SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
October 03, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

under the Securities Exchange Act of 1934

For the month of October 2006

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 by furnishing the information contained in this Form, the registrant 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:	Interim report of the Registrant for the six months ended June 30, 2006, published on September 27, 2006, as required by The Stock Exchange of Hong Kong Limited.

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: President and Chief Executive Officer

Date: October 3, 2006

EXHIBIT INDEX

Exhibit	Description
Exhibit 99.1:	Interim report of the Registrant for the six months ended June 30, 2006, published on September 27, 2006, as required by The Stock Exchange of Hong Kong Limited.

Exhibit 99.1

Semiconductor Manufacturing International Corporation

Interim Report 2006

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

This interim report 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.

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

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ADDITIONAL INFORMATION

References in this interim report to:

Company are to Semiconductor Manufacturing International Corporation;

China or the PRC are to the People s Republic of China, excluding for the purpose of this interim report, Hong Kong, Macau and Taiwan;

HK$ are to Hong Kong dollars;

Rmb are to Renminbi, the legal currency of China;

US$ are to U.S. dollars;

SEHK or Hong Kong Stock Exchange are to The Stock Exchange of Hong Kong Limited;

SEC are to the U.S. Securities and Exchange Commission;

NYSE or New York Stock Exchange are to the New York Stock Exchange, Inc.;

2006 AGM are to the Company s Annual General Meeting held on May 30, 2006; and

global offering are to the initial public offering of our ADSs and our ordinary shares, which offering was completed on March 18, 2004.

All references in this interim report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, and 90 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state 0.25 micron process technology, that also includes 0.22 micron, 0.21 micron, 0.20 micron and 0.19 micron technologies. 0.18 micron process technology also includes 0.17 micron and

0.16 micron technologies; 0.15 micron process technology includes 0.14 micron technology; and 0.13 micron process technology includes 0.11 micron and 0.10 micron technologies. References to U.S. GAAP mean the generally accepted accounting principles in the United States. Unless otherwise indicated, our financial information presented in this interim report has been prepared in accordance with U.S. GAAP.

Semiconductor Manufacturing International Corporation

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CHAIRMAN S STATEMENT

Dear Shareholders,

At the end of 2005, China had surpassed the United States to become the world s largest market for integrated circuits. SMIC continues to play an integral role in developing China s world-class semiconductor technologies and making China achieve recognition as a source for quality semiconductor manufacturing.

Since incorporation in April 2000, SMIC has grown to become a world class foundry offering comprehensive services to our customers worldwide. At the same time, SMIC continues to march towards advanced technology development. The research and development at the advanced technology nodes have been fruitful. In 2006, SMIC rolled out its product offering using the 90 nanometer process technology.

As a publicly listed company on the New York Stock Exchange, SMIC is subject to the requirements of the Sarbanes-Oxley Act of 2002 (SOX). The Company has established committees and dedicated teams to improve the internal controls of the Company. The fulfillment of the requirements of SOX remains a priority for the Company, as the Company seeks to maintain its responsibility as a corporate citizen and uphold a high level of transparency and international standards of corporate governance.

Sincerely,

Yang Yuan Wang

Chairman of the Board

Shanghai, PRC

September 21, 2006

Semiconductor Manufacturing International Corporation

Interim Report 2006

CHIEF EXECUTIVE OFFICER S STATEMENT

Dear Shareholders,

I am pleased to report that SMIC was able to grow its revenues for the first six months of 2006 by 35% to US$712.6 million as compared to US$528.3 million in the first six months of 2005. This was achieved by continuously high utilization of our 200mm fabs and by successfully ramping up our 300mm fab in Beijing using our customers leading edge products. The Company now derives more than 86% of its revenues from mainstream and leading edge technology nodes at 0.18 micron and below, and almost 45% of total sales are derived from 0.13 micron and below. We expect this trend to continue as more of our customers migrate to our 0.13 micron and 90 nanometer logic and memory processes.

Capacity increased by 20% to 167,251 8-inch equivalent wafers per month by the end of June 2006, as compared to 139,025 8-inch equivalent wafers per month in June 2005. