(4a) 1 of these meetings was attended by proxy
(5) Mr. Wang Zheng Gang was appointed as Non-executive Director on August 30, 2007

Procedure regarding the Appointment of Directors

The standard procedures regarding the appointment of Directors, which was adopted by the Board on September 22, 2005, sets forth the process by which individuals are appointed as members of the Board. Under the policy, the Board will consider, among other factors, (i) the skills, qualifications and experience of the nominee, including other directorships held in listed public companies in the last three years and other major appointments; (ii) the nominee's shareholdings in the Company; (iii) the independence of the nominee under United States and/or Hong Kong listing rules; and (iv) the impact with respect to the Company's status as a "foreign private issuer" under the United States securities laws. The Board will then decide whether to appoint such nominee to fill a casual vacancy on the Board or to add the nominee to the existing Directors and to appoint such nominee into one of the three classes of directors as stipulated in the Articles of Association.

Board Committees

The Board has established the following principal committees to assist it in exercising its obligations. These committees consist of only 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.

Compensation Committee

As of December 31, 2007, the members of the Company's compensation committee (the "Compensation Committee") were Ta-Lin Hsu (chairman of Compensation Committee), Tsuyoshi Kawanishi, and Lip-Bu Tan. None of these members of the Compensation Committee has been an executive officer or employee of the Company or any of its subsidiaries. See "Connected Transactions" for a description of transactions between the Company and the members of the Compensation Committee.

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.

In 2007, the Compensation Committee reviewed the total compensation package for Richard Ru Gin Chang, who is the President and Chief Executive Officer of the Company and an Executive Director. The Compensation Committee awarded Richard Ru Gin Chang an annual salary of US$157,477. In 2006, the Compensation Committee reviewed and approved the total compensation package for Richard Ru Gin Chang, who is the President and Chief Executive Officer of the Company and an Executive Director, as well as that of the other members of the management team of the Company. Based on the Compensation Committee's review of the Company's corporate goals for 2006 and comparable total compensation packages for presidents and chief executive officers of other publicly-listed companies in the same or a similar industry, the Compensation Committee awarded Richard Ru Gin Chang an annual salary of US$155,076. In 2005, the Compensation Committee granted Dr. Chang fifteen million (15,000,000) options to purchase ordinary shares under the 2004 Stock Option Plan and awarded him two million (2,000,000) RSUs under the 2004 Equity Incentive Plan. As of December 31, 2007, none of such options have been exercised and 50% of such RSUs have vested.

On September 29, 2006, the Board granted to each Director an option to purchase 500,000 ordinary shares at a price per ordinary share of US$0.132. 50% of these options were vested on May 30, 2007, the remaining 50% will be vested on May 30, 2008. These options will expire as to 50% on the earlier of September 29, 2016 or 120 days after termination of the director's service to the Board. Mr. Fang Yao (who resigned as Non-executive Director on August 30, 2007) and Mr. Jiang Shang Zhou have declined such option.

On September 29, 2006, the Board granted to Dr. Albert Y. C. Yu 500,000 Restricted Share Units. 50% of such Restricted Share Units automatically vested on May 30, 2007 and the remaining 50% of such Restricted Share Units will be vested on May 30, 2008.

On November 10, 2004, the Board granted to each independent Non-executive Director and Non-executive Director, an option to purchase 500,000 ordinary shares at a price per ordinary share of US$0.22. These options were fully vested on March 19, 2005 and will expire on November 9, 2009. As of December, 31, 2007, these options have not been exercised. Lai Xing Cai (who resigned as an Non-executive Director on February 6, 2006) has declined such option. The option granted to Mr. Yen-Pong Jou (who retired as an Independent Non-executive Director at the annual general meeting held on May 30, 2006) lapsed and cancelled on September 27, 2006.

In addition to reviewing the remuneration of the Non-executive Directors and the members of the Company's management, the Compensation Committee reviewed and approved the granting of stock options and Restricted Share Units pursuant to the terms of the Option Plans. The Compensation Committee also reviewed and approved on at least a quarterly basis any exception to the compensation guidelines and leave of absence policy of the Company.

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 a 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.

During the year ended December 31, 2007, the Compensation Committee held a total of four (4) meetings. Details of Directors' attendance at the Compensation Committee are set forth below:

	Number of Meetings Attended	Attendance Rate
Ta-Lin Hsu	4/4	100%
Tsuyoshi Kawanishi [1]	4/4	100%
Lip-Bu Tan	4/4	100%
Average Attendance Rate		100%

(1) 1 of these meetings was attended by proxy

Audit Committee

As of December 31, 2007, the members of the Audit Committee were Henry Shaw (co-chairman of Audit Committee), Lip-Bu Tan (co-chairman of Audit Committee) and Yang Yuan Wang. None of these members of the Audit Committee has been an executive officer or employee of the Company or any of its subsidiaries. See "Connected Transactions" for a description of transactions between the Company and the members of the Audit Committee. In addition to acting as Audit Committee member of the Company, Mr. Lip-Bu Tan, one of the members of the Audit Committee, currently also serves on the audit committee of three other publicly traded companies, namely SINA Corporation, Flextronics International Ltd. and Integrated Silicon Solution, Inc. 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.

During 2007, the Audit Committee reviewed:

- the financial reports for the year ended December 31, 2006 and the six month period ended June 30, 2007;
- the quarterly earnings releases and any updates thereto;
- the report and management letter submitted by the Company's outside auditors summarizing the findings of and recommendations from their audit of the Company's financial reports;
- the Company's budget for 2007;
- the findings and recommendations of the Company's outside consultants regarding the Company's compliance with the requirements of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act");
- the effectiveness of the Company's internal control structure in operations, financial reporting integrity and compliance with applicable laws and regulations in collaboration with the Internal Audit Department and reported to the Board;
- the findings of the Company's Risk Management Committee (as defined and discussed below) which assesses risks relating to the Company and the compliance office, which ensures compliance with the CG Code and Insider Trading Policy;
- the audit fees and other non-audit fees such as fees relating to transfer pricing, Sarbanes-Oxley compliance testing, for the Company's outside auditors; and
- the Company's outside auditors' engagement letters.

The Audit Committee reports its work, findings and recommendations to the Board during each 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 a year is planned in the preceding year. The Company Secretary assists the co-chairmen of the Audit 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 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.

During the year ended December 31, 2007, the Audit Committee held a total of eight (8) meetings. Details of Directors' attendance at the Audit Committee are set forth below:

	Number of Meetings Attended	Attendance Rate
Henry Shaw	8/8	100%
Lip-Bu Tan	8/8	100%
Yang Yuan Wang	8/8	100%
Average Attendance Rate		100%

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 relating to financial reporting. Upon the recommendation of the Audit Committee, the Board will approve the financial statements.

Auditors' Remuneration

The following table sets forth the aggregate audit fees, Sarbanes-Oxley compliance testing fee, audit-related fees, tax fees and all other fees we paid or incurred for audit services, audit-related services, tax services and other services rendered by our principal accountants during the fiscal year ended December 31, 2007.

	2007
Audit Fees	$1,533,000
Audit-Related Fees	—
Tax Fees	$12,935
All Other Fees	$152,358
Total	$1,698,293

Internal Controls

In June 2004, the Public Company Accounting Oversight Board, or PCAOB, adopted rules for purposes of implementing Section 404 of the Sarbanes-Oxley Act. Pursuant to the Sarbanes-Oxley Act and the various rules and regulations adopted pursuant thereto or in conjunction therewith, the Company is required to perform, on an annual basis, an evaluation of the Company's internal control over financial reporting and, beginning in fiscal year 2006, to include management's assessment of the effectiveness of the Company's internal control over financial reporting in the Company's annual report on Form 20-F to be filed with the United States Securities and Exchange Commission. Beginning in fiscal year 2006, the Company's external auditors are required to attest to such assessment.

The Board, through the Audit Committee which receives reports on at least a quarterly basis from the Internal Audit Department, is responsible to ensure that the Company maintains sound and effective internal controls. The Company's system of internal control is designed to ensure the achievement of business objectives in operations, financial reporting integrity and compliance with applicable laws and regulations. The system of internal control is designed to manage, rather than completely eliminate, risks impacting the Company's ability to achieve its business objectives. Accordingly, the system can only provide reasonable but not absolute assurance that the financial statements do not contain a material misstatement or loss.

The Company assists the Board with respect to its duty to identify, evaluate, and manage the significant risks faced by the Company. The Company implements the Board's policies and procedures to mitigate such risks by (i) identifying and assessing the risks the Company faces and (ii) designing, operating and monitoring a system of internal controls to mitigate and control such risks. The Company has established an Internal Audit Department and the Risk Management Committee and other policies and procedures, for such purposes.

The Board, through the Audit Committee, has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries and believes that the system of internal controls in place at December 31, 2007 and at the date of this annual report, is effective and adequate.

Internal Audit Department

Internal Audit Department works with and supports the Company's management team and the Audit Committee to evaluate and contribute to the improvement of risk management, control, and governance systems. On an annual basis, the Audit Committee will review and approve an annual internal audit plan, which is based on a risk assessment methodology, which assists in determining business risks and establishing appropriate audit frequencies.

Based on this annual audit plan, the Internal Audit Department will audit the practices, procedures, expenditure and internal controls of the various departments in the Company. The scope of the audit includes:

- reviewing management's control to ensure the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- reviewing the systems established or to be established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the Company is in compliance;

- reviewing the means of safeguarding assets and, when appropriate, verifying the existence of assets;
- appraising the economy and efficiency with which resources are employed;
- identifying significant risks to the ability of the Company to meet its business objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks; and
- evaluating the effectiveness of controls supporting the operations of the Company and providing recommendations as to how those controls could be improved.

In addition, the Internal Audit Department will audit areas of concern identified by the Risk Management Committee or conduct reviews and investigations on an ad hoc basis. In conducting these audits, the Internal Audit Department has free and full access to all necessary functions, records, properties and personnel.

After completing an audit, the Internal Audit Department furnishes the Company's management team with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed. Appropriate managers of the Company will be notified of any deficiencies cited by the Internal Audit Department, which will follow up with the implementation of audit recommendations. In addition, the Internal Audit Department will report their findings directly to the Audit Committee on at least a quarterly basis.

The Internal Audit Department has direct access to the Board through the co-chairmen of the Audit Committee. The Internal Audit Department may upon request meet privately with the Audit Committee, without the presence of members of the Company's management or the independent accounting firm. The Internal Audit Department consists of members of the Company's management team.

Risk Management Committee

The Risk Management Committee identifies, analyzes, and assesses enterprise-wide risks, monitors the Company's risk management efforts, and reports on the effectiveness of the Company's enterprise risk management programs. The Risk Management Committee is responsible for developing the Company's risk management strategy; establishing, reviewing, and approving policies and procedures to control risks as well as to prevent fraud; determining risk tolerances for measurement; preparing a risk management implementation plan and assigning responsibilities; and designing and preparing education and awareness programs and its implementation plans. Such risks can include without limitation, legal risks, credit risks, market risks, operational risks, environmental risks, and systemic risks. The Risk Management Committee consists of members of the Company's management team, including three executive officers of the Company.

The Risk Management Committee reports to the Chief Executive Officer periodically, and to the Audit Committee on a quarterly basis. If requested, the chair of the Risk Management Committee will report to the Board on major issues of the enterprise risk management programs.

Disclosure Committee

The Disclosure Committee oversees all information disseminated by the Company, including regulatory filings and submissions made pursuant to the Exchange Act or the Listing Rules, being properly recorded, processed, summarized, and reported to the management of the Company to allow timely decisions regarding the required disclosure. Accordingly, the Disclosure Committee has established a disclosure policy and procedure, which establishes the procedures for the handling and disseminating of price-sensitive information.

With respect to the Company's periodic filings pursuant to the Exchange Act or the Listing Rules, the Disclosure Committee identifies and communicates the extent and nature of all disclosures to be made in such filings, reviews the filings, with a particular focus on "Management's Discussion and Analysis of Financial Conditions and Results of Operations"; reviews and discusses with the Chief Financial Officer whether the Company's filings provide a fair representation of the Company's financial condition, results of operation, and cash flows, assesses the materiality of specific events and developments to the Company; and reviews financial reporting issues that are significant to the Company and other material reporting matters.

The Disclosure Committee consists of members of the Company's management team, including two executive officers of the Company.

Compliance Office

The Compliance Office monitors the Company's compliance under applicable corporate governance laws and regulations. In particular, the Compliance Office monitors and implements the Company's anti-fraud policy and investigates any reported cases of breach; and monitors the Company's compliance with the Code of Business Conduct and Ethics (as described and defined below) and the Insider Trading Policy. The anti-fraud policy sets forth the Company's policy regarding the prevention, detection and management of fraud and fair dealing in matters pertaining to fraud. The Company has established an email address for the Compliance Officers and the Audit Committee, dedicated to respond to any allegations of fraud and breaches of the Code of Business Conduct and Ethics or the Insider Trading Policy of the Company. The Code of Business Conduct and Ethics provides employees with guidelines pertaining to proper behavior in the workplace and appropriate representation of the Company when outside the workplace. The Insider Trading Policy sets forth the policy and procedures governing the dealing in the Company's securities by employees, including the Chief Executive Officer and members of the Company's management, and members of the Board (and their associates).

On at least a quarterly basis, the Compliance Office will report to the Audit Committee regarding any breaches of any of these policies.

The Compliance Office consists of members of the Company's management team, including an executive officer of the Company.

Shareholder Rights

The Company's shareholders may put forth proposals at an annual general meeting of the Company's shareholders by written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the principal executive offices of the Company. In order for a shareholder to put a proposal before the Company's shareholders, such shareholder must (a) be a member of record on both the date of giving of the notice by such shareholder and the record date for the determination of members entitled to vote at such meeting and (b) comply with the notice requirements, in each case, as specified in the Articles. The notice requirements include requirements regarding the timing of delivery of the notice as well as the contents of such notice. The detailed procedures for the notice requirements vary depending on whether the proposal constitutes an ordinary resolution or a special resolution or whether the proposal relates to a nomination for election of a Director. The procedures for shareholders to put forward proposals at an annual general meeting are available upon request of the Company Secretary.

Enquiries may be submitted to the Board by contacting either the Company Secretary at the principal executive offices of the Company or directly by questions at an annual general meeting or an extraordinary general meeting. Questions on the procedures for putting forward proposals at an annual general meeting may also be put to the Company Secretary by the same means.

Shareholder Communications and Investor Relations

The Company and the Board recognizes the importance of maintaining open and frequent communications with its shareholders. At the 2007 AGM, the President of the Company, as well as the Company's outside auditors, were present to answer questions from the shareholders. Together with this annual report, an annual general meeting circular is distributed to all shareholders within the prescribed time period required by the Listing Rules, notifying the shareholders about the AGM. The circular and the accompanying materials set forth the procedures for demanding and conducting a poll, including applicable notice requirements, and other relevant information relating to the proposed resolutions. Separate resolutions are proposed at these annual general meetings on each substantially separate issue, including the election of individual Directors. The Chairman reveals how many proxies for and against have been filed in respect to each resolution. The results of the poll are published in accordance with the requirements of the Listing Rules.

On the first business day after the 2007 AGM, which was held on May 23, 2007 at the Company's headquarters in Shanghai, China, the results of the poll were published in two newspapers with circulation in Hong Kong and on the web sites of the Company and HKSE. During the 2007 AGM, the Company's shareholders:

- received and considered the audited financial statements and the reports of the Directors and Auditors of the Company for the year ended December 31, 2006;
- re-elected Yang Yuan Wang, Tsuyoshi Kawanishi and Fang Yao as Class III Directors for terms of three years and authorised the Board to fix their remuneration;
- re-elected Deloitte Touche Tohmatsu as Auditors of the Company and authorised the Audit Committee to fix their remuneration;
- approved the general mandate to Directors to allot, issue, grant, distribute, and otherwise deal with additional shares in the Company not exceeding 20% of the issued share capital of the Company as of the date of the 2007 AGM; and
- approved the general mandate to Directors to repurchase shares in the Company not exceeding 10% of the issued share capital of the Company as of the date of the 2007 AGM.

A key element of effective communication with shareholders and investors is the timely dissemination of information relating to the Company. In addition to announcing annual and interim reports, the Company announces its quarterly financial results approximately one month after the end of each quarter. In connection with such announcement, the Company holds conference calls which are open and available to the Company's shareholders. During these conference calls, the President and Chief Executive Officer and the Acting Chief Financial Officer report about the latest developments in the Company and answer questions from participants. The members of the Company's Investor Relations Department and senior members of the Company's management also hold regular meetings with equity research analysts and other institutional shareholders and investors.

In addition to the 2007 AGM and the above referenced conference calls, the Company's shareholders were invited to a gathering in Hong Kong to meet members of the management of the Company.

A table setting forth information regarding the beneficial ownership as of December 31, 2007 of the ordinary shares, of each shareholder who is known by the Company to beneficially own more than 5% of the Company's outstanding shares, is contained on page 53.

The market capitalization of the Company as of December 31, 2007 was HK$15,218,314,163.8 (issued share capital of 18,558,919,712 ordinary shares at the closing market price of HK$0.82 per ordinary share). The public float as of such date was approximately 88.55%.

The AGM is scheduled to be held at the Company's headquarters at 18 Zhangjiang Road, PuDong New Area, Shanghai 201203, China on June 2, 2008 at 3:00 p.m. All shareholders are invited to attend.

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.

US 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 the 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.

Social Responsibility at SMIC

SMIC in the Community

SMIC has a tradition of supporting the communities in which we operate, both through the involvement of our employees and through philanthropic donations. SMIC has built extensive housing, education, and service communities near our manufacturing sites and has significantly helped the local communities to grow and prosper with us. SMIC's continuous commitment to a better community gained recognition upon receiving the SEMI China Outstanding Corporate Social Contribution Award in 2008.

Support for Education

In addition to building kindergartens and schools for our employees' children, SMIC is also dedicated to supporting education initiatives in impoverished areas in China. SMIC has been a long-standing supporter of the Enyou Foundation and our senior management has been actively involved in the foundation. SMIC's Chief Executive Officer, Dr. Richard Chang has helped to build dozens of schools in China's inland provinces such as Yunnan and Gansu. For the past four years, SMIC has supported the Enyou Foundation's Teacher Training Program, aimed to empower rural educators with modernized teaching skills, methodologies, and know-how. SMIC contributes accommodations, classrooms, volunteer teachers and staff, and other facilities.

Support for the Environment

SMIC goes to great lengths to act as a responsible steward of natural resources. This commitment to the environment is reflected in the company's ISO14001 certification from the British Standards Institute in 2002 and its Sony Green Partner status in 2006. Attaining ISO14001 certification requires establishing a world-class environmental management system that abides by a rigorous set of international standards. As a Sony Green Partner, SMIC demonstrates environmentally friendly processes and materials. These systems help SMIC ensure responsible use of energy and materials through recycling, waste reduction, and pollution prevention.

SMIC strives to recycle, reduce, and reuse energy and materials utilized in our manufacturing facilities and offices. Our manufacturing plants feature state of the art water recycling systems, which recycle and reuse wastewater in a multitude of ways. The wastewater treatment plants at every SMIC fab recycles up to 70 percent of the wastewater back into the fab. The rest of the wastewater is reused in office toilets and sprinkler systems. At SMIC's Beijing fab, large rain water collection facilities and air cooling systems take advantage of the cold winter air to help cool the manufacturing facilities. In all office buildings, recycling bins are strategically located near bathrooms, walkways, and cafeterias to promote employee participation in recycling waste materials.

SMIC's core belief in renewable energy is embedded directly in the future direction of our business as evidenced by our Fab 10 that is used to manufacture solar cell panels and modules. We believe that not only will the solar power market be beneficial to our business, but more importantly, we believe that we can contribute in aiding the migration to renewable energy sources through technological advances, increase in manufacturing capacity, and reduction of manufacturing costs.

Employee Well-Being

At SMIC, we focus on quality control and product innovation while placing emphasis on preventing environmental pollution, conserving energy and natural resources, protecting our human resources, and preventing property loss. We hope to improve employee well-being, protect the environment, and raise environmental protection, safety, and health ("ESH") standards for all SMIC employees and the environment we operate in. Through continuous improvement, we strive to be environmentally responsible and aim to strengthen our operational risk management.

To achieve these goals, SMIC is committed to:

- ensuring employee health and safety and improving environmental quality for employees and lands we operate are the primary responsibilities of every SMIC manager;
- establishing a culture of ownership by instilling ESH values into each SMIC employee, process, product, and service;
- providing regular ESH training to increase employees' knowledge and communication levels;
- exploring and developing new technologies to reclaim, reduce, reuse and recycle;
- following ESH regulations and international protocols while fulfilling customer requirements;
- strengthening new equipment and material auditing and change-management;
- communicating ESH regulations to all SMIC suppliers and contractors; and
- implementing preventative measures and emergency response capabilities to prevent accidents.

Employee Health & Safety

SMIC's safety management philosophy is based on accident prevention and frequent safety audits. Accident prevention is achieved through:

- mandatory staff and vendor safety training;
- compliance of equipment and facilities to international safety standards set by: Semiconductor Equipment and Materials International (SEMI), National Fire Protection Association (NFPA) and Factory Mutual Research Corporation (FMRC);
- continuous improvement in service and product quality and reliability through the implementation of our PDCA (plan, do, check, act) steps, together with internal and external customer feedback.
- regularly scheduled safety audits that are performed in accordance with established world standards to achieve an AAA audit rating, OHSAS18001 internal audit, and self-check rules; and
- establishment of the Emergency Response Center to centralize emergency response at SMIC.

At SMIC, we provide occupational health and hygiene management for the welfare of our employees. This includes the monitoring of indoor air quality (IAQ), illumination, radiation, noise, and drinking water.

In addition, we have on-site health surveillance and primary care services such as:

- 24-hour on-site health center services;
- medical emergency response & disaster planning;
- occupational physical examination and record keeping;
- general physical examination and record keeping;
- injury and illness case management;
- vaccination services; and
- international travel health program.

OHSAS18001 Certification

SMIC attained OHSAS18001 (Occupation Health and Safety Assessment Series) certification from the British Standard Institute in September 2003. The OHSAS18001 standard is a key component of a corporation's total health and safety management, and is based on international safety and health standards. It aims to reduce work environment risks, protect company assets, and provide employees a safer and healthier working environment.

With this certification, SMIC has achieved a new milestone in safety and risk management. By creating a safer and healthier environment for our employees, it exemplifies to our customers and investors that we are dedicated to lowering risk and building confidence and demonstrates our spirit of "continuous development and improvement".

Employee Care

In addition to health and safety considerations for our employees, SMIC is also keen on taking care of our employees through on the job training and graduate degree opportunities, on-campus housing, social clubs and activities, employee athletic and recreational facilities, primary and secondary education for children of employees, and numerous other facilities and services dedicated to enriching the lives of our employees and their families.

Report by Management on Internal Control over Financial Reporting

The management of Semiconductor Manufacturing International Corporation ("SMIC") is responsible for establishing and maintaining adequate internal control over financial reporting. SMIC's internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial reporting reliability and financial statement preparation and presentation.

SMIC management assessed the effectiveness of internal control over financial reporting as of December 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) in *Internal Control – Integrated Framework*. Based on our assessment we believe that, as of December 31, 2007, our internal control over financial reporting is effective based on the COSO criteria.

SMIC's independent registered public accounting firm, Deloitte Touche Tohmatsu, has issued an audit report on our internal control over financial reporting, which immediately follows this report.

April 25, 2008

Report of Independent Registered Public Accounting Firm

Deloitte.
德勤

To the Board of Directors and Stockholders of Semiconductor Manufacturing International Corporation:

We have audited the accompanying consolidated balance sheets of Semiconductor Manufacturing International Corporation and subsidiaries (the "Company") as of December 31, 2007, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report by Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Semiconductor Manufacturing International Corporation and subsidiaries as of December 31, 2007, 2006 and 2005 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 2(r) to the consolidated financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109". Also, as discussed in Note 2(u) to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for share-based compensation to conform to Statement of Financial Accounting Standard No.123(R), "Share-Based Payment".

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
April 25, 2008

Consolidated Balance Sheets

(In US dollars, except share data)

	NOTES	December 31,		
		2007	2006	2005
ASSETS				
Current assets:				
Cash and cash equivalents		$ 469,284,013	$ 363,619,731	$ 585,796,887
Short-term investments	5	7,637,870	57,950,603	13,795,859
Accounts receivable, net of allowances of $4,492,090, $4,048,845 and $1,091,340 at December 31, 2007, 2006 and 2005 respectively	4	298,387,652	252,184,975	241,333,914
Inventories	7	248,309,765	275,178,952	191,237,636
Prepaid expense and other current assets		31,237,755	20,766,945	9,810,591
Receivable for sale of manufacturing equipment		17,321,000	70,544,560	5,490,000
Assets held for sale	8	3,123,567	9,420,729	—
Total current assets		1,075,301,622	1,049,666,495	1,047,464,887
Land use rights, net	9	57,551,991	38,323,333	34,767,518
Plant and equipment, net	10	3,202,957,665	3,244,400,822	3,285,631,131
Acquired intangible assets, net	11	232,195,132	71,692,498	80,667,737
Deferred cost, net	24	70,637,275	94,183,034	117,728,792
Equity investment	12	9,896,398	13,619,643	17,820,890
Other long-term prepayments		2,988,404	4,119,433	2,552,407
Deferred tax assets	17	56,915,172	25,286,900	—
TOTAL ASSETS		$ 4,708,443,659	$ 4,541,292,158	$ 4,586,633,362
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	13	$ 301,992,739	$ 309,129,199	$ 262,318,432
Accrued expenses and other current liabilities		150,109,963	97,121,231	92,916,030
Short-term borrowings	15	107,000,000	71,000,000	265,481,082
Current portion of promissory note	14	29,242,000	29,242,001	29,242,001
Current portion of long-term debt	15	340,692,788	170,796,968	246,080,580
Income tax payable		1,152,630	72,417	—
Total current liabilities		930,190,120	677,361,816	896,038,125

Consolidated Balance Sheets

(In US dollars, except share data)

	NOTES	December 31,		
		2007	2006	2005
Long-term liabilities:				
Promissory notes	14	51,057,163	77,601,657	103,254,436
Long-term debt	15	616,294,743	719,570,905	494,556,385
Long-term payables relating to license agreements	16	62,833,433	16,992,950	24,686,398
Other long term liabilities		—	3,333,333	—
Deferred tax liabilities	17	604,770	210,913	—
Total long-term liabilities		730,790,109	817,709,758	622,497,219
Total liabilities		1,660,980,229	1,495,071,574	1,518,535,344
Commitments	21			
Minority interest		34,944,408	38,800,666	38,781,863
Stockholders' equity:				
Ordinary shares, $0.0004 par value, 50,000,000,000 shares authorized; 18,558,919,712, 18,432,756,463 and 18,301,680,867 shares issued and outstanding at December 31, 2007, 2006 and 2005, respectively		7,423,568	7,373,103	7,320,673
Additional paid-in capital		3,313,375,972	3,288,765,465	3,291,439,835
Accumulated other comprehensive (loss) income		(1,881)	91,840	138,978
Deferred share-based compensation		—	—	(24,881,919)
Accumulated deficit		(308,278,637)	(288,810,490)	(244,701,412)
Total stockholders' equity		3,012,519,022	3,007,419,918	3,029,316,155
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 4,708,443,659	$4,541,292,158	$4,586,633,362
Net current assets		$ 145,111,502	$ 372,304,679	$ 151,426,762
Total assets less current liabilities		$ 3,778,253,539	$3,863,930,342	$3,690,595,237

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

Consolidated Statements of Operations

(In US dollars, except share data)

	NOTES	Year ended December 31,		
		2007	2006	2005
Sales	23	$ 1,549,765,288	$ 1,465,322,867	$ 1,171,318,735
Cost of sales		1,397,037,881	1,338,155,004	1,105,133,544
Gross profit		152,727,407	127,167,863	66,185,191
Operating expenses (income):				
Research and development		97,034,208	94,170,750	78,865,306
General and administrative		74,489,877	47,364,533	35,700,768
Selling and marketing		18,715,961	18,231,048	17,713,228
Amortization of acquired intangible assets		27,070,617	24,393,561	20,946,051
Income from sale of plant and equipment and other fixed assets	10	(28,651,446)	(43,121,929)	—
Total operating expenses (income), net		188,659,217	141,037,963	153,225,353
Loss from operations	27	(35,931,810)	(13,870,100)	(87,040,162)
Other income (expense):				
Interest income		12,348,630	14,916,323	11,355,972
Interest expense		(37,936,126)	(50,926,084)	(38,784,323)
Foreign currency exchange gain (loss)		11,249,889	(21,912,234)	(3,355,279)
Others, net		2,237,902	1,821,337	4,461,925
Total other expense, net		(12,099,705)	(56,100,658)	(26,321,705)
Loss before income tax		(48,031,515)	(69,970,758)	(113,361,867)
Income tax benefit (expense)	17	29,719,775	24,927,744	(284,867)
Minority interest		2,856,258	(18,803)	251,017
Loss from equity investment	12	(4,012,665)	(4,201,247)	(1,379,110)
Net loss before cumulative effect of a change in accounting principle		(19,468,147)	(49,263,064)	(114,774,827)
Cumulative effect of a change in accounting principle	2	—	5,153,986	—
Net loss		(19,468,147)	(44,109,078)	(114,774,827)
On the basis of net loss before accounting change per share, basic and diluted	19	$ (0.00)	$ (0.00)	$ (0.01)
Cumulative effect of an accounting change per share, basic and diluted	19	$ —	$ 0.00	$ —
Loss per share, basic and diluted	19	$ (0.00)	$ (0.00)	$ (0.01)
Shares used in calculating basic and diluted loss per share	19	18,501,940,489	18,334,498,923	18,184,429,255

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

Consolidated Statements of Stockholders' Equity And Comprehensive Income (Loss)

(In US dollars, except share data)

