SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
March 30, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of March 2005

Commission File Number 1-31994

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

(Translation of Registrant s Name Into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People s Republic of China

(Address of Principal Executive Offices)

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

Form 20-F __X__ Form 40-F

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

Yes ______ No __X__

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

Yes ______ No __X__

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

Yes ______ No __X__

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__)

Semiconductor Manufacturing International Corporation (the Registrant) is furnishing under the cover of Form 6-K:

Exhibit 99.1: Press announcement regarding the fourth quarter 2004 results of the Registrant, dated March 29, 2005.

Exhibit 99.2: Press announcement regarding the 2004 annual results of the Registrant, dated March 29, 2005.

Exhibit 99.3 Press announcement regarding the appointment of a new Chief Financial Officer and Chief Accounting Officer of the Registrant, dated March 29, 2005.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Semiconductor Manufacturing
International Corporation

By: /s/ Richard R. Chang

Name: Richard R. Chang
Title: Chairman of the Board, President and

Chief Executive Officer

Date: March 30, 2005

EXHIBIT INDEX

Exhibit	Description
Exhibit 99.1:	Press announcement regarding the fourth quarter 2004 results of the Registrant, dated March 29, 2005.
Exhibit 99.2:	Press announcement regarding the 2004 annual results of the Registrant, dated March 29, 2005.
Exhibit 99.3	Press announcement regarding the appointment of a new Chief Financial Officer and Chief Accounting Officer of the Registrant, dated March 29, 2005.

Exhibit 99.1

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

SEMICONDUCTOR MANUFACTURING

INTERNATIONAL CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(STOCK CODE: 0981)

SMIC REPORTS RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2004

The Company today announced its unaudited consolidated results of operations for the three months ended December 31, 2004. Sales increased to $291.8 million in 4Q04, up 6.2% from $274.9 million in 3Q04. Compared to 3Q04, wafer shipments increased 15.2% to 303,796 8-inch wafers. Capacity increased to 120,417 8-inch wafer equivalents per month. SMIC settles litigation with Taiwan Semiconductor Manufacturing Company Limited.

Set out below is a copy of the full text of the press release made in the United States by the Company on March 29, 2005 in relation to its unaudited results for the three months ended December 31, 2004.

This announcement is made pursuant to the disclosure obligations under Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as the Company made the press release reproduced below.

Set out below is a copy of the full text of the press release made in the United States by the Company on March 29, 2005 in relation to its unaudited results for the three months ended December 31, 2004.

All currency figures stated in this report are in US Dollars.

The financial statement amounts in this report are determined in accordance with US GAAP.

SMIC REPORTS 2004 FOURTH QUARTER RESULTS

Highlights

Sales increased to $291.8 million in 4Q04, up 6.2% from $274.9 million in 3Q04.

Compared to 3Q04, wafer shipments increased 15.2% to 303,796 8-inch wafers.

Capacity increased to 120,417 8-inch wafer equivalents per month.

SMIC settles litigation with Taiwan Semiconductor Manufacturing Company Limited.

Shanghai, China March 29, 2005. Semiconductor Manufacturing International Corporation (NYSE: SMI; SEHK: 0981.HK) (SMIC or the Company), one of the leading semiconductor foundries in the world, today announced its consolidated results of operations for the three months ended December 31, 2004. Sales increased 6.2% in the fourth quarter of 2004 to $291.8 million from $274.9 million in the prior quarter.

Income (loss) attributable to holders of ordinary shares decreased in the fourth quarter of 2004 to a loss of $11.2 million from income of $39.3 million in the prior quarter. Income attributable to holders of ordinary shares in the fourth quarter of 2004, excluding the incurrence of an expense of $23.2 million relating to the settlement of our litigation with Taiwan Semiconductor Manufacturing Company Limited (TSMC), would have been $11.9 million.

Conference call / Webcast announcement details

Date: March 29, 2005

Time: 8:00 a.m. Shanghai time

Dial-in numbers and access codes: U.S. 1-617-614-3943 or HK 852-3002-1672 (Pass code: SMIC).

A live webcast of the 2004 fourth quarter and full year results announcement will be available at http://www.smics.com under the Investor Relations section. An archived version of the webcast, along with a soft copy of this news release will be available on the SMIC website for a period of 12 months following the webcast.

About SMIC

SMIC (NYSE: SMI, SEHK: 0981.HK) is one of the leading semiconductor foundries in the world, providing integrated circuit (IC) manufacturing at 0.35-micron to 0.13-micron and finer line technologies to customers worldwide. Established in 2000, SMIC has four 8-inch wafer fabrication facilities in volume production in Shanghai and Tianjin. In addition, SMIC recently commenced commercial production at its 12-inch wafer fabrication facility in Beijing. SMIC maintains customer service and marketing offices in the U.S., Europe, and Japan. As part of its dedication towards providing high-quality services, SMIC strives to comply with or exceed international standards and has achieved ISO9001, ISO/TS16949, OHSAS18001, and ISO14001 certifications. For more information, please visit http://www.smics.com.

Safe harbor statements

(Under the Private Securities Litigation Reform Act of 1995)

This press release 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 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.

Investors should consider the information contained in SMIC s filings with the U.S. Securities and Exchange Commission (SEC), including its registration statement on Form F-1, as amended, filed with the SEC on March 11, 2004, especially in the Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations sections, and its registration statement on Form A-1 as filed with the Stock Exchange of Hong Kong (SEHK) on March 8, 2004, and such other documents that SMIC may file with the SEC or SEHK from time to time, including on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on SMIC s future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this press release may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated, or if no date is stated, as of the date of this press release.

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.

Investor Contacts:

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4Q04 Summary:

	4Q04	**3Q04**	**QoQ**	**4Q03**	**YoY**
		Amounts in $ thousands, except for EPS and operating data			
Sales	291,842	274,897	6.2%	145,047	101.2%
Cost of sales	232,725	202,387	15.0%	114,333	103.5%
Gross profit (loss)	59,117	72,510	18.5%	30,714	92.5%
Operating expenses	82,505	29,972	175.3%	26,096	216.2%
Income (loss) from operations	(23,388)	42,538		4,617	
Other income (expenses)	12,358	(3,195)		6,260	97.4%
Net income (loss) after income taxes	(11,216)	39,343		10,877	
Deemed dividend on preference shares	0	0		(2,531)	100.0%
Income attributable to holders of ordinary shares	(11,216)	39,343		8,346	
Gross margin	20.3%	26.4%		21.2%	
Operating margin	8.0%	15.5%		3.2%	
Basic EPS per ordinary share(1)	$ (0.0006)	$ 0.0022		$ 0.0867	
Basic EPS per ADS	$ (0.0311)	$ 0.1095		$ 4.3334	
Diluted EPS per ordinary share	$ (0.0006)	$ 0.0022		$ 0.0005	
Diluted EPS per ADS	$ (0.0311)	$ 0.1079		$ 0.0268	
Wafers shipped (in 8 wafers)(2)	303,796	263,808	15.2%	153,125	98.4%
Blended ASP	$ 917	$ 991	7.5%	$ 910	0.8%
Logic ASP(3)	$ 1,020	$ 1,091	6.5%	$ 967	5.5%
Capacity utilization	95%	99%		97%	

Notes:

(1) Based on weighted average ordinary shares of 18,006 million in 4Q04, 17,897 million in 3Q04 and 96 million in 4Q03
(2) Including copper interconnects
(3) Excluding copper interconnects

Sales increased to $291.8 million in 4Q04, up 6.2% QoQ from $274.9 million in 3Q04 and 101.2% YoY from $145.0 million in 4Q03. Key factors leading to these increases were the following:

increased capacity to 120,417 8-inch wafers as of the end of 4Q04;

increased wafer shipments to 303,796, up 15.2% QoQ from 263,808 in 3Q04; and

high utilization rate of 95%.

Cost of sales increased to $232.7 million in 4Q04 from $202.4 million in 3Q04, primarily due to the increased wafer shipments and increased depreciation expenses, as well as an inventory charge as a result of declining estimated market value.

Gross profit decreased to $59.1 million in 4Q04, down 18.5% QoQ from $72.5 million in 3Q04 and up 92.5% YoY from $30.7 million in 4Q03.

Gross margins decreased to 20.3% in 4Q04 from 26.4% in 3Q04, primarily due to an increase in depreciation and a lower blended ASP, which was a result of both the general decline in DRAM pricing and an increase in 0.35mm production.

Research and development expenses increased to $27.4 million in 4Q04, up 32.5% QoQ from $20.7 million in 3Q04, primarily due to 90nm research and development activities, non-recurring start up costs associated with Fab 4 (Beijing) rampup, and an increase in depreciation expenses.

General and administrative expenses, excluding foreign exchange, increased to $14.2 million in 4Q04 from $10.3 million in 3Q04, primarily due to legal expenses relating to the litigation with TSMC.

General and administrative expenses, including foreign exchange, increased to $25.5 million in 4Q04, up 564.9% QoQ from $3.8 million in 3Q04, primarily due to a foreign exchange loss of $11.3 million in 4Q04 relating to operating activities, i.e. accounts payable or accounts receivable.

Selling and marketing expenses increased to $2.5 million in 4Q04, up 33.9% QoQ from $1.9 million in 3Q04, primarily due to an increase in engineering material costs relating to sales activities.

Litigation settlement of $23.2 million recorded as an expense in 4Q04.

Income (loss) from operations decreased to a loss of $23.4 million in 4Q04, down from a gain of $42.5 million in 3Q04 and down from a gain of $4.6 million in 4Q03.

Other non-operating income of $12.4 million in 4Q04, up from a loss of $3.2 million in 3Q04 primarily due to a foreign exchange gain of $13.3 million relating to non-operating activities resulting from financing or investment transactions, i.e. forward contracts are classified as other income (expenses).

Net foreign exchange gain of $2.0 million based on a foreign exchange loss of $11.3 million in general and administrative expenses and a foreign exchange gain of $13.3 million relating to non-operating activities resulting from financing or investment transactions classified as other income (expenses).

Net income (loss) after income taxes decreased to a loss of $11.2 million, down from a gain of $39.3 million in 3Q04 and from a gain of $10.9 million in 4Q03.

1. Analysis of revenues

Sales analysis

By Application	**4Q04**	**3Q04**	**2Q04**	**1Q04**	**4Q03**
Computer	26.8%	20.5%	22.5%	25.1%	26.7%
Communications	58.1%	57.2%	54.3%	56.0%	55.8%
Consumer	10.2%	17.1%	17.1%	12.7%	13.5%

Others	4.9%	5.2%	6.1%	6.2%	4.0%

By Device	**4Q04**	**3Q04**	**2Q04**	**1Q04**	**4Q03**
Logic (including copper interconnect)	75.1%	77.6%	73.5%	72.4%	71.6%
DRAM(1)	20.4%	17.5%	20.8%	21.6%	24.5%
Other (mask making & probing, etc.)	4.5%	4.9%	5.7%	6.0%	3.9%

By Customer Type	**4Q04**	**3Q04**	**2Q04**	**1Q04**	**4Q03**
Fabless semiconductor companies	50.2%	35.3%	36.1%	36.6%	30.8%
Integrated device manufacturers (IDM)	47.5%	56.3%	54.8%	54.0%	62.7%
System companies and others	2.3%	8.4%	9.1%	9.4%	6.5%

By Geography	**4Q04**	**3Q04**	**2Q04**	**1Q04**	**4Q03**
North America	34.9%	41.8%	44.0%	41.4%	36.2%
Asia Pacific (ex. Japan)	43.5%	31.5%	26.5%	27.2%	28.6%
Japan	8.8%	15.6%	16.2%	16.3%	15.5%
Europe	12.8%	11.1%	13.3%	15.1%	19.7%

Wafer revenue analysis

By Technology (logic, DRAM & copper interconnect only)	**4Q04**	**3Q04**	**2Q04**	**1Q04**	**4Q03**
0.13mm	13.8%	11.9%	9.9%	10.1%	10.4%
0.15mm	14.9%	13.2%	13.3%	15.7%	17.5%
0.18mm	33.6%	46.2%	48.6%	44.4%	34.7%
0.25mm	6.0%	6.4%	8.3%	8.3%	10.6%
0.35mm	31.7%	22.3%	19.9%	21.5%	26.8%

By Logic Only(2)	**4Q04**	**3Q04**	**2Q04**	**1Q04**	**4Q03**
0.13mm	2.4%	1.8%	0.9%	0.0%	0.0%
0.15mm	5.3%	4.6%	3.9%	4.4%	1.9%
0.18mm	38.2%	56.2%	63.0%	58.5%	52.9%
0.25mm	7.8%	6.1%	3.1%	5.0%	3.4%
0.35mm	46.3%	31.3%	29.1%	32.1%	41.8%

Notes:

(1) Previously referred to as Memory however, all historical reported figures in this category have consisted of only DRAM devices
(2) Excluding 0.13mm copper interconnects

Sales from the computer products segment grew faster than other applications in 4Q04 compared to 3Q04.

Percentage of sales from logic wafers, including copper interconnects, decreased to 75.1% of sales in 4Q04, as compared to 77.6% in 3Q04.

Fabless companies increased to 50.2% of sales in 4Q04, as compared to 35.3% in 3Q04.

Percentage of sales generated from Asia Pacific (excluding Japan) customers increased to 43.5% in 4Q04, as compared to 31.5% in 3Q04.

Percentage of wafer revenues from 0.18mm and below technologies decreased to 62.3% of sales in 4Q04, as compared with 71.3% in 3Q04.

Capacity:

Fab/(Wafer Size)	**4Q04(1)**	**3Q04(1)**

Fab 1 (8)	45,536	38,820
Fab 2 (8)	35,870	34,824
Fab 4 (12)	7,027	
Fab 7 (8)	14,182	10,322
Total monthly wafer fabrication capacity	102,615	83,966
Copper Interconnects:		
Fab 3 (8)	17,802	15,077
Total monthly copper interconnect capacity	17,802	15,077

Note:

(1) Wafers per month at the end of the period in 8 wafers

As of the end of 4Q04, monthly capacity increased to 120,417 8-inch wafer equivalents.

Shipment and utilization:

8 wafers	**4Q04**	**3Q04**	**2Q04**	**1Q04**	**4Q03**
Wafer shipments including copper interconnects	303,796	263,808	201,534	174,325	153,125
Utilization rate(1)	95%	99%	99%	99%	97%

Note:

(1) Capacity utilization based on total wafer out divided by estimated capacity

Wafer shipments increased to 303,796 units of 8-inch equivalent wafers in 4Q04, up 15.2% QoQ from 263,808 units of 8-inch wafers in 3Q04, and up 98.4% YoY from 153,125 8-inch wafers in 4Q03.

Utilization rate decreased to 95% in 4Q04.

Blended average selling price trend

The blended ASP decreased to $917 in 4Q04 from $991 in 3Q04, mainly due to the shift to production of more mature logic wafers and the general decline of DRAM pricing.

Logic average selling price trend

(excluding 0.13mm copper interconnects)

The logic ASP (excluding 0.13mm copper interconnects) decreased to $1,020 in 4Q04 from $1,091 in 3Q04, mainly due to the shift to production of more mature logic wafers.

2. Detailed financial analysis

Gross profit analysis

	4Q04	**3Q04**	**QoQ**	**4Q03**	**YoY**
		Amounts in $ thousands			
Cost of sales	232,725	202,387	15.0%	114,333	103.5%
Depreciation	130,839	108,254	20.9%	51,957	151.8%
Other manufacturing costs	101,886	94,173	8.2%	63,377	63.3%
Gross profit	59,117	72,510	18.5%	30,714	92.5%
Gross margin	20.3%	26.4%		21.2%	

Cost of sales increased to $232.7 million in 4Q04 from $202.4 million in 3Q04, primarily due to the increased wafer shipments and increased depreciation expenses, as well as an inventory charge as a result of declining estimated market value.

Gross profit decreased to $59.1 million in 4Q04, down 18.5% QoQ from $72.5 million in 3Q04 and up 92.5% from $30.7 million in 4Q03.

Gross margins decreased to 20.3% in 4Q04 from 26.4% QoQ in 3Q04, primarily due to an increase in depreciation and a lower blended ASP, which was a result of both the general decline in DRAM pricing and an increase in 0.35mm production.

Operating expense analysis

	4Q04	3Q04	QoQ	4Q03	YoY
	Amounts in $ thousands				
Total operating expenses	82,505	29,972	175.3%	26,096	216.2%
Research and development	27,407	20,688	32.5%	9,341	193.4%
General and administrative	25,476	3,831	564.9%	12,251	108.0%
Selling and marketing	2,544	1,899	33.9%	2,269	12.1%
Litigation settlement	23,153				
Amortization of deferred stock compensation	3,925	3,554	10.5%	2,235	75.6%

Total operating expenses increased to $82.5 million in 4Q04, up 175.3% QoQ from $30.0 million in 3Q04 and 216.2% YoY from $26.1 million in 4Q03.

Research and development expenses increased to $27.4 million in 4Q04, up 32.5% QoQ from $20.7 million in 3Q04, primarily due to 90nm research and development activities, non-recurring start up costs associated with Fab 4 (Beijing) rampup, and an increase in depreciation expenses.

General and administrative expenses, excluding foreign exchange, increased to $14.2 million in 4Q04 from $10.3 million in 3Q04, primarily due to legal expenses relating to the litigation with TSMC.

General and administrative expenses, including foreign exchange, increased to $25.5 million in 4Q04, up 564.9% QoQ from $3.8 million in 3Q04, primarily due to a foreign exchange loss of $11.3 million in 4Q04 relating to operating activities, i.e. accounts payable or accounts receivable.

Selling and marketing expenses increased to $2.5 million in 4Q04, up 33.9% QoQ from $1.9 million in 3Q04, primarily due to an increase in engineering material costs relating to sales activities.

Litigation settlement of $23.2 million recorded as an expense in 4Q04.

Other income (expenses)

	4Q04	3Q04	QoQ	4Q03	YoY
	Amounts in $ thousands				
Other income (expenses)	12,358	(3,195)		6,260	97.4%
Interest income	3,264	3,106	5.0%	2,983	9.4%
Interest expense	(4,581)	(3,614)	26.7%	(926)	394.9%
Other, net	13,675	(2,687)		4,203	225.4%
Deemed dividends on preference shares	0	0		(2,531)	100.0%

Other non-operating income of $12.4 million in 4Q04 primarily due to a foreign exchange gain of $13.3 million relating to non-operating activities resulting from financing or investment transactions (i.e. forward contracts) classified as other income (expenses).

3. Liquidity

	4Q04	3Q04
	Amounts in $ thousands	
Cash and cash equivalents	607,173	950,165
Short term investments	20,364	90,823
Accounts receivable	169,188	187,235
Inventory	144,018	134,757
Others	14,675	33,371
Total current assets	955,418	1,396,351
Accounts payable	364,334	717,756
Current portion of long-term debt	191,986	191,984
Others	174,010	85,245
Total current liabilities	730,330	994,985
Cash Ratio	0.8x	1.0x
Quick Ratio	1.1x	1.3x
Current Ratio	1.3x	1.4x

Cash and cash equivalents decreased to $607.2 million from $950.2 million, primarily due to capital expenditure purchases.

Receivable/Inventory days outstanding trends

Capital Structure

	4Q04	3Q04
	Amounts in $ thousands	
Cash and cash equivalents	607,173	950,165
Short-term investment	20,364	90,823
Short-term borrowings	91,000	20,000
Current portion of long-term debt	191,986	191,984
Long-term debt	544,462	544,454
Total debt	827,448	756,438
Net cash	(199,911)	284,550
Shareholders equity	3,109,484	3,112,912
Total debt to equity ratio	26.6%	24.3%

Total debt increased to $827.4 million in 4Q04 compared with $756.4 million in 3Q04, primarily due to additional short-term borrowings.

Total debt-to-equity ratio increased to 26.6% in 4Q04 from 24.3% in 3Q04.

4. Cashflow & Capex

	4Q04	3Q04
	Amounts in $ thousands	
Income (loss) attributable to holders of ordinary shares	(11,216)	39,343
Depreciation & amortization	148,271	122,636
Purchases of plant and equipment	(643,069)	(617,011)
Amortization of acquired intangible assets	4,092	3,508
Net change in cash	(342,992)	(248,428)

Capex plans

Capital expenditures for 2004 were $2 billion.

Planned capital expenditures for 2005 are approximately $1 billion and will be adjusted based on market conditions.

5. 1Q05 guidance

Wafer shipments expected to decrease by 5% to 7%.

Utilization expected to be at approximately 85%.

Blended ASP QoQ expected to decrease by 11% to 13%.

Gross margins expected in the low single digits.

Operating expense as a percentage of sales in the range of 14% to 15%.

Capital expenditures of approximately $350 360 million.

Depreciation and amortization of approximately $170 180 million.

Deferred stock compensation charge of approximately $7 million, of which approximately $4 million will be charged to operating expenses and $3 million in cost of sales.

6. Recent announcements

SMIC Achieves TL9000 Quality Management Certification 2005-03-21

SMIC and C*Core Sign Cooperation Agreement 2005-03-17

SMIC Featured in SEMICON China 2005 2005-03-15

Postponement of Meeting of Board of Directors (2005-03-15)

SMIC Expands Its One-Stop Offerings Through Wafer Bumping Services 2005-03-04

Unusual movement in trading volume (2005-03-02)

QQ Technology and SMIC-BJ Sign an MOU of Partnership 2005-02-28

SMIC reports Fourth Quarter Revenue Results 2005-01-31

SMIC Settles Litigation with Taiwan Semiconductor Manufacturing Company, Ltd. 2005-01-30

SMIC Updates Guidance For 2004 Fourth Quarter 2004-12-22

Shanghai Fangtek and SMIC Sign a Strategic Partnership Agreement 2004-12-09

VeriSilicon Provided Backend Design Service for COMMIT 3G TD-SCDMA Chip, Achieved First Silicon Success 2004-12-08

Please visit SMIC s website http://www.smics.com for further details regarding the above announcements.

CONSOLIDATED BALANCE SHEET

	As of the end of	
	December 31, 2004 (audited)	**September 30, 2004 (unaudited)**
	(In US dollars)	
Assets		
Current assets:		
Cash and cash equivalents	607,172,570	950,164,909
Short term investments	20,364,184	90,823,297
Accounts receivable, net of allowance of $1,105,165 and $421,681 respectively	169,188,287	187,235,125
Inventories	144,017,852	134,757,006
Prepaid expense and other current assets	12,842,994	8,495,044
Assets held for sale	1,831,972	24,875,320
Total current assets	**955,417,859**	**1,396,350,701**
Land use rights, net	39,197,774	34,630,167
Plant and equipment	4,084,340,793	3,785,221,468
Accumulated depreciation	(772,416,194)	(623,572,186)
Plant and equipment, net	3,311,924,599	3,161,649,282
Acquired intangible assets, net	77,735,299	59,720,325
TOTAL ASSETS	**4,384,275,531**	4,652,350,475

	As of the end of	
	December 31, 2004 (audited)	**September 30, 2004 (unaudited)**
	(In US dollars)	
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	364,333,613	717,756,459
Accrued expenses and other current liabilities	82,857,551	65,244,711
Short-term borrowings	91,000,000	20,000,000
Current portion of long-term debt	191,986,372	191,983,707
Income tax payable	152,000	
Total current liabilities	**730,329,536**	**994,984,877**
Long-term liabilities:		
Long-term debt	544,462,074	544,453,946