	Ordinary		Additional	Notes receivable	Accumulated other	Deferred		Total	
	Share	Amount	paid-in capital	from stockholder	comprehensive income (loss)	stock compensation, net	Accumulated deficit	stockholders equity	Comprehensive income (loss)
Balance at December 31, 2004	18,232,179,139	7,292,872	3,289,757,272	(391,375)	387,776	(51,177,675)	(129,926,585)	3,115,942,285	$ 96,391,145
Net profit of a subsidiary attributable to minority interest upon injection	–	–	(32,880)	–	–	–	–	(32,880)	
Exercise of stock options	75,617,262	30,247	2,371,933	–	–	–	–	2,402,180	
Repurchase of restricted ordinary shares	(6,115,534)	(2,446)	(96,583)	–	–	–	–	(99,029)	
Collection of note receivables from employees	–	–	–	391,375	–	–	–	391,375	
Deferred stock compensation, net	–	–	(559,907)	–	–	26,295,756	–	25,735,849	
Net loss	–	–	–	–	–	–	(114,774,827)	(114,774,827)	$ (114,774,827)
Foreign currency translation adjustments	–	–	–	–	(192,246)	–	–	(192,246)	(192,246)
Unrealized loss on investments	–	–	–	–	(56,552)	–	–	(56,552)	(56,552)
Balance at December 31, 2005	18,301,680,867	$ 7,320,673	$ 3,291,439,835	$ –	$ 138,978	$ (24,881,919)	$ (244,701,412)	$ 3,029,316,155	$ (115,023,625)
Exercise of stock options	132,744,596	53,098	3,912,210	–	–	–	–	3,965,308	
Repurchase of restricted ordinary shares	(1,669,000)	(668)	(57,522)	–	–	–	–	(58,190)	
Deferred stock compensation adjustment	–	–	(24,881,919)	–	–	24,881,919	–	–	
Share-based compensation	–	–	23,506,847	–	–	–	–	23,506,847	
Cumulative effect of a change in accounting principle	–	–	(5,153,986)	–	–	–	–	(5,153,986)	
Net loss	–	–	–	–	–	–	(44,109,078)	(44,109,078)	(44,109,078)
Foreign currency translation adjustments	–	–	–	–	(16,885)	–	–	(16,885)	(16,885)
Realized gain on investments	–	–	–	–	(30,253)	–	–	(30,253)	(30,253)
Balance at December 31, 2006	18,432,756,463	$ 7,373,103	$ 3,288,765,465	$ –	$ 91,840	$ –	$ (288,810,490)	$ 3,007,419,918	$ (44,156,216)
Exercise of stock options	126,455,749	50,582	3,988,549	–	–	–	–	4,039,131	
Repurchase of restricted ordinary shares	(292,500)	(117)	(21,383)	–	–	–	–	(21,500)	
Share-based compensation	–	–	20,643,341	–	–	–	–	20,643,341	
Net loss	–	–	–	–	–	–	(19,468,147)	(19,468,147)	(19,468,147)
Foreign currency translation adjustments	–	–	–	–	(93,721)	–	–	(93,721)	(93,721)
Balance at December 31, 2007	18,558,919,712	$ 7,423,568	$ 3,313,375,972	$ –	$ (1,881)	$ –	$ (308,278,637)	$ 3,012,519,022	$ (19,561,868)

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

Consolidated Statements of Cash Flows

(In US dollars)

	Year ended December 31,		
	2007	2006	2005
Operating activities:			
Loss attributable to holders of ordinary shares	$ (19,468,147)	$ (44,109,078)	$ (114,774,827)
Less: Cumulative effect of a change in accounting principle	—	(5,153,986)	—
Net loss	(19,468,147)	(49,263,064)	(114,774,827)
Adjustments to reconcile net loss to net cash			
provided by operating activities:			
Minority interest	(2,856,258)	18,803	(251,017)
Deferred taxes	(31,234,415)	(25,075,987)	—
Gain on sale of plant and equipment and assets held for sale	(28,651,446)	(43,121,929)	(3,001,881)
Depreciation and amortization	706,277,464	919,616,493	769,471,853
Non-cash interest expense on promissory note and			
long-term payable relating to license agreements	4,762,343	5,702,607	5,395,177
Amortization of acquired intangible assets	27,070,616	24,393,561	20,946,051
Share-based compensation	20,643,341	23,506,847	25,735,849
Loss from equity investment	4,012,665	4,201,247	1,379,110
Changes in operating assets and liabilities:			
Accounts receivable, net	(46,202,677)	(10,851,061)	(72,145,627)
Inventories	26,869,187	(83,941,316)	(47,219,784)
Prepaid expense and other current assets	(9,339,779)	(8,926,442)	(5,172,942)
Accounts payable	19,852,824	24,705,615	26,425,817
Accrued expenses and other current liabilities	2,982,369	(14,722,249)	41,469,028
Income tax payable	1,080,213	72,417	(152,000)
Other long term liabilities	(3,333,333)	3,333,333	—
Net cash provided by operating activities	672,464,967	769,648,875	648,104,807
Investing activities:			
Purchase of plant and equipment	(717,170,957)	(882,580,833)	(872,519,397)
Proceeds from government grant to			
purchase plant and equipment	—	2,208,758	18,538,886
Proceeds from sale of plant and equipment	98,128,041	4,044,702	11,750,109
Proceeds received from sale of assets held for sale	16,476,045	12,716,742	6,434,115
Purchase of acquired intangible assets	(90,090,114)	(9,573,524)	(11,167,883)
Acquisition of minority interest	(1,000,000)	—	—
Purchase of short-term investments	(135,241,799)	(135,058,817)	(19,817,525)
Purchase of equity investment	—	—	(19,200,000)
Sale of short-term investments	185,554,532	90,873,820	26,329,298
Net cash used in investing activities	(643,344,252)	(917,369,152)	(859,652,397)

Consolidated Statements of Cash Flows

(In US dollars)

	Year ended December 31,		
	2007	2006	2005
Financing activities:			
Proceeds from short-term borrowings	201,658,000	255,003,999	394,158,994
Repayment of short-term borrowings	(165,658,000)	(449,485,081)	(219,677,912)
Proceeds from long-term debt	262,247,672	785,344,546	253,432,612
Repayment of long-term debt	(195,628,015)	(635,613,638)	(249,244,093)
Repayment of promissory note	(30,000,000)	(30,000,000)	(30,000,000)
Payment of loan initiation fee	—	(3,596,938)	—
Proceeds from exercise of employee stock options	4,039,131	3,965,308	2,402,180
Collection of notes receivables from employees	—	—	391,376
Proceeds from minority investor (note 1)	—	—	39,000,025
Repurchase of restricted ordinary shares	(21,500)	(58,190)	(99,029)
Net cash provided by (used in) financing activities	76,637,288	(74,439,994)	190,364,153
Effect of exchange rate changes	(93,721)	(16,885)	(192,246)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	105,664,282	(222,177,156)	(21,375,683)
CASH AND CASH EQUIVALENTS, beginning of year	363,619,731	585,796,887	607,172,570
CASH AND CASH EQUIVALENTS, end of year	$ 469,284,013	$ 363,619,731	$ 585,796,887
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	$ 435,109	$ 164,409	$ 436,867
Interest paid	$ 45,322,891	$ 46,808,533	$ 47,113,456
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Inception of accounts payable for plant and equipment	$ (138,839,513)	$ (165,828,795)	$ (143,723,643)
Issuance of promissory note for acquired intangible assets	$ —	$ —	$ (132,496,437)
Inception of long-term payable for acquired intangible assets	$ (62,833,433)	$ (16,992,950)	$ (24,686,398)
Inception of receivable for sales of manufacturing equipment and other fixed assets	$ 17,321,000	$ 70,544,560	$ 5,490,000

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

1. Organization and Principal Activities

Semiconductor Manufacturing International Corporation was incorporated under the laws of the Cayman Islands on April 3, 2000 and its subsidiaries as of December 31, 2007 include the following:

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held	Principal activity
Garrison Consultants Limited ("Garrison")	Samoa April 5, 2000	100%	Provision of consultancy services
Better Way Enterprises Limited ("Better Way")	Samoa April 5, 2000	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS")*#	The People's Republic of China (the "PRC") December 21, 2000	100%	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America June 22, 2001	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation ("SMIB")*	The PRC July 25, 2002	100%	Manufacturing and trading of semiconductor products
SMIC Japan Corporation#	Japan October 8, 2002	100%	Provision of marketing related activities
SMIC Europe S.R.L	Italy July 3, 2003	100%	Provision of marketing related activities
SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation)*	The PRC September 30, 2003	100%	Operation of a convenience store
Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT")*#	The PRC November 3, 2003	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (AT) Corporation ("AT")	Cayman Islands July 26, 2004	57.3%	Investment holding
Semiconductor Manufacturing International (Chengdu) Corporation ("SMICD")*	The PRC August 16, 2004	57.3%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (Solar Cell) Corporation ("Solar Cell")	Cayman Islands June 30, 2005	100%	Investment holding

1. Organization and Principal Activities *(Continued)*

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held	Principal activity
SMIC Energy Technology (Shanghai) Corporation ("Energy Science")*#	The PRC September 9, 2005	100%	Manufacturing and trading of solar cell related semiconductor products
SMIC Development (Chengdu) Corporation*#	The PRC December 29, 2005	100%	Construction, operation, and management of SMICD's living quarter, schools, and supermarket
Magnificent Tower Limited	British Virgin Islands January 5, 2006	100%	Investment holding
Semiconductor Manufacturing International (BVI) Corporation ("SMIC (BVI)")	British Virgin Islands April 26, 2007	100%	Investment holding
SMIC Solar Cell (HK) Company Limited (formerly known as "Regent Century Limited") ("SMIC Solar Cell (HK)")	Hong Kong October 23, 2007	100%	Investment holding
SMIC AT (HK) Company Limited (formerly known as "Brilliant Ford Limited") ("SMIC AT (HK)")	Hong Kong October 22, 2007	57.3%	Investment holding
SMIC Shanghai (HK) Company Limited (formerly known as "Hill Wealth Limited") ("SMIC SH (HK)")	Hong Kong November 1, 2007	100%	Investment holding
SMIC Beijing (HK) Company Limited (formerly known as "Best Harvest Holdings Limited") ("SMIC BJ (HK)")	Hong Kong November 2, 2007	100%	Investment holding
SMIC Tianjin (HK) Company Limited (formerly known as "Wisdom Faith Limited") ("SMIC TJ (HK)")	Hong Kong November 2, 2007	100%	Investment holding

1. Organization and Principal Activities *(Continued)*

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held	Principal activity
SMIC Shanghai (Cayman) Corporation ("SMIC SH (Cayman)")	Cayman Islands November 8, 2007	100%	Investment holding
SMIC Beijing (Cayman) Corporation ("SMIC BJ (Cayman)")	Cayman Islands November 8, 2007	100%	Investment holding
SMIC Tianjin (Cayman) Corporation ("SMIC TJ (Cayman)")	Cayman Islands November 8, 2007	100%	Investment holding

* Companies registered as wholly foreign-owned enterprises in the PRC.
# For identification purposes only

Semiconductor Manufacturing International Corporation and its subsidiaries (hereinafter collectively referred to as the "Company" or "SMIC") are mainly engaged in the computer-aided design, manufacturing, packaging, testing and trading of integrated circuits and other semiconductor services, as well as manufacturing and designing semiconductor masks.

In 2004, the Company incorporated AT and SMICD, a wholly owned subsidiary of AT. In 2005, AT issued redeemable convertible preference shares to a third party for cash consideration of $39 million, representing 43.33% equity interest of AT. In 2007, AT repurchased part of the preference shares with $1 million from a minority stockholder, and equity interest of the minority stockholders in AT decreased to 42.70% as of December 31, 2007.

2. Summary of Significant Accounting Policies

(a) Basis of presentation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses in the financial statements and accompanying notes. Significant accounting estimates reflected in the Company's financial statements include valuation allowance for deferred tax assets, allowance for doubtful accounts, inventory valuation, useful lives and commencement of productive use for plant and equipment and acquired intangible assets, impairment on long-lived assets, accruals for sales adjustments, accrued expenses, contingencies and assumptions related to the valuation of share-based compensation and related forfeiture rates.

2. Summary of Significant Accounting Policies *(Continued)*

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased.

(e) Investments

Short-term investments consisting primarily of debt instruments, mutual funds, corporate notes and corporate bonds are classified either as held to maturity, available for sale or trading securities.

Held to maturity securities have been recorded at amortized cost.

Available for sale securities have been recorded at fair market value. Unrealized gains and losses are recorded as accumulated other comprehensive income (loss). Unrealized losses, which are deemed other than temporary, are recorded in the statement of operations as other expenses. The unrealized gains and losses are reclassified to earnings once the available-for-sale investments are settled.

Trading securities are recorded at fair value with unrealized gains and losses classified in earnings.

(f) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable and receivable for sale of manufacturing equipment. The Company places its cash and cash equivalents with reputable financial institutions.

The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts based upon estimates, factors surrounding the credit risk of specific customers and other information.

(g) Inventories

Inventories are stated at the lower of cost (weighted average) or market. Cost comprises direct materials and where applicable, direct labors costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Adjustments are recorded to write down the cost of obsolete and excess inventory to the estimated market value based on historical and forecasted demand. In 2007, 2006 and 2005, inventory was written down by $22,676,608, $16,106,471 and $13,808,698, respectively, to reflect the lower of cost or market.

(h) Land use rights, net

Land use rights are recorded at cost less accumulated amortization. Amortization is provided over the term of the land use right agreement on a straight-line basis over the term of the agreements, which range from 50 to 70 years.

2. Summary of Significant Accounting Policies *(Continued)*

(i) Plant and equipment, net

Plant and equipment are carried at cost less accumulated depreciation and are depreciated on a straight-line basis over the following estimated useful lives:

Buildings	25 years
Facility, machinery and equipment	10 years
Manufacturing machinery and equipment	5 - 7 years
Furniture and office equipment	3 - 5 years
Transportation equipment	5 years

The Company constructs certain of its plant and equipment. In addition to costs under the construction contracts, external costs directly related to the construction of such facilities, including duties and tariffs, equipment installation and shipping costs, are capitalized. Depreciation is recorded at the time assets are ready for their intended use.

(j) Acquired intangible assets

Acquired intangible assets, which consist primarily of technology, licenses and patents, are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the expected useful lives of the assets of 3 to 10 years.

(k) Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the fair value of the assets.

(l) 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. The Company recognizes revenue to customers upon shipment and title transfer. 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.

Customers have the right of return within one year pursuant to warranty and sales return provisions, which has been minimal. 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 at customers that may exceed historical trends.

2. Summary of Significant Accounting Policies *(Continued)*

(l) Revenue recognition *(Continued)*

The Company was contracted to provide 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 collection is reasonably assured.

(m) Capitalization of interest

Interest 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 $7,697,890, $4,798,002 and $7,617,123, in 2007, 2006 and 2005, respectively, has been added to the cost of the underlying assets during the respective year. Net interest expense is as follows:

	For the year ended December 31		
	2007	2006	2005
Total actual interest expense	$ 72,686,950	$ 78,120,699	$ 50,392,052
Less: Government subsidy	27,083,604	22,396,613	3,990,606
Less: Capitalized interest	7,667,220	4,798,002	7,617,123
Net interest expense	$ 37,936,126	$ 50,926,084	$ 38,784,323

(n) Government subsidies

The Company receives government subsidies in the following five forms:

(1) Reimbursement of certain interest costs incurred on borrowings

The Company received government cash subsidies of $27,083,604, $13,878,353 and $12,390,652 in 2007, 2006 and 2005, respectively, which were calculated based on the interest expense on the Company's budgeted borrowings. The Company recorded, on an accrual basis, government subsidies as a reduction of interest expense.

(2) Value added tax refunds

The Company received subsidies of nil, $82,960 and $3,747,951 in 2007, 2006 and 2005, respectively, for value added taxes paid by the Company in respect of export sales of semiconductor products. The value added tax refunds have been recorded as a reduction of the cost of sales.

(3) Sales tax refunds

The Company received sales tax refunds of nil, $97,079 and $609,461 in 2007, 2006 and 2005, respectively, which were recorded as an offset of sales tax expense, a component of the general and administrative expenses.

2. Summary of Significant Accounting Policies *(Continued)*

(n) Government subsidies *(Continued)*

(4) Government awards

The Company received government awards of $5,058,722, $11,886,551 and $3,270,242 in the form of reimbursement of certain expenses in 2007, 2006 and 2005, respectively. These awards were recorded as reduction of expenses accordingly.

(5) Government subsidy for fab construction

Certain local governments provided subsidies to encourage the Company to participate and manage new plants relating to the integrated circuit industry.

The Company has received a subsidy of $2,208,758 in 2006 as a reimbursement of land use right payment, which has been used to offset the cost of the land use right.

The Company has received a subsidy of $18,538,886 in 2005, which was used to offset the account of plant and equipment as they were strictly related to the construction of an assembly and testing plant.

(o) Research and development costs

Research and development costs are expensed as incurred.

(p) Start-up costs

In accordance with Statement of Position No. 98-5, “Reporting on the costs of start-up activities,” the Company expenses all costs incurred in connection with start-up activities, including preproduction costs associated with new manufacturing facilities and costs incurred with the formation of the Company such as organization costs. Preproduction costs including the design, formulation and testing of new products or process alternatives are included in research and development expenses. Preproduction costs including facility and employee costs incurred in connection with constructing new manufacturing plants are included in general and administrative expenses.

(q) Foreign currency translation

The United States dollar (“US dollar”), the currency in which a substantial portion of the Company’s transactions are denominated, is used as the functional and reporting currency of the Company. Monetary assets and liabilities denominated in currencies other than the US dollar are translated into US dollar at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the US dollar during the year are converted into the US dollar at the applicable rates of exchange prevailing on the day transactions occurred. Transaction gains and losses are recognized in the statements of operations.

The financial records of certain of the Company’s subsidiaries are maintained in local currencies other than the US dollar, such as Japanese Yen, which are their functional currencies. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss) in the statements of stockholders’ equity and comprehensive income (loss).

2. Summary of Significant Accounting Policies *(Continued)*

(r) Income taxes

Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

As part of the process of preparing financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. The Company accounts for income taxes using the liability method. Under this method, deferred income taxes are recognized for tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted laws and statutory tax rates applicable for the difference that are expected to affect taxable income. Valuation allowances are provided if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109” (“FIN 48”), which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The adoption of FIN 48 did not have any material impact on the Company’s financial position or results of operations.

(s) Comprehensive income (loss)

Comprehensive income (loss) includes such items as net loss, foreign currency translation adjustments and unrealized gains (loss) on available-for-sales securities. Comprehensive income (loss) is reported in the statements of stockholders’ equity and comprehensive income (loss).

(t) Fair value of financial instruments

Financial instruments include cash and cash equivalents, short-term investments, short-term borrowings, promissory note, long-term payables relating to license agreements, long-term debt, accounts payables, accounts receivables and receivables for sale of equipments. The carrying values of cash and cash equivalents, short-term investments and short-term borrowings approximate their fair values based on quoted market values or due to their short-term maturities. The carrying value of long-term promissory notes and payables relating to license agreements exceeded its fair value by approximately $1,026,000 as of December 31, 2007. The carrying value of long-term debt approximates its fair value due to variable interest rates that approximate market rates.

2. Summary of Significant Accounting Policies *(Continued)*

(u) Share-based compensation

The Company grants stock options to its employees and certain non-employees. Prior to January 1, 2006, the Company accounted for share-based compensation in accordance with Accounting Principles Board Opinion No. 25, ("APB 25"), "Accounting for Stock Issued to Employees," and related interpretations. The Company also followed the disclosure requirements of SFAS No. 123, ("SFAS 123"), "Accounting for Stock-Based Compensation", as amended by SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." As a result, prior to January 1, 2006, no expense was recognized for options to purchase the Company's ordinary shares that were granted with an exercise price equal to fair market value at the day of the grant. Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), ("SFAS 123(R)") "Share-Based Payment," which establishes accounting for equity instruments exchanged for services.

Under the provisions of SFAS 123(R), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). The Company elected to adopt the modified prospective transition method as provided by SFAS 123(R) and, accordingly, financial statement amounts for the prior periods presented in this report have not been restated to reflect the fair value method of expensing share-based compensation.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company recognized a benefit of $5.2 million as a result of the cumulative effect of a change in accounting principle, which reflects the forfeiture rate applied on the unvested portion of the stock options. Basic and diluted net loss per share for the year ended December 31, 2006 would have been $0.0025.

The Company's total actual share-based compensation expense for the year ended December 31, 2007, 2006 and 2005 was $20,643,341, $23,506,847, and $25,735,849, respectively.

Had compensation cost for options granted to employees under the Company's stock option plans been determined based on the fair value at the grant date, as prescribed in SFAS No. 123, for the periods prior to January 1, 2006, the Company's pro forma loss would have been as follows:

		Year ended December 31, 2005
Loss attributable to holders of ordinary shares	$	(114,774,827)
Add: Stock compensation as reported under APB 25		25,735,849
Less: Stock compensation determined using the fair value method under SFAS 123		(32,997,627)
Pro forma loss attributable to holders of ordinary shares	$	(122,036,605)
Loss per share:		
Basic-pro forma	$	(0.01)
Diluted-pro forma	$	(0.01)
Basic-as reported	$	(0.01)
Diluted-as reported	$	(0.01)

2. Summary of Significant Accounting Policies *(Continued)*

(v) Derivative financial instruments

The Company's primary objective for holding derivative financial instruments is to manage currency and interest rate risks. The Company records derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting.

(w) Recently issued accounting standards

In September 2006, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under most other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier application encouraged. The provisions of SFAS 157 should be applied prospectively as of the beginning of the fiscal year in which the statement is initially applied, except for a limited form of retrospective application for certain financial instruments. The adoption of SFAS 157 will not have a material impact on the Company's consolidated financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, "Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits companies to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 is effective for the Company on January 1, 2008, as earlier adoption was not elected. The Company does not expect the adoption of SFAS 159 to have a material impact on the Company's consolidated financial position or results of operations.

In December 2007, the FASB issued Statement No. 141 (revised 2007) "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. SFAS 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. SFAS 141(R) is applicable to the Company's business combinations, if any, occurring after January 1, 2009. SFAS 141(R) has no impact on previously consummated business combinations. The Company is currently evaluating the impact, if any, of the statement on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 160 "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51 ("SFAS 160"). SFAS 160 requires non-controlling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. SFAS 160 also requires that when a parent company acquires control of a subsidiary, it must include 100% of the fair value of all the acquired company's assets and liabilities in its consolidated financial statements. SFAS 160 is effective for us on January 1, 2009. SFAS 160 is to be applied prospectively to business combinations; certain disclosure and presentation requirements are to be applied retrospectively upon adoption. The Company is currently evaluating the impact, if any, of the statement on its consolidated financial statements.

2. Summary of Significant Accounting Policies *(Continued)*

(x) Income (loss) per share

Basic income (loss) per share is computed by dividing income (loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding (excluding shares subject to repurchase) for the year. Diluted income (loss) per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation in loss periods as their effects would be anti-dilutive.

3. Change in Accounting Estimate

Prior to January 1, 2007, all manufacturing machinery and equipment were depreciated over estimated useful lives of 5 years. From January 1, 2007 onwards, the Company re-evaluated the periods over which the equipment is available to use and extended the estimated useful lives of manufacturing machinery and equipment based on historical usage experience and industry practices. The useful lives of manufacturing machinery and equipment used in the wafer manufacturing processing were changed from 5 years to a 5 to 7 years range. The effect of change in accounting estimate is a decrease in depreciation of $248,218,139 for the year ended December 31, 2007.

4. Accounts Receivable, Net of Allowances

The Company determines credit terms for each customer on a case-by-case basis, based on its assessment of such customer's financial standing and business potential with the Company.

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

	2007	2006	2005
Current	$ 249,489,644	$ 213,539,198	$ 192,303,054
Overdue:			
Within 30 days	39,131,577	31,611,729	38,017,540
Between 31 to 60 days	6,107,866	5,879,705	2,528,249
Over 60 days	3,658,565	1,154,343	8,485,071
	$ 298,387,652	$ 252,184,975	$ 241,333,914
Allowance for doubtful accounts	$ (4,492,090)	$ (4,048,845)	$ (1,091,340)

4. Accounts Receivable, Net of Allowances *(Continued)*

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

	2007	2006	2005
Balance, beginning of year	$ 4,048,845	$ 1,091,340	$ 1,105,165
Provision of the year	486,920	2,957,505	(13,825)
Write-offs in the year	(43,675)	—	—
Balance, end of year	$ 4,492,090	$ 4,048,845	$ 1,091,340

5. Short-term Investments

Held-to-maturity security

	December 31, 2007			
	Amoritzed Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt instruments	$ 7,637,870	$ —	$ —	$ 7,637,870

Available-for-sale security

The following is a summary of short-term available-for-sale listed securities:

	December 31, 2006			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mutual fund	$ 52,866,825	$ —	$ —	$ 52,866,825

	December 31, 2005			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Commercial paper	$ 3,482,033	$ 9,450	$ —	$ 3,491,483
Mutual fund	10,283,573	20,803	—	10,304,376
	$ 13,765,606	$ 30,253	$ —	$ 13,795,859

5. Short-term Investments *(Continued)*

Trading security

As of December 31, 2006, the Company also held certain trading securities with costs of US$5,000,000 and fair value of US$5,083,778.

The Change in unrealized gain (loss) is as follows:

	2007	2006	2005
Unrealized gain (loss), beginning of year	$ —	$ 30,253	$ 86,805
Gain realized in the year	—	(30,253)	—
Unrealized gain (loss) in the year	—	—	(56,552)
Unrealized gain (loss), end of year	$ —	$ —	$ 30,253

6. Derivative Financial Instruments

The Company has the following notional amount of derivative instruments:

	December 31		
	2007	2006	2005
Forward foreign exchange contracts	$ 404,103	$ 35,660,177	$ 245,622,512
Interest rate swap contracts	51,057,531	265,947,874	340,000,000
	$ 51,461,634	$ 301,608,051	$ 585,622,512

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 2007, 2006 and 2005, gains and losses on the foreign currency forward exchange contracts were recognized in the statement of operations. 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 December 31, 2007		
Renminbi	2,950,400	$ 404,103
As of December 31, 2006		
Japanese Yen	4,235,537,500	$ 35,660,177
As of December 31, 2005		
Japanese Yen	22,097,665,000	$ 188,659,310
European Euro	47,900,000	56,881,250
Renminbi	661,400	81,952
		$ 245,622,512

6. Derivative Financial Instruments *(Continued)*

In 2006 and 2005, the Company entered into various interest rates swap contracts to protect against volatility of future cash flows caused by the changes in interest rates associated with outstanding debt. The interest rate swap contracts did not qualify for hedge accounting. In 2006 and 2005, gains or losses on the interest rate swap contracts were recognized in the statement of operations. As of December 31, 2006 and 2005, the Company had outstanding interest rate swap contracts with notional amounts of $250,000,000 and $340,000,000, respectively.

In addition to the abovementioned interest rate swap contracts, in 2007 and 2006, the Company entered into a cross-currency interest rate swap agreement 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 2007 and 2006, gains or losses on the interest rate swap contracts were recognized in the statement of operations. As of December 31, 2007 and 2006, the Company had outstanding cross-currency interest rate swap contracts with notional amounts of $51,057,531 and $15,947,874, respectively.

The fair values of each derivative instrument are as follows:

	December 31		
	2007	2006	2005
Forward foreign exchange contracts	$ 530,354	$ (2,694,415)	$ (2,607,714)
Interest rate swap contracts	1,003,275	(5,317,837)	(1,270,811)
	$ 1,533,629	$ (8,012,252)	$ (3,878,525)

As of December 31, 2007, the fair value of the derivative instruments was recorded in prepaid expense and other current assets, and as of December 31, 2006 and 2005, the fair value of these derivative instruments was recorded in accrued expenses and other current liabilities, with the change in fair value of forward foreign exchange contracts recorded as part of other income (expense) and the change in fair value of interest rate swap contract and cross currency interest rate swap contracts recorded as part of interest expense.

7. Inventories

	2007	2006	2005
Raw materials	$ 83,645,656	$ 89,431,781	$ 55,697,982
Work in progress	139,959,481	150,506,509	115,210,052
Finished goods	24,704,628	35,240,662	20,329,602
	$ 248,309,765	$ 275,178,952	$ 191,237,636

8. Assets Held For Sale

Assets held for sale represent residential real estate that the Company has constructed for its employees.

In 2007, the Company sold residential real estate units with a carrying value of $8,402,962 for $12,599,790, which resulted in a gain on sale of $4,196,828. Meanwhile, the Company has reclassified the remaining unsold real estate units of $1,017,767 of 2006 to land use rights and plant and equipment. Accordingly, the Company recorded a cumulative adjustment for depreciation expense of $39,343, representing depreciation that would have been recognized had the unsold real estate units been continuously classified as land use rights and plant and equipment. In addition, the Company decided to offer employees another 42 residential real estate units, and classified the $3,123,567 carrying value as assets held for sale, among which, none have been sold out up to December 31, 2007.

In 2006, the Company decided to offer employees additional 381 residential real estate units, and classified the $17,097,675 carrying value as assets held for sale. Meanwhile, the Company sold residential real estate units with a carrying value of $7,676,946 for $8,934,560, which resulted in a gain on disposal of $1,257,614. The remaining balances of assets held for sale as of December 31, 2006 was $9,420,729, representing 213 sets of residential real estate units.

In 2005, the Company sold residential real estate units with a carrying value of $1,679,818 for $2,322,409, which resulted in a gain on sale of $642,591. Meanwhile, the Company had reclassified the remaining unsold real estate units of $152,154 to land use rights and plant and equipment. Accordingly, the Company recorded a cumulative adjustment for depreciation expense of $7,352, representing depreciation that would have been recognized had the unsold real estate units been continuously classified as land use rights and plant and equipment. No residential real estate was classified as assets held for sale as of December 31, 2005.

9. Land Use Rights, Net

	2007	2006	2005
Land use rights (50-70 years)	$ 62,410,846	$ 42,485,856	$ 38,504,311
Less: accumulated amortization	(4,858,855)	(4,162,523)	(3,736,793)
	$ 57,551,991	$ 38,323,333	$ 34,767,518

10. Plant and Equipment, Net

	2007	2006	2005
Buildings	$ 283,153,927	$ 269,721,109	$ 212,205,753
Facility, machinery and equipment	470,434,074	435,112,058	382,928,570
Manufacturing machinery and equipment	5,035,366,468	4,539,566,491	3,810,671,778
Furniture and office equipment	67,835,774	61,979,029	75,696,024
Transportation equipment	1,750,734	1,666,185	1,581,493
	5,858,540,977	5,308,044,872	4,483,083,618
Less: accumulated depreciation	(2,930,088,762)	(2,314,667,455)	(1,515,923,860)
Construction in progress	274,505,450	251,023,405	318,471,373
	$ 3,202,957,665	$ 3,244,400,822	$ 3,285,631,131

In 2007, the Company sold plant, equipment and other fixed assets with a carrying value of $35,323,389 for $63,974,835, which resulted in a gain on sale of $28,651,446. In 2006, the Company sold plant, equipment and other fixed assets with a carrying value of $34,231,116 for $77,353,045, which resulted in a gain on sale of $43,121,929.