Total long-term liabilities	**544,462,074**	**544,453,946**
Total liabilities	**1,274,791,610**	**1,539,438,823**
Commitments		
Stockholders equity:		
Ordinary shares, $0.0004 per value, 50,000,000,000 shares authorized, shares issued and outstanding 18,232,179,139 and 18,228,120,120 respectively	7,292,872	7,291,249
Warrants	32,387	50,297
Additional paid-in capital	3,289,724,885	3,291,017,646
Notes receivable from stockholders	(391,375)	(876,911)
Accumulated other comprehensive income	387,776	776,915
Deferred stock compensation	(51,177,675)	(60,178,603)
Accumulated deficit	(136,384,949)	(125,168,942)
Total stockholders equity	**3,109,483,921**	**3,112,911,651**
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**4,384,275,531**	**4,652,350,474**

CONSOLIDATED STATEMENT OF OPERATIONS

	For the three months ended	
	December 31, 2004 (unaudited)	September 30, 2004 (unaudited)
	(In US dollars)	
Sales	291,841,924	274,897,225
Cost of sales	229,573,732	199,163,928
Cost of sales Amortization of deferred stock compensation	3,151,575	3,223,528
Gross profit	**59,116,617**	**72,509,769**
Operating expenses:		
Research and development	27,406,568	20,688,265
General and administrative	25,476,267	3,831,441
Selling and marketing	2,543,654	1,899,002
Litigation settlement	23,153,105	
Amortization of deferred stock compensation*	3,925,186	3,553,558
Total operating expense	**82,504,780**	**29,972,266**
Income from operations	**(23,388,163)**	**42,537,503**
Other income (expenses):		
Interest income	3,263,727	3,107,173
Interest expense	(4,580,725)	(3,614,187)
Others, net	13,675,198	(2,687,195)
Total other income (expenses), net	**12,358,200**	**(3,194,209)**
Net income (loss) before income taxes	**(11,029,963)**	**39,343,294**
Income tax current	186,044	
Net income (loss)	**(11,216,007)**	**39,343,294**
Deemed dividends on preference shares		
Income (loss) attributable to holders of ordinary shares	**(11,216,007)**	**39,343,294**
Income (loss) per share, basic	(0.0006)	0.0022
Income (loss) per ADS, basic(1)	(0.0311)	0.1095
Income (loss) per share, diluted	(0.0006)	0.0022
Income (loss) per ADS, diluted(1)	(0.0311)	0.1079
Shares used in calculating basic income per share (in millions)	18,006	17,961
Shares used in calculating diluted income per share (in millions)	18,006	18,225

* Amortization of deferred stock compensation related to:

Research and development	1,175,503	1,346,112
General and administrative	2,289,305	1,667,791
Selling and marketing	460,378	539,655
Total	3,925,186	3,553,558

(1) ADS equals 50 ordinary shares.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended	
	December 31, 2004 (unaudited)	**September 30, 2004 (unaudited)**
	(In US dollars)	
Operating activities:		
Income (loss) attributable to holders of ordinary shares	(11,216,007)	39,343,294
Deemed dividends on preference shares		
Net income	(11,216,007)	39,343,294
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain (loss) on disposal of plant and equipment	(69,916)	(486,231)
Bad debt expense	683,484	64,855
Depreciation and amortization	148,271,100	122,635,996
Amortization of acquired intangible assets	4,091,723	3,507,555
Amortization of deferred stock compensation	7,076,761	6,777,086
Changes in operating assets and liabilities:		
Accounts receivable	17,363,354	(55,592,431)
Inventories	(9,260,846)	(21,194,466)
Prepaid expense and other current assets	(5,852,079)	115,508
Accounts payable	5,602,323	8,805,299
Income tax payable	152,000	
Accrued expenses and other current liabilities	1,312,002	15,264,958
Net cash provided by operating activities	**158,153,899**	**119,241,423**
Investing activities:		
Purchases of plant and equipment	(643,069,258)	(617,011,320)
Purchases of acquired intangible assets	(3,967,841)	(728,529)
Sale of short-term investments	69,933,387	
Proceeds received for assets held for sale	3,158,817	3,025,118
Proceeds from disposal of plant and equipment	868,000	52,196
Net cash used in investing activities	**(573,076,895)**	**(614,662,535)**
Financing activities:		
Proceeds from short-term borrowings	71,010,793	20,000,000
Proceeds from long-term debts		226,480,618
Proceeds from exercise of employee stock options	297,743	495,772
Collection of notes receivables from employees	485,536	
Net cash provided by financing activities	**71,794,072**	**246,976,390**
Effect of foreign exchange rate changes	136,585	17,208
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(342,992,339)**	**(248,427,514)**
CASH AND CASH EQUIVALENTS, beginning of period	950,164,909	1,198,592,423
CASH AND CASH EQUIVALENTS, end of period	**607,172,570**	**950,164,909**

As at the date of this announcement, the directors of the Company are Richard R. Chang as Chairman and executive director of the Company; Lai Xing Cai and Fang Yao (alternate director to Lai Xing Cai) as non-executive directors of the Company; and Ta-Lin Hsu, Yen-Pong Jou, Tsuyoshi Kawanishi, Henry Shaw, Lip-Bu Tan and Yang Yuan Wang as independent non-executive directors of the Company.

By order of the Board

Semiconductor Manufacturing International Corporation

Richard R. Chang

Chairman

Shanghai, PRC

March 29, 2005

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* *for identification only.*

Exhibit 99.2

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(STOCK CODE: 0981)

Announcement of 2004 Annual Results

The Directors of Semiconductor Manufacturing International Corporation (the Company or SMIC) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the Group) for the year ended 31 December, 2004 as follows:

Safe Harbor Statement (Under the Private Securities Litigation Reform Act of 1995)

This announcement 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 the Company s current assumptions, expectations and projections about future events. The Company uses words like believe, anticipate, intend, estimate, expect, 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 the Company s senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause the Company 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 cyclically and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by the Company s customers, timely introduction of new technologies, the Company 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.