The plant and equipment was sold to a government-owned foundry based in Chengdu, Sichuan province, to which SMIC is also contracted to provide management services. (See Note 20).

11. Acquired Intangible Assets, Net

	2007	2006	2005
Technology, Licenses and Patents			
Cost:	$ 322,435,363	$ 134,862,112	$ 119,443,790
Accumulated Amortization	(90,240,231)	(63,169,614)	(38,776,053)
Acquired intangible assets, net	$ 232,195,132	$ 71,692,498	$ 80,667,737

The Company entered into several technology, patent and license agreements with third parties whereby the Company purchased intangible assets for $187,573,251, $15,418,322 and $23,878,489 in 2007, 2006 and 2005, respectively.

The Company recorded amortization expense of $27,070,617, $24,393,561 and $20,946,051 in 2007, 2006 and 2005, respectively. The Company will record amortization expenses related to the acquired intangible assets of $35,198,009, $33,623,985, $27,005,118, $23,783,047, and $18,648,724 for 2008, 2009, 2010, 2011 and 2012, respectively.

12. Equity Investment

	December 31, 2007	
	Carrying Amount	% of Ownership
Toppan SMIC Electronics (Shanghai) Co., Ltd.	$ 9,606,978	30.0
Others	$ 289,420	10.8
	9,896,398	

On July 6, 2004, the Company and Toppan Printing Co., Ltd ("Toppan") entered into an agreement to form Toppan SMIC Electronics (Shanghai) Co., Ltd. ("Toppan SMIC") in Shanghai, to manufacture on-chip color filters and micro lenses for CMOS image sensors.

In 2005, the Company injected cash of $19,200,000 into Toppan SMIC, representing its 30% ownership. In 2007, 2006 and 2005, the Company recorded $4,012,665, $4,201,247 and $1,379,110, respectively, as its share of the net loss of the equity investment. As of December 31, 2007, the share of net loss of the equity investment balance to be carried forward amounted to $9,593,022.

13. Accounts Payable

An aging analysis of the accounts payable is as follows:

	2007	2006	2005
Current	$ 223,527,856	$ 238,864,239	$ 209,142,167
Overdue:			
Within 30 days	46,571,502	43,364,820	22,479,945
Between 31 to 60 days	10,226,533	9,594,873	4,593,542
Over 60 days	21,666,848	17,305,267	26,102,778
	$ 301,992,739	$ 309,129,199	$ 262,318,432

14. Promissory Note

In 2005, the Company reached a settlement and license agreement with TSMC as detailed in Note 24. Under this agreement, the Company issued thirteen non-interest bearing promissory notes with an aggregate amount of $175,000,000 as the settlement consideration. The Company has recorded a discount of $17,030,709 for the imputed interest on the notes, which was calculated using an effective interest rate of 3.45% and has been recorded as a reduction of the face amounts of the promissory notes. The Company repaid $30,000,000 and $30,000,000 in 2007 and 2006 respectively. The outstanding promissory notes are as follows:

	December 31, 2007	
Maturity	Face value	Discounted value
2008	$ 30,000,000	$ 29,242,001
2009	30,000,000	28,259,668
2010	25,000,000	22,797,495
	85,000,000	80,299,164
Less: Current portion of promissory notes	30,000,000	29,242,001
Long-term portion of promissory notes	$ 55,000,000	$ 51,057,163

In 2007, 2006 and 2005, the Company recorded interest expense of $3,455,506, $4,347,221 and $4,527,146 respectively, relating to the amortization of the discount.

15. Indebtedness

Short-term and long-term debts are as follows:

	2007	2006	2005
Short-term borrowings from commercial banks (a)	$ 107,000,000	$ 71,000,000	$ 265,481,082
Long-term debt by contracts (b):			
Shanghai phase I USD syndicate loan	$ —	$ —	$ 259,200,000
Shanghai phase II USD syndicate loan	—	—	256,481,965
Shanghai new USD syndicate loan	393,910,000	274,420,000	—
Beijing USD syndicate loan	500,020,000	600,000,000	224,955,000
EUR syndicate loan	51,057,531	15,947,873	—
Tianjin USD syndicate loan	12,000,000	—	—
	$ 956,987,531	$ 890,367,873	$ 740,636,965
Long-term debt by repayment schedule:			
2008	$ 340,692,788		
2009	351,042,788		
2010	213,642,788		
2011	43,422,779		
2012	8,186,388		
	956,987,531		
Less: current maturities of long-term debt	340,692,788		
Non-current maturities of long-term debt	$ 616,294,743		

(a) Short-term borrowings from commercial banks

As of December 31, 2005, the Company had fifteen short-term credit agreements that provided total credit facilities of up to $431 million on a revolving credit basis. As of December 31, 2005, the Company had drawn down approximately $265 million under these credit agreements and approximately $166 million was available for future borrowings. The outstanding borrowings under the credit agreements were unsecured. The interest expense incurred in 2005 was $8,987,676. The interest rate on the loans ranged from 2.99% to 5.73% in 2005.

As of December 31, 2006, the Company had fifteen short-term credit agreements that provided total credit facilities of up to $474 million on a revolving credit basis. As of December 31, 2006, the Company had drawn down $71 million under these credit agreements and $403 million were available for future borrowings. The outstanding borrowings under the credit agreements were unsecured. The interest expense incurred in 2006 was $8,471,823. The interest rate on the loans ranged from 3.62% to 6.52% in 2006.

As of December 31, 2007, the Company had fifteen short-term credit agreements that provided total credit facilities of up to $484 million on a revolving credit basis. As of December 31, 2007, the Company had drawn down $107 million under these credit agreements and $377 million is available for future borrowings. The outstanding borrowings under the credit agreements are unsecured. The interest expense incurred in 2007 was $4,537,200. The interest rate on the loan ranged from 5.37% to 6.44% in 2007.

15. Indebtedness *(Continued)*

(b) Long-term debt

Shanghai Phase I USD syndicate loan:

In December 2001, SMIS entered into the Shanghai Phase I USD syndicate loan with a syndicate of financial institutions based in the P.R.C. for $432,000,000. The withdrawal period of the facility was 18 months starting from the loan agreement date. As of December 31, 2004, SMIS had fully utilized the loan amount. The interest payment was due on a semi-annual basis in June and December. The principal amount was repayable starting from March 2005 in five semi-annual installments of $86,400,000. In 2006, the interest rate on the loan ranged from 6.16% to 7.05%. As of December 31, 2006, the borrowing was fully repaid through the Shanghai new USD syndicate loan. The interest expense incurred in 2006 and 2005 was $6,587,140 and $16,499,858, respectively, of which $783,538 and $3,631,872 were capitalized as additions to assets under construction in 2006 and 2005, respectively.

Shanghai Phase II USD syndicate loan

In January 2004, SMIS entered into the Shanghai Phase II USD syndicate loan for $256,481,965 with the same financial institutions as the Shanghai Phase I USD syndicate loan. As of December 31, 2005 and 2004, SMIS had fully utilized the loan. The interest payment was due on a semi-annual basis in March and September. The principal amount was repayable starting from March 2006 in seven semi-annual installments of $36,640,286. In 2006, the interest rate on the loan ranged from 6.16% to 7.05%. The interest expense incurred in 2006 and 2005 was $7,185,813 and $12,470,302 of which $854,749 and $2,743,173 were capitalized as additions to assets under construction in 2006 and 2005, respectively. As of December 31, 2006, the borrowing was fully repaid through the Shanghai new USD syndicate loan.

In connection with Shanghai Phase II USD syndicate loan, SMIS obtained a RMB denominated line of credit of RMB 235,678,000 ($28,476,030). In 2005, SMIS fully utilized the facility and then repaid in full prior to December 31, 2005. The interest expense incurred in 2005 was $25,625.

15. Indebtedness *(Continued)*

(b) Long-term debt *(Continued)*

Shanghai new USD syndicate loan

In June, 2006, SMIS entered into the Shanghai new USD syndicate loan with the aggregate principal amount of $600,000,000, with a consortium of international and PRC banks. Of this principal amount, $393,000,000 was used to repay the principal amount outstanding under SMIS's Phase I and Phase II USD syndicate loans. The remaining principal amount was available to be used to finance future expansion and general corporate requirements of SMIS. The remaining facility balance was available for drawdown until December 2007. As of December 31, 2007 and 2006, SMIS had drawn down $600,000,000 and $393,000,000 from this facility respectively. The principal amount is repayable starting from December 2006 in ten semi-annual installments. In December 2006, SMIS had paid the first installment of $23,580,000 according to the repayment schedule and had repaid an additional $95,000,000. In 2007, the Company repaid $87,510,000 according to the repayment schedule. As of December 31, 2007 and 2006, the outstanding balance of this borrowing was $393,910,000 and $274,420,000, respectively. In 2007, the interest rate on the loan ranged from 5.74% to 6.46%. The interest expense incurred in 2007 and 2006 was $17,260,814 and $13,522,886, of which $3,308,444 and $1,624,224 were capitalized as additions to assets under construction in 2007 and 2006, respectively.

The total outstanding balance of SMIS's long-term debt is collateralized by certain plant and equipment with an original cost of $1,883 million as of December 31, 2007.

Beijing USD syndicate loan

In May 2005, SMIB entered into the Beijing USD syndicate loan, a five-year loan facility in the aggregate principal amount of $600,000,000, with a syndicate of financial institutions based in the PRC. This five-year bank loan was used to expand the capacity of SMIB's fabs. The withdrawal period of the facility was twelve months from date of signing the agreement. As of December 31, 2007, 2006 and 2005, the outstanding balance was $500,020,000, $600,000,000 and $224,955,000, respectively, on this loan facility. The principal amount is repayable starting from December 2007 in six equal semi-annual installments. In December 2007, SMIB had repaid the first installment of $99,980,000 according to the repayment schedule. In 2007, the interest rate range on the loan ranged from 6.38% to 7.00%. The interest expense incurred in 2007, 2006 and 2005 was $42,183,106, $28,525,628 and $3,991,080, of which $2,342,794, $450,516 and $879,906 were capitalized as additions to assets under construction in 2007, 2006 and 2005, respectively.

The total outstanding balance of the Beijing USD syndicate loan is collateralized by certain plant and equipment with an original cost of $1,058 million as of December 31, 2007.

15. Indebtedness *(Continued)*

(b) Long-term debt *(Continued)*

EUR syndicate loan

On December 15, 2005, the Company entered into the EUR syndicate loan, a long-term loan facility agreement in the aggregate principal amount of EUR 85 million with a syndicate of banks and ABN Amro Bank N.V. Commerz Bank (Nederland) N.V. as the leading bank. The proceeds from the facility were used to purchase lithography equipment to support the expansion of the Company's manufacturing facilities. The drawdown period of the facility ends on the earlier of (i) the date on which the loans have been fully drawn down; or (ii) 26 months after the effective date of the agreement. Each drawdown made under the facility shall be repaid in full by the Company in ten equal semi-annual installments starting from May 6, 2006.

In 2007 and 2006, SMIS and SMIT had drawn down EUR 28,390,000 ($41,863,894), and EUR 15,122,775 ($19,934,841), respectively. SMIS and SMIT repaid an aggregated amount of EUR 5,863,555 ($8,173,357), and EUR 3,024,555 ($3,986,968) in 2007 and 2006, respectively. As of December 31, 2007 and 2006, the outstanding balance was EUR 34,624,665 ($51,057,531) and EUR 12,098,220 ($15,947,873). In 2007, the interest rate loan ranged from 3.95% to 5.87%. The interest expense incurred in 2007 and 2006 was $996,706 and $279,908, of which $82,036 and $65,072 were capitalized as additions to assets under construction in 2007 and 2006, respectively.

The total outstanding balance of the facility is collateralized by certain plant and equipment at the original cost of EUR 17.8 million for SMIT and EUR 33.4 million for SMIS as of December 31, 2007.

Tianjin USD syndicate loan

In May 2006, SMIT entered into the Tianjin USD syndicate loan, a five-year loan facility in the aggregate principal amount of $300,000,000, with a syndicate of financial institutions based in the PRC. This five-year bank loan was used to expand the capacity of SMIT's fabs. In 2007, SMIT had drawn down $12,000,000 from this loan facility. The principal amount is repayable starting from starting from 2010 in six semi-annual installments. In 2007, the interest rate range on the loan ranged from 6.03% to 6.58%. The interest expense incurred in 2007 was $285,253, of which $24,344 was capitalized as additions to assets under construction in 2007.

The total outstanding balance of the facility is collateralized by certain plant and equipment with an original cost of $207.0 million as of December 31, 2007.

The long-term debt arrangements contain financial covenants as defined in the loan agreements and also set out in the section entitled "Management Discussion and Analysis" of this annual report.

16. Long-term Payables Relating to License Agreements

The Company entered into several license agreements for acquired intangible assets to be settled by installment payments. Installments payable under the agreements as of December 31, 2007 are as follows:

	December 31, 2007	
Maturity	Face value	Discounted value
2008	$ 74,137,877	$ 72,702,119
2009	48,900,000	45,826,940
2010	14,400,000	12,666,331
2011	5,200,000	4,340,162
	142,637,877	135,535,552
Less: Current portion of long-term payables	74,137,877	72,702,119
Long-term portion of long-term payables	$ 68,500,000	$ 62,833,433

These long-term payables were interest free, and the present value was discounted using the Company's weighted-average borrowing rates ranging from 3.45% to 4.94%.

The current portion of other long-term payables is recorded as part of "accrued expenses and other current liabilities" in the balance sheet.

In 2007, 2006 and 2005, the Company recorded interest expense of $1,511,880, $1,355,386 and $868,032 relating to the amortization of the discount.

17. Income Taxes

The Company is a tax exempted company incorporated in the Cayman Islands. The subsidiaries incorporated in the PRC are governed by the Income Tax Law of the PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"). Pursuant to Several Policies to Encourage the Development of Software and Integrated Circuit Industry, or the Integrated Circuit Policies, promulgated by the PRC State Council on June 24, 2000, together with other ancillary laws and regulations, accredited integrated circuit production enterprises in the PRC are entitled to a preferential tax treatment similar to that granted to foreign investments in the energy and communications industries. SMIS, SMIB and SMIT have met such accreditation requirements and are entitled to a full exemption from Foreign Enterprise Income Tax ("FEIT") for the five years starting with the first year of positive accumulated earnings and a 50% reduction from an applicable tax rate of 15% for the succeeding five years. SMIS is in the fourth year of receiving exemption from FEIT. As of December 31, 2007, SMIB and SMIT are still in a cumulative operating loss.

According to PRC tax regulations, SMICD and Energy Science are entitled to a full exemption from FEIT for two years starting with the first year of positive accumulated earnings and a 50% reduction for the following three years. As of December 31, 2007, SMICD is still in a cumulative operating loss, while the Energy Science subsidiary has made cumulative profit and began its first year of exemption from FEIT.

17. Income Taxes *(Continued)*

On March 16, 2007, the PRC government promulgated Law of the People's Republic of China on Enterprise Income Tax ("New Tax Law"), which became effective on January 1, 2008. The Company's PRC subsidiaries will measure and pay enterprise income tax pursuant to the New Tax Law. Under the New Tax Law, Foreign Invested Enterprises and domestic companies are subject to a uniform tax rate of 25%. The New Tax Law provides a five-year transition period from its effective date for enterprises, which were established before the promulgation date of the New Tax Law and were entitled to a preferential lower tax rate under the then effective tax laws or regulations. SMIS, SMIB and SMIT are subject to the transition rule provided by the New Tax Law and related regulations and have calculated their deferred tax balances according to the stipulated progressive rate from the reduced rate of 15% to the uniform tax rate of 25% from 2008 to 2012.

According to the New Tax Law, entities qualified as high-technology companies supported by the PRC government are expected to benefit from a tax rate of 15% as compared to the uniform tax rate of 25%. SMICD and Energy Science will apply for status as high-technology companies and until the subsidiaries receive official approval for this status, SMICD will be subject to the income tax rate of 25% starting from 2008, while Energy Science would be subject to the stipulated progressive rate from the reduced rate of 15% to the uniform tax rate of 25% from 2008 to 2012.

In addition, based on the New Tax Law, an enterprise that is entitled to preferential treatment in the form of enterprise income tax rate reduction or exemption, but has not been profitable and, therefore, has not enjoyed such preferential treatment, would have to begin its tax exemption in 2008, the same year that the New Tax Law goes into effect. As such, SMIB, SMIT and SMICD may begin their tax exemption in 2008 even if they are not yet cumulatively profitable at that time. As a result, SMIB and SMIT will be exempted from income tax for 2008 to 2012, and entitled to a 50% tax rate reduction for the succeeding five years from 2013 to 2017, while SMICD will be exempted from income tax for 2008 to 2009, and entitled to a 50% tax rate reduction for the succeeding three years from 2010 to 2012.

On February 22, 2008, the PRC government promulgated Caishui 2008 No.1, *the Notice of the Ministry of Finance and State Administration of Tax concerning Certain Enterprise Income Tax Preferential Policies* (the "Notice"). Pursuant to the Notice, integrated circuit production enterprises whose total investment exceeds RMB 8,000 million (approximately US$1,095 million) or whose integrated circuits have a line-width of less than 0.25 micron are entitled to preferential tax rate of 15%. If its operation period of the Entity is expected to be more than 15 years, those enterprises are entitled to a full exemption from income tax for five years starting from the first year of positive accumulated earnings and a 50% reduction for the following five years. SMIS, SMIB and SMIT have met such accreditation requirements and are entitled to the preferential tax rate of 15%.

The Company's other subsidiaries are subject to respective local income tax laws, including those of the United States of America, Europe, Japan and Hong Kong. In 2007, 2006 and 2005, the Company's US subsidiary had recorded current income tax expense of $163,604, $31,030 and $223,846, respectively. In 2007, 2006 and 2005, the Company's European subsidiary had recorded current income tax expense of $181,451, $112,671 and $46,981, respectively. In 2007, the Company recorded income tax expense of $1,149,983 for the service income generated in Japan, while the Company had minimal taxable income in 2006 and 2005 in Japan. In 2007, the Company had minimal taxable income in Hong Kong.

17. Income Taxes *(Continued)*

The provision for income taxes by location of the tax jurisdiction for the year ended December 31, 2007, 2006 and 2005 are as follows:

	December 31		
	2007	2006	2005
PRC			
– Current	$ 19,602	$ 4,542	$ 14,040
– Deferred	(31,234,415)	(25,075,987)	—
Other jurisdictions			
– Current	$ 1,495,038	$ 143,701	$ 270,827
– Deferred	—	—	—
	$ (29,719,775)	$ (24,927,744)	$ 284,867

The income (loss) before income taxes by location of the tax jurisdiction for the year ended December 31, 2007, 2006 and 2005 are as follows:

	December 31		
	2007	2006	2005
PRC	$ 51,,906,337	$ 46,806,662	$ 1,415,172
Other jurisdictions	(99,937,852)	(116,777,420)	(114,777,039)
	$ (48,031,515)	$ (69,970,758)	$ (113,361,867)

17. Income Taxes *(Continued)*

Details of deferred tax assets and liabilities are as follows:

	2007	2006	2005
Deferred tax assets:			
Allowances and reserves	$ —	$ 1,962,410	$ 1,682,244
Start-up costs	53,698	958,105	1,844,170
Net operating loss carry forwards	—	5,201,545	5,172,687
Unrealized exchange loss	—	47,860	295,646
Depreciation of fixed assets	75,886,896	33,715,867	—
Subsidy on long lived assets	479,817	295,654	—
Accrued sales return	—	137,719	23,764
Total deferred tax assets	76,420,411	42,319,160	9,018,511
Valuation allowance	(19,505,239)	(17,032,260)	(8,905,021)
Net deferred tax assets – non-current	$ 56,915,172	$ 25,286,900	$ 113,490
Deferred tax liability:			
Capitalized interest	(604,770)	(210,913)	(113,490)

The Company adopted the provisions of FIN 48 effective January 1, 2007. Based on its FIN 48 analysis documentation, the Company has made its assessment of the level of tax authority for each tax position (including the potential application of interest and penalties) based on the technical merits. The adoption of FIN 48 did not have any impact on the Company total liabilities or shareholders' equity. The Company has no material uncertain tax positions as of December 31, 2007 or unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. The Company classifies interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2007, the amount of interest and penalties related to uncertain tax positions is immaterial. The Company does not anticipate any significant increases or decreases to its liability for unrecognized tax benefits within the next 12 months.

As a result of strategic tax planning that became effective in 2006, a temporary difference between the tax and book basis of certain assets was created. Under SFAS 109 "Accounting for Income Taxes", the Company recognized a valuation allowance of $19.0 million and $8.4 million to reduce the deferred tax asset of $75.9 million and $33.7 million to the amount that is more-likely-than-not to be realized as of December 31, 2007 and 2006, respectively. Accordingly, an income tax benefit of US$31.6 million and $25.3 million was recorded in 2007 and 2006. The deferred tax asset recognized relates specially to one of the Company's subsidiaries on the basis that this subsidiary has achieved profitability consistently since 2004 and is expected to continue to be profitable based on the current forecast.

17. Income Taxes *(Continued)*

As of December 31, 2007, the Company's Beijing, Tianjin and Chengdu subsidiaries have net operating losses carried forward of $608.2 million, of which $32.2 million, $129.3 million, $174.9 million and $271.8 million will expire in 2009, 2010, 2011 and 2012, respectively.

Undistributed earnings of the Company's PRC subsidiaries of approximately $141 million at December 31, 2007 are considered to be indefinitely reinvested and, accordingly, no provision for PRC dividend withholding tax has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise in the future, the Company would be subject to the then applicable PRC tax laws and regulations.

Reconciliation between the total income tax expense computed by applying the applicable enterprise income tax rate 15% to the income before income taxes and minority interest in the consolidated statements of operations were as follows:

	2007	2006	2005
Applicable enterprise income tax rate	15.0%	15.0%	15.0%
Expenses not deductible for tax purpose	(0.9%)	3.1%	(1.4%)
Effect of tax holiday and tax concession	48.7%	25.0%	12.0%
Expense (credit) to be recognized in future periods	(19.2%)	29.3%	(5.2%)
Changes in valuation allowances	9.3%	(11.9%)	(4.9%)
Effect of different tax rate of subsidiaries operating in other jurisdictions	(33.8%)	(24.9%)	(15.8%)
Change of tax rate	42.8%	—	—
Effective tax rate	61.9%	35.6%	(0.3%)

The aggregate amount and per share effect of the tax holiday are as follows:

	2007	2006	2005
The aggregate dollar effect	$ 23,415,370	$ 17,472,283	$ 13,683,409
Per share effect - basic and diluted	$ 0.00	$ 0.00	$ 0.00

18. Share-based Compensation

Stock options

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. Following the completion of the IPO, the Company began issuing stock options solely through the 2004 Option Plan. Options to purchase 1,317,000,000 ordinary shares are authorized under the 2004 Option Plan. Under the terms of the 2004 Option Plan options are granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of four years. Any compensation expense is recognized on a straight-line basis over the employee service period. As of December 31, 2007, options to purchase 655,089,237 ordinary shares were outstanding, and options to purchase 661,227,253 ordinary shares were available for future grants.

In 2001, the Company adopted the 2001 Stock Option Plan ("2001 Option Plan"). Options to purchase 998,675,840 ordinary shares and 536,566,500 of Series A convertible preference shares are authorized under the 2001 Option Plan. Options to purchase Series A convertible preference shares were converted into options to purchase ordinary shares immediately prior to the completion of the IPO. Under the terms of the plans, options are generally granted at prices equal to the fair market value as estimated by the Board of Directors, expire 10 years from the date of grant and vest over a requisite service period of four years. Following the IPO, the Company no longer issues stock options under the 2001 Option Plan. As of December 31, 2007, options to purchase 387,309,245 ordinary shares were outstanding.

A summary of the stock option activity is as follows:

	Ordinary shares			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregated Intrinsic Value
Options outstanding at December 31, 2006	998,025,093	$0.14		
Granted	223,112,000	$0.13		
Exercised	(82,947,298)	$0.05		
Cancelled	(95,791,313)	$0.17		
Options outstanding at December 31, 2007	1,042,398,482	$0.14	5.17	38,481,747
Vested or expected to vest at December 31, 2007	836,646,879	$0.14	5.42	31,863,984
Exercisable at December 31, 2007	514,657,338	$0.13	5.75	35,801,843

18. Share-based Compensation *(Continued)*

Stock options *(Continued)*

The total intrinsic value of options exercised in the year ended December 31, 2007, 2006 and 2005 was $5,679,680, $5,240,221 and $2,725,661, respectively.

Certain options were granted to non-employees that resulted in a share-based compensation expense of $665,787, $584,283 and $828,498 in 2007, 2006 and 2005, respectively.

The weighted-average grant-date fair value of options granted during the year 2007, 2006 and 2005 was $0.04, $0.05 and $0.05, respectively.

The fair value of each option and share grant are estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2007	2006	2005
Average risk-free rate of return	3.98%	4.72%	4.16%
Expected term	1-4 years	2-4 years	1-4 years
Volatility rate	35.28%	32.69%	30.39%
Expected dividend yield	—	—	—

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. Under the 2004 EIP, the Company was authorized to issue up to 2.5% of the issued and outstanding ordinary shares immediately following the closing of its initial public offering in March 2004, which were 455,409,330 ordinary shares. As of December 31, 2007, 119,442,808 restricted share units were outstanding and 227,079,988 ordinary shares were available for future grant through the issuance of restricted shares, restricted share units and stock appreciation rights. The RSUs vest over a requisite service period of 4 years and expire 10 years from the date of grant. Any compensation expense is recognized on a straight-line basis over the employee service period.

18. Share-based Compensation *(Continued)*

Restricted share units *(Continued)*

A summary of restricted share units activities is as follows:

	Restricted share units		Weighted Average Remaining Contractual Term	Aggregated Fair Value
	Number of Share Units	Weighted Average Fair Value		
Outstanding at December 31, 2006	140,295,146	$0.14		
Granted	40,519,720	$0.14		
Exercised	(43,253,907)	$0.13		
Cancelled	(18,118,151)	$0.14		
Outstanding at December 31, 2007	119,442,808	$0.14	8.17	17,173,866
Vested or expected to vest at December 31, 2007	47,186,067	$0.13	9.05	6,309,199
Exercisable at December 31, 2007	1,649,800	$0.13	8.04	220,738

Pursuant to the 2004 EIP, the Company granted 40,519,720, 16,058,864, and 122,418,740 restricted share units in 2007, 2006, and 2005, respectively, most of which vest over a period of four years. The fair value of the restricted share units at the date of grant was $5,631,263, $2,055,597, and $23,348,378 in 2007, 2006, and 2005, respectively, which is expensed over the vesting period. As a result, the Company has recorded a compensation expense of $7,216,799, $5,452,148, and $7,051,688 in 2007, 2006, and 2005, respectively.

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

As of December 31, 2007, there was $20,431,179 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 1.24 years.

As of December 31, 2007, 2006 and 2005 the Company had the following shares subject to repurchase:

	2007	2006	2005
Ordinary shares	90,000	16,498,871	35,964,021

19. Reconciliation of Basic and Diluted Loss per Share

The following table sets forth the computation of basic and diluted loss per share for the years indicated:

	2007	2006	2005
Loss attributable to holders of ordinary shares	$ (19,468,147)	$ (44,109,078)	$ (114,774,827)
Less: Cumulative effect of a change in accounting principle	—	(5,153,986)	—
Loss before cumulative effect of a change in accounting principle	(19,468,147)	(49,263,064)	(114,774,827)
Basic and diluted:			
Weighted average ordinary shares outstanding	18,505,650,171	18,361,910,033	18,264,791,383
Less: Weighted average ordinary shares outstanding subject to repurchase	(3,709,682)	(27,411,110)	(80,362,128)
Weighted average shares used in computing basic and diluted income per share	18,501,940,489	18,334,498,923	18,184,429,255
On the basis of loss per share before cumulative effect of a change in accounting principle, basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)
Cumulative effect of a change in accounting principle per share, basic and diluted	$ —	$ 0.00	$ —
Basic and diluted loss per share	$ (0.00)	$ (0.00)	$ (0.01)

Ordinary share equivalents of share options and restricted share units are calculated using the treasury stock method. Under the treasury stock method, the proceeds from the assumed conversion of share options and restricted share units are used to repurchase outstanding ordinary shares using the average fair value for the periods.

As of December 31, 2007, 2006 and 2005, the Company had 147,988,221, 223,818,877 and 306,419,133, 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 periods.

19. Reconciliation of Basic and Diluted Loss per Share *(Continued)*

The following table sets forth the securities comprising of these anti-dilutive ordinary share equivalents for the years indicated:

	December 31,		
	2007	2006	2005
Outstanding options to purchase ordinary shares	72,685,282	62,339,207	177,325,981
Outstanding unvested restricted share units to purchase ordinary shares	75,302,939	161,479,670	129,093,152
	147,988,221	223,818,877	306,419,133

20. Transactions With Managed Government-Owned Foundries

The Company provides management services to Cension Semiconductor Manufacturing Corporation (“Cension”) and Wuhan Xinxin Semiconductor Manufacturing Corporation, which are government-owned foundries. Management service revenues under these arrangements for 2007, 2006 and 2005 were $42,000,000, $4,151,238 and $200,000, respectively.

In 2007, the Company sold plant, equipment and other fixed assets with a carrying value of $19,530,909 for $42,300,258 to Cension, which resulted in a gain on sale of $22,769,349. In 2006, the Company sold plant, equipment and other fixed assets with a carrying value of $19,411,553 for $61,182,652 to Cension, which resulted in a gain on sale of $41,771,099.

On April 10, 2007, Cension entered into an Asset Purchase Agreement (the “Agreement”) with Elpida Memory, Inc. (“Elpida”), a Japan based memory chip manufacturer, for the purchase of Elpida’s 200mm wafer processing equipment currently located in Hiroshima, Japan for the total price of approximately $320 million.

As part of the Agreement, the Company provided a corporate guarantee for a maximum guarantee liability of $163.2 million on behalf of Cension in favour of Elpida. The Company’s guarantee liability will terminate upon full payment of the purchase price by Cension to Elpida. In return for providing the above corporate guarantee, the Company will receive a guarantee fee from Cension based on 1.5% of the guarantee amount, or $2.4 million. Some 200mm wafer processing equipment purchased under the Agreement, with the total amount of $160 million, was held as collateral under the guarantee. As of December 31, 2007, the carrying amount of the liability related to the guarantee was approximately $2.4 million, which was presented in other current liabilities.