Investors should consider the information contained in the Company s filings with the U.S. Securities and Exchange Commission (SEC), including its registration statement on Form F-1, as amended, filed with the SEC on 11 March, 2004, especially in the Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations sections, and its registration statement on Form A-1 as filed with the Stock Exchange of Hong Kong (SEHK) on 8 March, 2004, and such other documents that the Company may file with the SEC or SEHK from time to time, including on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on the Company s future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this announcement may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated, or if no date is stated, as of the date of this announcement.

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

Business Review

2004 was a year marked with significant achievements for SMIC. In January 2004, we completed the acquisition of our Fab 7, an 8-inch wafer fab located in Tianjin, China, and commenced mass production in May 2004. In March 2004, we successfully completed our initial public offering on the New York Stock Exchange and the Hong Kong Stock Exchange, raising approximately US$1 billion for the Company. We commenced pilot production at our Fab 4, which is China s first 12-inch fab, in July 2004. By December 31, 2004, approximately four years after commencing construction of our Fab 1, we reached sales revenue nearing US$1 billion and achieved our first year of profitability.

Overview of Business Developments

Our success in 2004 has been characterized by our commitment to increasing our capacity and expanding our portfolio of leading edge process technology. The speed of our capacity ramp-up represents one of the fastest in the semiconductor industry. Our wafers shipped and sales increased from 476,451 wafers and US$365.8 million in 2003 to 943,463 wafers and US$974.7 million in 2004, representing a 98.0% and 166.4% increase respectively. Our monthly wafer capacity reached 120,417 8-inch wafer equivalents as of the end of 2004. As a result of our rapid expansion and growth, particularly as integrated device manufacturers continued to outsource their chip fabrication for complex and high performance devices, we have become the third largest foundry in the world. According to *IC Insights, a leading IC industry market research company, we increased our market share by approximately 3%, the largest increase among all foundries in the world.*

In addition to our rapidly increasing capacity, we also have the most advanced process technology among foundries in China by providing semiconductor fabrication services using 0.35 micron down to 0.10 micron process technology. We are the first fab in China to introduce copper technology on a 0.13 micron production line, and in 2004, 68.5% of our wafer sales were from products that utilized advanced technology of 0.18 micron and below. Some of the highlights from this year include our offering of 0.13 micron wafer fabrication process technology, our pilot production of 0.11 micron DRAM at our 12-inch fab in Beijing, and our internal development of a 90 nanometer prototype SRAM chip. We are scheduling to begin to offer 90 nanometer process technology for logic devices by the end of 2005.

With our gross profit reaching US$253.3 million this year, a key factor influencing our profit margins has been our capacity utilization. Because a high percentage of our cost of sales is of a fixed nature, operations at or near full capacity have a significant positive effect on output and profitability. In both 2002 and 2003, our wafer fabs had an average annual utilization rate of 94% and in 2004, our wafer fabs had an average annual utilization rate of 98%. Factors affecting utilization rates are our ability to manage the production facilities and product flows efficiently, the percentage line yield of wafers during the fabrication process, the complexity of the wafer produced, and the actual product mix.

Our Fabs

In January 2004, we acquired our Tianjin fab, which we refer to as Fab 7, from Motorola (China) Electronics Limited (MCEL), a wholly-owned subsidiary of Motorola, Inc. (Motorola). Fab 7, located in the Xiqing Economic Development Area, has a total floor space of 73,182 square meters, including approximately 8,492 square meters of production clean room area. As of December 31, 2004, Fab 7 had increased its capacity to 14,182 wafers per month. We are scheduling to have wafer fabrication capacity of 15,000 wafers by the end of 2005.

Our Fab 4 is the first 12-inch fab in production in China. We recently completed construction at our Fab 5 and Fab 6C which will also be 12-inch fabs. All of these fabs are located in the Beijing Economic and Technological Development Area. 12-inch wafers have a surface area that is 2.25 times larger than the current industry standard 8-inch wafers, thereby enabling us to manufacture more integrated circuits on each wafer with lower per die costs. Fab 6C is being situated between the two wafer fabs, Fab 4 and Fab 5, and will provide copper interconnects for the 0.13mm and below logic wafers produced by both these fabs. This design is intended to prevent metal line contamination to the wafer fabrication processes while achieving greater flexibility in production. Our Beijing fabs have a total floor space of 179,858 square meters, 17,998 square meters of which will consist of production clean room area. We commenced pilot production in Fab 4 in July 2004 and commercial production in the first half of 2005. Fab 4 will initially produce advanced high-speed low power 512Mb DDR2 DRAM using 0.11mm and 0.10mm manufacturing processes and then commence production for 90 nanometer logic devices. As of December 31, 2004, Fab 4 had a capacity of 7,027 8-inch wafer equivalents per month, and we plan to have wafer fabrication capacity of 29,000 8-inch wafer equivalents by the end of 2005.

Customers and Markets

Our goal has been to establish our position as one of the leading semiconductor foundries in the world, and to maintain our leadership position in China. We believe that by establishing our company as a key foundry partner to local semiconductor companies at an early stage of their development, we will be well positioned to take advantage of the potential semiconductor growth in China. According to the

China Center for Information Industry Development (CCID), the Chinese integrated circuit industry in terms of overall sales will increase to US$76.3 billion in 2008 from US$25.1 billion in 2003, representing a compound annual growth rate of 24.9%. As a result, China s share of the worldwide integrated circuit market is expected to increase from 15.4% in 2003 to 29.2% in 2008. However, China s domestic integrated circuit manufacturing capacity would represent only approximately 5% of the estimated worldwide integrated circuit market of US$311 billion in 2008.

With over 463 fabless semiconductor companies and design centers in China, and the majority of these potential customers located around the Greater Shanghai and Beijing metropolitan areas, both of which are in the vicinity of our existing fabs, we are committed to offering them best-in-class services and solutions that are customized for their particular technological capabilities. We have already established foundry relationships with approximately 50 leading local fabless semiconductor companies in China, five of which are among the ten largest fabless companies in China based on their revenues in 2004, according to CCID. While many of them are still using more mature technologies, we are cultivating our relationships with them by helping them migrate from 0.35 micron technology down to 0.18 micron technology and below. For example, in August 2004, we successfully developed 0.18mm high voltage devices and process technology specifically targeted for these customers. We are working closely with our customers to implement this technology within their product offerings, which will enable them to reap economies of scale at the lower technology nodes.