Of the $320 million of processing equipment (“Equipment”), a portion remained in Hiroshima and continues to be operated by Elpida. The Company is entitled to the net profit (loss) associated with the ongoing operations of this equipment,net of a guaranteed fixed share of revenue for Elpida, during the transitional period when the equipment acquired by Cension is relocated from Hiroshima to Chengdu.

On August 30, 2007, Cension negotiated with Elpida and subsequently reduced the purchase price to US$309.5 million.

In April 2008, SMIC entered into an agreement with Cension to purchase roughly half of the Equipment from Cension for approximately US$150 million. These equipment will be used for SMIC’s future expansion.

21. Commitments

(a) Purchase commitments

As of December 31, 2007 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 December 31, 2008.

Facility construction	$	57,080,000
Machinery and equipment		239,555,000
	$	296,635,000

(b) Royalties

The Company has entered into several license and technology agreements with third parties. The terms of the contracts range from three to ten years. The Company is subject to royalty payments based on a certain percentage of product sales, using the third parties' technology or license. In 2007, 2006 and 2005, the Company incurred royalty expense of $13,118,570, $7,724,704 and $8,710,935, respectively, which is included as part of cost of sales in the statement of operations.

The Company has entered into several license agreements with third parties where the Company provides access to certain licensed technology. The Company will receive royalty payments based on a certain percentage of product sales using the Company's licensed technology. In 2007, 2006 and 2005, the Company earned royalty income of $1,428,603, $1,384,137 and $705,217, respectively, which was included as part of other income in the statement of operations.

(c) Operating leases

The Company owns apartment facilities that are leased to the Company's employees at negotiated prices. The apartment rental agreement is renewed on an annual basis. The Company also leases office space to non-related third parties. Office lease agreements are renewed on an annual basis as well. The total amount of rental income recorded in 2007, 2006, 2005 and was $6,937,107, $6,142,692, and $6,952,946, respectively, and is recorded in other income in the statement of operations.

The Company has various operating leases including land use rights, under non-cancellable leases expiring at various times through 2053. Future minimum lease payments under these leases as of December 31, 2007 are as follows:

Year ending		
2008	$	581,186
2009		267,041
2010		236,461
2011		220,436
Thereafter		3,255,608
	$	4,560,732

22. Segment and Geographic Information

The Company is engaged principally in the computer-aided design, manufacturing and trading of integrated circuits. In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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, and all financial segment information required by SFAS No. 131 can be found in the consolidated financial statements.

	2007	2006	2005
Total sales:			
United States	$ 657,603,189	$ 602,506,213	$ 478,162,160
Europe	328,710,235	440,327,872	316,576,024
Asia Pacific (Excluding Japan and Taiwan)	227,973,648	168,607,598	175,846,284
Taiwan	183,113,880	153,057,616	138,153,755
Japan	152,364,336	100,823,568	62,580,512
	$ 1,549,765,288	$1,465,322,867	$ 1,171,318,735

Revenue is attributed to countries based on headquarter of operations.

Substantially all of the Company's long-lived assets are located in the PRC.

23. Significant Customers

The following table summarizes net revenue and accounts receivable for customers which accounted for 10% or more of our accounts receivable and net sales:

	Net revenue Year ended December 31,			Accounts receivable December 31,		
	2007	2006	2005	2007	2006	2005
A	18%	28%	26%	15%	29%	32%
B	16%	17%	15%	14%	14%	17%
C	8%	2%	0%	13%	7%	0%

24. Litigation

Overview of TSMC Litigation:

Beginning in December 2003 through August 2004, the Company became subject to several lawsuits brought by Taiwan Semiconductor Manufacturing Company, Limited ("TSMC") relating to alleged infringement of certain patents and misappropriation of alleged trade secrets relating to methods for conducting semiconductor fab operations and manufacturing integrated circuits.

On January 31, 2005, the Company entered into a settlement agreement, without admission of liability, which provided for the dismissal of all pending legal actions without prejudice between the two companies (the "Settlement Agreement"). The terms of the Settlement Agreement also included:

1) The Company and TSMC agreed to cross-license each other's patent portfolio for all semiconductor device products, effective from January 2005 through December 2010.

2) TSMC covenanted not to sue the Company for trade secret misappropriation as alleged in TSMC's legal actions as it related to .15μm and larger processes subject to certain conditions ("TSMC Covenant"). The TSMC Covenant did not cover .13μm and smaller technologies after 6 months following execution of the Settlement Agreement (July 31, 2005). Excluding the .13μm and smaller technologies, the TSMC Covenant remains in effect indefinitely, terminable upon a breach by the Company.

3) The Company is required to deposit certain Company materials relating to .13μm and smaller technologies into an escrow account until December 31, 2006 or under certain circumstances for a longer period of time.

4) The Company agreed to pay TSMC an aggregate of $175 million in installments of $30 million for each of the first five years and $25 million in the sixth year.

Accounting under the Settlement Agreement:

In accounting for the Settlement Agreement, the Company determined that there were several components of the Settlement Agreement – settlement of litigation, covenant not to sue, patents licensed by us to TSMC and the use of TSMC's patent license portfolio both prior and subsequent to the settlement date.

The Company does not believe that the settlement of litigation, covenant not to sue or patents licensed by us to TSMC qualify as accounting elements. In regard to the settlement of litigation, the Company cites the following:

1) The settlement agreement reached between TSMC and SMIC clearly stated that there was no admission of liability by either party;

2) The settlement agreement required all parties to bear their own legal costs;

3) There were no other damages associated with the Settlement Agreement;

4) There was a provision in the Settlement Agreement for a grace period to resolve any misappropriation issues had they existed;

5) Albeit a complaint had been filed by TSMC on trade secret infringement, TSMC has never identified which trade secrets it claimed were being infringed upon by the Company;

6) The Settlement Agreement was concluded when the litigation process was still at a relatively early stage and the outcome of the litigation was therefore highly uncertain.

24. Litigation *(Continued)*

The TSMC covenant not to sue for alleged trade secrets misappropriation does not qualify as a separable asset in accordance with either SFAS 141 or SFAS 142 as TSMC had never specified the exact trade secrets that it claimed were misappropriated, the Company's belief that TSMC's trade secrets may be obtained within the marketplace by other legal means and the Company never obtained the legal right to use TSMC's trade secrets.

In addition, the Company did not attribute any value to the patents licensed to TSMC under the Settlement Agreement due to the limited number of patents held by the Company at the time of the Settlement Agreement.

As a result, the Company determined that only the use of TSMC's patent license portfolio prior and subsequent to the settlement date were considered elements of an arrangement for accounting purposes. In attributing value to these two elements, the Company first discounted the payment terms of the $175 million settlement amount using an annual 3.4464% interest rate to arrive at a net present value of $158 million. This amount was then allocated to the pre- and post-settlement periods based on relative fair value, as further described below.

Based on this approach, $16.7 million was allocated to the pre-settlement period, reflecting the amount that the Company would have paid for use of the patent license portfolio prior to the date of the Settlement Agreement. The remaining $141.3 million, representing the relative fair value of the licensed patent license portfolio, was recorded on the Company's consolidated balance sheets as a deferred cost and is being amortized over a six-year period, which represents the life of the licensed patent license portfolio. The amortization of the deferred cost is included as a component of cost of sales in the consolidated statements of operations.

Valuation of Deferred Cost:

The fair value of the patent license portfolio was calculated by applying the estimated royalty rate to the specific revenue generated and expected to be generated from the specific products associated with the patent license portfolio.

The selected royalty rate was based on the review of median and mean royalty rates for the following categories of licensing arrangements:

a) Existing third-party license agreements with SMIC;

b) The analysis of comparable industry royalty rates related to semiconductor chip/integrated circuit ("IC") related technology; and

c) The analysis of comparable industry royalty rates related to semiconductor fabrication.

On an annualized basis, the amounts allocated to past periods was lower than that allocated to future periods as the Company assumed increases in revenues relating to the specific products associated with the patent license portfolio.

As the total estimated fair value of the patent license portfolio exceeded the present value of the settlement amount, the Company allocated the present value of the settlement amount based on the relative fair value of the amounts calculated prior and subsequent to the settlement date.

24. Litigation *(Continued)*

Recent TSMC Legal Developments:

On August 25, 2006, TSMC filed a lawsuit against the Company and certain subsidiaries (SMIC (Shanghai), SMIC (Beijing) and SMIC (Americas)) in the Superior Court of the State of California, County of Alameda for alleged breach of the 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 the Settlement Agreement.

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, nor has it set a trial date.

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, 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.

TSMC filed with the California court in January 2007 a motion seeking to enjoin the PRC action. In February 2007, TSMC filed with the Beijing High Court a jurisdictional objection, challenging the competency of the Beijing High Court's jurisdiction over the PRC action.

In March 2007, the California Court denied TSMC's motion to enjoin the PRC action. TSMC has appealed this ruling to California Court of Appeal. On March 11, 2008, the Court of Appeal, in a written opinion, denied TSMS's appeal. TSMC has not yet indicated whether it will petition the California Supreme Court for further review.

In July 2007, the Beijing High Court denied TSMC's jurisdictional objection and issued a court order holding that the Beijing High Court shall have proper jurisdiction to try the PRC action. TSMC has appealed this order to the Supreme Court of the People's Republic of China. On January 7, 2008, the Supreme Court heard TSMC's appeal. It has not yet issued a ruling.

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 attempted to file additional claims that the Company breached the Settlement Agreement by filing an action in the Beijing High Court. Upon the Company's motion, the California Court struck TSMC's new claims as procedurally improper, but granted TSMC leave to replead its claims. The Company thereafter demurred to the new claims as repleaded. The Court sustained a portion of the Company's demurrer, but again gave TSMC leave to replead.

24. Litigation *(Continued)*

Recent TSMC Legal Developments: *(Continued)*

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.

On January 25, 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 will oppose the motion. A hearing has been set on the motion for May 14, 2008.

On March 11, 2008, TSMC filed an application for a right to attach order in the California Court. By its application, TSMC seeks an order securing an amount equal to the remaining balance on the promissory notes issued by the Company in connection with the Settlement Agreement. The order, if granted, would apply only to property of the Company in the State of California. The Company has opposed the application. A hearing was held on April 3, 2008. The court has not yet issued a ruling.

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. We believe that the lawsuit is at a preliminary stage and we are still evaluating whether or not the litigation represents such an event. The Company expects further information to become available to us which will aid us in making a determination. The outcome of any impairment analysis performed under SFAS 144 might result in a material impact to our financial position and results of operations. Because the case is in its preliminary stages, the Company is unable to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of potential loss.

25. Retirement Benefit

The Company's local Chinese employees are entitled to a retirement benefit based on their basic salary upon retirement and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Company is required to make contributions to the state-managed retirement plan equivalent to 20% - 22.5% of the monthly basic salary of current employees. Employees are required to make contributions equivalent to 6% - 8% of their basic salary. The contribution of such an arrangement was approximately $7,223,644, $5,452,660, and $4,128,059 for the years ended December 31, 2007, 2006 and 2005, respectively. The retirement benefits do not apply to expatriate employees.

26. Distribution of Profits

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required to make appropriations from net income as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to non-distributable reserves which include a general reserve, an enterprise expansion reserve and a staff welfare and bonus reserve. Wholly-owned PRC subsidiaries are not required to make appropriations to the enterprise expansion reserve but appropriations to the general reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by the board of directors.

The general reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution passed by the stockholders, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law. Appropriations to general reserve by the Company's PRC subsidiaries were $15,640,153, $11,956,185, and $10,432,239 in 2007, 2006 and 2005, respectively.

27. Components of loss (income) from operations

	2007	2006	2005
Loss (income) from operations is arrived at after charging (crediting):			
Auditors' remuneration	$ 1,698,293	$ 1,577,928	$ 1,121,131
Depreciation and amortization	705,391,171	919,038,915	768,586,770
Amortization of land use rights	886,293	577,578	885,083
Foreign currency exchange loss (gain)	3,117,962	3,939,745	(5,198,253)
(Income) loss on sale of plant and equipment	(28,651,446)	(43,121,929)	—
(Reversal of) bad debt expense	486,920	2,957,505	(13,825)
Inventory write-down	6,570,137	2,297,773	3,088,238
Staff costs inclusive of directors' remuneration	$ 151,447,470	$ 108,742,094	$ 102,163,244

28. Directors' Remuneration and Five Highest Paid Individuals

Directors

Details of emoluments paid by the Company to the directors of the Company in 2007, 2006 and 2005 are as follows:

	Richard Chang	Kawanishi Tsuyoshi	Wang Yang Yuan	Hsu Ta-Lin	Lip-Bu Tan	Henry Shaw	Fang Yao	Wang Zheng Gang	Jou Yen-Pong	Albert Y.C. Yu	Cai Lai Xing	Jiang Shang Zhou	Total
2007													
Salaries and other benefits	195,395	—	—	—	—	—	—	—	—	—	—	—	195,395
Stock option benefits	172,203	17,189	17,189	17,189	17,189	17,189	—	—	—	50,094	—	—	308,242
Total emoluments	367,598	17,189	17,189	17,189	17,189	17,189	—	—	—	50,094	—	—	503,637
2006													
Salaries and other benefits	192,727	—	—	—	—	—	—	—	—	—	—	—	192,727
Stock option benefits	156,241	12,951	12,951	12,951	12,951	12,951	—	—	—	37,742	—	—	258,738
Total emoluments	348,968	12,951	12,951	12,951	12,951	12,951	—	—	—	37,742	—	—	451,465
2005													
Salaries and other benefits	190,724	—	—	—	—	—	—	—	—	—	—	—	190,724
Stock option benefits	97,664	49,026	8,608	8,608	8,608	8,608	—	—	8,608	—	—	—	189,730
Total emoluments	288,388	49,026	8,608	8,608	8,608	8,608	—	—	8,608	—	—	—	380,454

The emoluments of the directors were within the following bands:

	2007	2006	2005
	Number of directors	Number of directors	Number of directors
HK$nil to HK$1,000,000 ($128,620)	9	10	7
HK$1,000,001 ($128,620) to HK$1,500,000 ($192,930)	—	—	—
HK$1,500,001 ($192,930) to HK$2,000,000 ($257,240)	—	—	—
HK$2,000,001 ($257,240) to HK$2,500,000 ($321,550)	—	—	1
HK$2,500,001 ($321,550) to HK$3,000,000 ($385,860)	1	1	—

The Company granted nil, 3,500,000 and 15,000,000 options to purchase ordinary shares of the Company to the directors in 2007, 2006 and 2005, respectively. During the year ended December 31, 2007, no stock options were exercised and no stock options were cancelled.

The Company granted nil, 500,000 and nil restricted share units to purchase ordinary shares of the Company to the directors in 2007, 2006 and 2005, respectively. During the year ended December 31, 2007, 750,000 restricted share units automatically vested and nil restricted share units were cancelled.

28. Directors' Remuneration and Five Highest Paid Individuals *(Continued)*

In 2007, 2006 and 2005, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office. In 2005, one director has declined an option to purchase 500,000 Ordinary Shares which the Board granted in November 2004. In 2006, two directors have declined an option to purchase 500,000 Ordinary Shares for each director which the Board granted in September 2006.