As a result of our domestic efforts, the Asia Pacific region (excluding Japan) accounted for 43.5% of our revenue during the fourth quarter of 2004, surpassing North America for the first time as our largest region of revenue. The Greater China region alone grew and accounted for over 10% of our total revenues during the fourth quarter of 2004. As the Chinese IC industry continues to develop and work on more advanced technologies, our plan is to engage more domestic companies by providing them with advanced technology and manufacturing solutions at home.

We also have a strong global customer base consisting of leading IDMs, fabless semiconductor companies, and systems and other companies. For 2004, our revenue by region was led by North America at 40.2%, then Asia Pacific (excluding Japan) at 33.2%, then Japan at 13.9%, and Europe at 12.7%. We believe these customers have high growth potential and business plans that are directed towards utilizing our manufacturing services and solutions. We intend to maintain a diversified customer mix in terms of end-market applications, processes, and geographical focus in order to manage our exposure to each market segment.

We generate our sales primarily from fabricating semiconductors. We also derive a relatively small portion of our sales from the mask-making and wafer probing services that we perform for third parties separately from our foundry services.

Capacity Expansion Plans

We intend to maintain our strategy of expanding capacity and improving our process technology to meet both the capacity requirements and the technological needs of our customers.

The semiconductor industry is characterized by substantial capital expenditures. This is particularly true for our company as we have recently constructed and equipped fabs and are continuing to construct and equip new fabs. Our capital expenditures in 2004 were US$2,000 million, and we recorded depreciation and amortization costs of US$457.0 million. We currently expect that our capital expenditures in 2005 will be approximately US$1,000 million.

We plan to use this capital expenditure mainly to ramp up our fabs in Beijing, Shanghai, and Tianjin. We anticipate that by the end of 2005, our monthly capacity will be 147,000 8-inch wafer equivalents.

Research and Development

The semiconductor industry is also 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. We spent approximately US$78.2 million in 2004 on research and development expenses, which represented 8.0% of our sales. Our research and development costs in 2004 include non-recurring engineering costs associated with the ramp-up of Fab 4 and Fab 7. We employ over 600 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 90 nanometer technology in house and successfully produced our first prototype SRAM device in 2004. We are scheduling to begin to offer 90 nanometer process technology for logic devices by the end of 2005.

Joint Ventures

We also will seek to participate in strategic partnerships to meet the demands of 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 manufacture of color filters and micro-lenses for CMOS image sensors. We hold a 30% equity interest in Toppan SMIC Electronics (Shanghai) Co., Ltd. These products are increasingly being used in consumer products such as mobile phone cameras, digital-still cameras, and automobile and home security applications. In 2004, we commenced construction of Fab 9, which we will lease to Toppan SMIC Electronics (Shanghai) Co., Ltd. We understand that Toppan SMIC Electronics (Shanghai) Co., Ltd. plans to commence pilot production by the end of 2005.

Also in July 2004, we entered into an agreement to establish an assembly and testing facility in Chengdu, China. We anticipate that this assembly and testing facility will serve as an additional assembly and testing partner to us. We believe that this facility will commence pilot production in the second half of 2005.

Material Litigation

On January 30, 2005 we resolved pending patent and trade secret litigation with Taiwan Semiconductor Manufacturing Company Limited (TSMC). Under the terms of the settlement, the two parties will cross license to each other s patent portfolio through December 2010 and, we will pay TSMC US$175 million, payable in installments over six years (US$30 million in each of the first five years and US$25 million in the sixth year). The agreement also provides for the dismissal of all pending legal actions without prejudice between the two companies in the U.S. Federal District Court, the California State Superior Court, the U.S. International Trade Commission, and the Taiwan District Court. In the settlement agreement, TSMC covenants not to sue SMIC for itemized acts of trade secret misappropriation as alleged in the complaints, although the settlement does not grant a license to use any of TSMC s trade secrets. The patent cross license and settlement agreement are terminable upon a breach by SMIC, which may result in the reinstitution of the legal proceedings and acceleration of the outstanding payments under the settlement agreement. Outlook for 2005

Our strategy for 2005 will remain in line with the business goals that we have held thus far:

Capitalize on our early mover advantage to capture semiconductor growth opportunities in China

Target a diversified global customer base

Maintain leading edge technology and innovation through internal research and development and strategic alliances and partnerships

Provide high quality customer service

Shift product mix to logic wafers while maintaining expertise in DRAM technology

While 2005 looks to be a year of flat growth for the semiconductor industry with demand improving as the year progresses, we will continue to aggressively pursue new customers both globally and domestically by offering them leading edge foundry services. During the last quarter of 2004, we increased our number of domestic clients to account for over 10% of our revenues. We believe that the Greater China region will continue to exhibit strong demand and growth. As a result, we aim to have the Greater China region account for approximately 15% of our total sales by the end of 2005.

We will also continue to expand technology offerings to attract even more global customers. During the first half of 2005, we will expect to see 0.11 micron and 0.10 micron DRAM in commercial production at our 12-inch fab in Beijing. By the second half of 2005, we will expect to use 90 nanometer process technology to manufacture logic wafers for a leading U.S. IDM. Meanwhile, we will also be supporting our customers as they migrate to more advanced technologies, with a particular emphasis on our domestic customers as they migrate from 0.35 micron down to 0.18 micron process technology.

We will also continue to consider other strategic alliances and partnerships that will enable us to leverage our unique position in China to maximize shareholder return.

We believe that 2005 will be another milestone year for SMIC as we continue to broaden our customer base and expand our technology offerings.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Sales. Sales increased by 166.4% from US$365.8 million for 2003 to US$974.7 million for 2004, primarily as a result of the increase in our manufacturing capacity and our ability to use such capacity to increase sales. The number of wafers we shipped increased by 98.0%, from 476,451 8-inch wafer equivalents to 943,463 8-inch wafer equivalents, between these two periods. The average selling price of the wafers we shipped also increased by 33.5% from US$733 per wafer to US$979 per wafer, while the average selling price of the logic wafers we shipped increased by 19.0% from US$896 per wafer to US$1,066 per wafer. The percentage of wafers shipped that used 0.18 micron and below process technology also increased from 43.6% to 68.5% between these two periods.

Cost of sales and gross profit (loss). Cost of sales increased by 98.6% from US$363.2 million for 2003 to US$721.4 million for 2004. This increase was primarily due to the significant increase in sales volume, manufacturing labor expenses and depreciation. Other factors included an increase in the amount of direct and indirect materials purchased corresponding to the increase in wafers shipped. In addition, deferred stock compensation expenses relating to employees involved in the manufacturing of wafers increased to US$11.6 million in 2004 from US$5.5 million in 2003, primarily due to additional stock options granted and restricted share units awarded to new and existing employees involved in this activity. We amortize the deferred stock compensation expense using the straight-line method over the applicable vesting periods, which is typically four years.

We had gross profit of US$253.3 million for 2004 compared to gross profit of US$2.6 million in 2003. Gross margins improved to 26.0% in 2004 from 0.7% in 2003. The increase in gross margins was primarily due to an increase in the average selling price per wafer, a shift in production to more logic and less DRAM wafers, migration towards more advanced and higher margin process technology and a lower average cost per wafer resulting from our ability to leverage fixed costs over a greater number of wafers manufactured.

Operating expenses and loss from operations. Our operating expenses increased by 126.8% from US$75.3 million for 2003 to US$170.9 million for 2004 due to the increase in research and development expenses, general and administrative expenses, amortization of deferred stock compensation and the litigation settlement.

Our research and development expenses increased by 143.7% from US$32.1 million for 2003 to US$78.2 million for 2004. This increase in research and development expenses resulted primarily from non-recurring startup engineering costs associated with the ramp-up of Fab 4 and the commencement of commercial production at Fab 7, 90 nanometer research and development activities and an increase in depreciation and amortization expenses.

Furthermore, as a part of the settlement with TSMC, we have allocated US$23.2 million of the total settlement amount to litigation settlement costs in 2004.

General and administrative expenses increased by 64.9% to US$46.0 million for 2004 from US$27.9 million for 2003, primarily due to an increase in personnel and legal fees.

Selling and marketing expenses decreased by 13.9% from US$9.4 million for 2003 to US$8.1 million for 2004, primarily due to a decrease in engineering material costs relating to sales activities.

In addition, our deferred stock compensation expenses relating to employees involved in research and development, general and administrative and selling and marketing increased from US$5.9 million to US$15.4 million between these periods, primarily due to additional stock options granted and restricted share units awarded to new and existing employees involved in these activities. We amortize the deferred stock compensation expense over the applicable resting periods, which is typically four years.

As a result, our income from operations increased to US$82.4 million in 2004 from a loss of US$72.7 million in 2003. Our operating margin was 8.5% and negative 19.9%, respectively, for these two years.

Other income (expenses). Our other income (expenses) increased 14.3% from US$6.6 million in 2003 to US$7.5 million in 2004. This increase was primarily attributable to the increase in interest income from US$5.6 million in 2003 to US$10.6 million in 2004 and foreign currency exchange gains from US$1.5 million in 2003 to US$8.2 million in 2004. This interest income was primarily derived from bank deposits on the proceeds received from the global offering.

Net income (loss). Due to the factors described above, we had net income of US$89.7 million in 2004 compared to a net loss of US$66.1 million for 2003.

Deemed dividends on preference shares. In 2004, we recorded aggregate deemed dividends on preference shares of US$18.8 million, representing the difference between the sale and conversion price of a warrant to purchase Series D convertible preference shares issued in the first quarter of 2004 and their respective fair market values.

In 2003, we recorded deemed dividends on preference shares of US$35.2 million, representing the difference between the sale and conversion prices of warrants to purchase Series C convertible preference shares we issued in the third and fourth quarters of 2003 and their respective fair market values. We also recorded deemed dividends on preference shares of US$1.9 million in 2003, representing the difference between the sale and conversion prices of a warrant to purchase Series D convertible preference shares we issued in the fourth quarter of 2003 and their respective fair market values. All of these warrants expired unexercised upon the completion of our global offering.

Bad debt provision. We determine our bad debt provision based on our historical experience and the relative aging of receivables. We provide bad debt provision based on the age category of 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. Our bad debt provision made (reversed) in 2002, 2003, and 2004 amounted to US$0.2 million, US$(0.1 million) and US$1.0 million, respectively. We review, analyze and adjust bad debt provisions on a monthly basis.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in US dollars)

	Year ended December 31,		
	2004	**2003**	**2002**
Sales	$ 974,664,696	$ 365,823,504	$ 50,315,345
Cost of sales	709,805,644	357,701,498	103,110,116
Cost of sales Amortization of deferred stock compensation	11,595,131	5,539,275	2,127,822
Gross profit (loss)	253,263,921	2,582,731	(54,922,593)
Operating expenses:			
Research and development	78,167,336	32,070,123	37,459,380
General and administrative	46,015,039	27,911,791	17,781,998
Selling and marketing	8,129,592	9,446,819	4,371,243
Litigation settlement	23,153,105		
Amortization of deferred stock compensation*	15,415,947	5,900,239	1,769,105
Total operating expenses	170,881,019	75,328,972	61,381,726
Income (loss) from operations	82,382,902	(72,746,241)	(116,304,319)
Other income (expense):			
Interest income	10,587,244	5,615,631	10,980,041
Interest expense	(13,697,894)	(1,424,740)	(176,091)
Foreign currency exchange gain	8,217,567	1,522,661	247,407
Others, net	2,441,057	888,189	2,650,049
Total other income, net	7,547,974	6,601,741	13,701,406
Income (loss) before income tax	89,930,876	(66,144,500)	(102,602,913)
Income tax current	186,044		
Net income (loss)	89,744,832	(66,144,500)	(102,602,913)
Deemed dividends on preference shares			