Five highest paid employees' emoluments

Of the five individuals with the highest emoluments in the Group, one is a director of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining four in 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Salaries and other benefits	$ 586,065	$ 518,198	$ 513,570
Bonus	237,969	233,662	92,455
Stock option benefits	283,125	268,528	325,880
Total emoluments	$ 1,107,159	$ 1,020,388	$ 931,905

The bonus is determined on the basis of the basic salary and the performance of the Company and the individual.

Their emoluments were within the following bands:

	2007	2006	2005
	Number of individuals	Number of individuals	Number of individuals
HK$nil to HK$1,000,000 ($128,620)	—	—	—
HK$1,000,001 ($128,620) to HK$1,500,000 ($192,930)	—	—	—
HK$1,500,001 ($192,930) to HK$2,000,000 ($257,240)	—	3	3
HK$2,000,001 ($257,240) to HK$2,500,000 ($321,550)	4	1	1
HK$2,500,001 ($321,550) to HK$4,500,000 ($578,790)	1	1	1
HK$4,500,001 ($578,790) to HK$5,000,000 (643,100)	—	—	—

29. Dividend

No dividend has been paid or declared by the Company in 2007, 2006 and 2005.

30. Subsequent Events

During the first quarter of 2008, the Company took the decision to exit the commodity DRAM business. The Company considers this an indicator of impairment in regard to the long-lived assets of SMIB in accordance with SFAS 144. The Company is in the process of evaluating whether or not such assets have been impaired. As of December 31, 2007, the carrying value of the total property, plant and equipment at SMIB amounted to approximately $1.2 billion.

31. Differences Between US GAAP And International Financial Reporting Standards

The consolidated financial statements are prepared in accordance with US GAAP, which differ in certain significant respects from International Financial Reporting Standards ("IFRS"). The significant differences relate principally to share-based payments to employees and non-employees, presentation of minority interest, convertible financial instruments and assets held for sale.

(i) In regard to accounting treatment for share-based payments, IFRS 2, "Share Based Payment", was issued to specify recognition, measurement and disclosure for equity compensation. IFRS 2 requires all share-based payment to be recognized in the financial statements using a fair value measurement basis. An expense should be recognized when goods or services received are consumed. IFRS 2 was effective for periods beginning on or after January 1, 2005.

Under US GAAP, prior to the adoption of the SFAS 123(R), the Company was able to account for stock-based compensation issued to employees using one of the two following methods,

(a) Intrinsic value based method

Under the intrinsic value based method, compensation expense is the excess, if any, of the fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

(b) Fair value based method

For stock options, fair value is determined using an option pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option and the annual rate of quarterly dividends.

Under either approach compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.

The Company adopted the intrinsic value method of accounting for its stock options to employees in 2005 and the share-based compensation recorded by the Company was $25,735,849. Compensation expense under the fair value based method is presented for disclosure purposes (See Note 2(u)).

Had the Company prepared the financial statements under IFRS, the Company would have adopted IFRS 2 retrospectively for the fiscal year beginning on January 1, 2005 and compensation expenses on share-based payments to employees would have been calculated using fair value based method for the years prior to January 1, 2006. The additional share-based compensation under the fair value based method was $7,261,778 for year ended December 31, 2005.

31. Differences Between US GAAP And International Financial Reporting Standards *(Continued)*

Effective January 1, 2006, the Company adopted the provision of SFAS 123(R), "Share-Based Payment". Under the provisions of SFAS 123(R), share-based compensation is measured at the grant date, based on the fair value of the award similar to IFRS 2. In addition, under SFAS 123(R) the Company was no longer required to record deferred share-based compensation related to unvested share options in stockholder's equity, consistent with IFRS 2.

(ii) Under IFRS, minority interest is presented in the equity section while under US GAAP minority interest is presented outside of equity, between liabilities and equity.

Under IFRS, the portion of profit and loss attributable to the minority interest and to the parent entity is separately disclosed on the face of the income statement. Under US GAAP, amounts attributable to the minority interest are presented as a component of net income or loss.

(iii) Under US GAAP, a beneficial conversion feature refers to the preferential price of certain convertible equity instruments an investor receives when the effective conversion price of the equity instruments in lower than the fair market value of the common stock to which the convertible equity instrument is convertible into at the date of issuance. US GAAP requires the recognition of the difference between the effective conversion price of the convertible equity instrument and the fair market value of the common stock as a deemed dividend.

Under IFRS, this deemed dividend is not required to be recorded.

(iv) Under IFRS, leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the leasee by the end of the lease term, the leasee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents lease prepayments that are amortized over the lease term in accordance with the pattern of benefits provided. For balance sheet presentation, the prepayment of land use rights should be disclosed as current and non-current.

Under US GAAP, land use rights are also accounted as operating leases and represent lease pre-payments that are amortized over the lease term in accordance with the pattern of benefits provided. Current and non-current asset classification is not required under US GAAP.

(v) IFRS requires an enterprise to evaluate at each balance sheet date whether there is any indication that a long-lived asset may be impaired. If any such indication exists, an enterprise should estimate the recoverable amount of the long-lived asset. Recoverable amount is the higher of a long-lived asset's net selling price and its value in use. Value in use is measured on a discounted present value basis. An impairment loss is recognized for the excess of the carrying amount of such assets over their recoverable amounts. A reversal of previous provision of impairment is allowed to the extent of the loss previously recognised as expense in the income statement.

Under US GAAP, long-lived assets and certain identifiable intangibles (excluding goodwill) held and used by an entity are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of a long-lived asset and certain identifiable intangibles (excluding goodwill) may not be recoverable. An impairment loss is recognized if the expected future cash flows (undiscounted) are less than the carrying amount of the assets. The impairment loss is measured based on the fair value of the long-lived assets and certain identifiable intangibles (excluding goodwill). Subsequent reversal of the loss is prohibited. Long-lived assets and certain identifiable intangibles (excluding goodwill) to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

31. Differences Between US GAAP And International Financial Reporting Standards *(Continued)*

The Company considered the operating loss in SMIB to be an impairment indicator for its long-lived assets in SMIB and evaluated whether or not such assets have been impaired at December 31, 2007. The undiscounted expected future cash flows are in excess of the carrying amount of the relevant long-lived assets and no impairment loss is required to be recognized under US GAAP. However, under IFRS, the estimated recoverable value derived from a discounted expected future cash flow is less than the carrying value of those long-lived assets. Discount rate of 8.3% has been used on the expected cash flows to be generated over the remaining useful lives of manufacturing machinery and equipment of 5.25 years. As such, the Company has recognized an impairment loss of US$105,774,000 for the year ended December 31, 2007 under IFRS.

(vi) Under US GAAP, income (loss) from equity investment is presented as a separate item before net income (loss) on net of tax basis.

Under IFRS, the income (loss) from equity investment is presented as a component of income (loss) before income tax benefit (expense).

The adjustments necessary to restate loss attributable to holders of ordinary shares and stockholders' equity in accordance with IFRS are shown in the tables set out below.

	2007	2006	2005
Net loss under US GAAP	$ (19,468,147)	$ (44,109,078)	$ (114,774,827)
IFRS adjustments:			
i) Recognizing an expense for share-based payment	—	—	(7,261,778)
i) Reverse of cumulative effect of a change in accounting principle	—	(5,153,986)	—
v) Impairment of long-lived assets	(105,774,000)	—	—
vi) Presentation of minority interest	(2,856,258)	18,803	(251,017)
Net loss under IFRS	$ (128,098,405)	$ (49,244,261)	$ (122,287,622)
Net loss per share under IFRS	$ (0.01)	$ (0.00)	$ (0.01)
Stockholders' equity as reported under US GAAP	$ 3,012,519,022	$3,007,419,918	$3,029,316,155
ii) Presentation of minority interest	34,944,408	38,800,666	38,781,863
v) Impairment of long-lived assets	(105,774,000)	—	—
Stockholders' equity under IFRS	$ 2,941,689,430	$3,046,220,584	$3,068,098,018
Land use rights, net – current portion as reported under US GAAP	$ —	—	—
IFRS adjustment			
iv) Current portion adjustment for land use right	1,054,777	712,521	650,581
Under IFRS	$ 1,054,777	$ 712,521	$ 650,581

31. Differences Between US GAAP And International Financial Reporting Standards *(Continued)*

	2007	2006	2005
Plant and equipment			
As reported	$ 3,202,957,665	3,244,400,822	3,285,631,131
IFRS adjustments			
iv) Impairment of long-lived assets	(105,774,000)	—	—
Under IFRS	$ 3,097,183,665	$3,244,400,822	$3,285,631,131
Additional paid-in capital			
as reported under US GAAP	3,313,375,972	3,288,733,078	3,291,407,448
IFRS adjustments			
i) Reverse the deferred stock compensation, net under APB25	—	—	(24,881,919)
i) Retrospective adjustment on adoption of IFRS 2	30,388,316	30,388,316	23,126,538
i) Additional share-based compensation under IFRS 2	—	—	7,261,778
i) Reverse of cumulative effect of a change in accounting principle	5,153,986	5,153,986	—
iii) Carry forward prior year's adjustment on deemed dividend	(55,956,051)	(55,956,051)	(55,956,051)
Under IFRS	$ 3,292,962,223	$3,268,319,329	$3,240,957,794
Deferred stock compensation, net			
as reported under US GAAP	—	—	(24,881,919)
IFRS adjustments			
i) Deferred stock compensation, net under APB 25	—	—	24,881,919
Under IFRS	$ —	$ —	$ —
Accumulated deficit			
as reported under US GAAP	(308,278,637)	(288,810,490)	(244,701,412)
IFRS adjustments			
i) Additional share-based compensation under IFRS 2	—	—	(7,261,778)
i) Carried over impact under IFRS 2	(30,388,316)	(30,388,316)	(23,126,538)
i) Reverse of cumulative effect of a change in accounting principle	(5,153,986)	(5,153,986)	—
iv) Carry forward prior year's adjustment on deemed dividend	55,956,051	55,956,051	55,956,051
v) Impairment of long-lived assets	(105,774,000)	—	—
Under IFRS	$ (393,638,888)	$ (268,396,741)	$ (219,133,677)
Cost of sales			
as reported under US GAAP	1,397,037,881	1,338,155,004	1,105,133,544
IFRS adjustments			
i) Recognizing an expense for share-based payment	—	—	3,366,722
Under IFRS	$ 1,397,037,881	$1,338,155,004	$1,108,500,266

31. Differences Between US GAAP And International Financial Reporting Standards *(Continued)*

		2007		2006		2005
Operating expenses						
as reported under US GAAP		188,659,217		141,037,963		153,225,353
IFRS adjustments						
i) Recognizing an expense for						
share-based payment		—		—		3,895,056
v) Impairment of long-lived assets		105,774,000		—		—
Under IFRS	$	294,433,217	$	141,037,963	$	157,120,409
Income (Loss) before tax						
as reported under US GAAP		(48,031,515)		(69,970,758)		(113,361,867)
IFRS adjustments						
vi) Presentation of income (loss) from equity investment		(4,012,665)		(4,201,247)		(1,379,110)
Under IFRS	$	(52,044,180)	$	(74,172,005)	$	(114,740,977)

In addition to the above, there are also other differences between US GAAP and IFRS relevant to the accounting policies of the Company. These differences have not led to any material differences in 2007, 2006 and 2005, and details of which are set out as below:

(a) Inventory valuation

Inventories are carried at cost under both US GAAP and IFRS. However, if there is evidence that the net realisable value of goods, in their disposal in the ordinary course of business, will be less than cost, whether due to physical obsolescence, changes in price levels, or other causes, the difference should be recognized as a loss of the current period. This is generally accomplished by stating such goods at a lower level commonly known as "market".

Under US GAAP, a write-down of inventories to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently cannot be reversed based on changes in underlying facts and circumstances. Market under US GAAP is the lower of the replacement cost and net realizable value minus normal profit margin.

Under IFRS, a write-down of inventories to the lower of cost or market at the close of a fiscal period is a valuation allowance that can be subsequently reversed if the underlying facts and circumstances changes. Market under IFRS is net realizable value

31. Differences Between US GAAP And International Financial Reporting Standards *(Continued)*

(b) Deferred income taxes

Deferred tax liabilities and assets are recognized for the estimated future tax effects of all temporary differences between the financial statement carrying amount of assets and liabilities and their respective tax bases under both US GAAP and IFRS.

Under IFRS, a deferred tax asset is recognized to the extent that it is probable that future profits will be available to offset the deductible temporary differences or carry forward of unused tax losses and unused tax credits. Under US GAAP, all deferred tax assets are recognized, subject to a valuation allowance, to the extent that it is ''more likely than not" that some portion or all of the deferred tax assets will be realized. "More likely than not" is defined as a likelihood of more than 50%.

With regard to the measurement of the deferred tax, IFRS requires recognition of the effects of a change in tax laws or rates when the change is "substantively enacted". US GAAP requires measurement using tax laws and rates enacted at the balance sheet date.

Under US GAAP, deferred tax liabilities and assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting. Under IFRS, deferred tax assets and liabilities are always classified as non-current.

(c) Segment reporting

Under IFRS, a listed enterprise is required to determine its primary and secondary segments on the basis of lines of business and geographical areas, and to disclose results, assets and liabilities and certain other prescribed information for each segment. The determination of primary and secondary segment is based on the dominant source of the enterprise's business risks and returns. Accounting policies adopted for preparing and presenting the financial statements of the Company should also be adopted in reporting the segmental results and assets. The business segment is considered as the primary segment for the Company. Meanwhile, the Management believes the risk and return shall be similar among its different geographical segments.

Under US GAAP, a public business enterprise is required to report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. US GAAP also permits the use of the accounting polices used for internal reporting purposes that are not necessarily consistent with the accounting policies used in consolidated financial statements.

31. Differences Between US GAAP And International Financial Reporting Standards *(Continued)*

(d) Borrowing costs

IFRS and US GAAP require capitalization of borrowing costs for those borrowings that are directly attributable to acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale. The amount to be capitalized is the borrowing cost which could theoretically have been avoided if the expenditure on the qualifying asset was not made. Under IFRS, borrowing costs are defined as interest and any other costs incurred by an enterprise in connection with the borrowing of funds, while under the US GAAP, borrowing costs are defined as interest only.

Under IFRS, to the extent that funds are borrowed specifically for the purpose of obtaining a qualified asset, the amount of borrowing costs eligible for capitalization is determined as the actual borrowing costs incurred on the borrowing during the period less any investment income on the temporary investment of those borrowing. The amount of borrowing costs to be capitalized under US GAAP is based solely on actual interest incurred related to the actual expenditure incurred.

(e) Research and development costs

IFRS requires the classification of the costs associated with the creation of intangible assets by research phase and development phase. Costs in the research phase must always be expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure the expenditure attributable to the intangible asset during the development phase.

Under US GAAP, research and development costs are expensed as incurred except for:

- those incurred on behalf of other parties under contractual arrangements;
- those that are unique for enterprises in the extractive industries;
- certain costs incurred internally in creating a computer software product to be sold, leased or otherwise marketed, whose technological feasibility is established, i.e. upon completion of a detailed program design or, in its absence, upon completion of a working model; and
- certain costs related to the computer software developed or obtained for internal use.

The general requirement to write off expenditure on research and development as incurred is extended to research and development acquired in a business combination.

31. Differences Between US GAAP And International Financial Reporting Standards *(Continued)*

(f) Statements of cash flows

There are no material differences on statements of cash flows between US GAAP and IFRS. Under US GAAP, interest received and paid must be classified as an operating activity. Under IFRS, interest received and paid may be classified as an operating, investing, or financing activity.

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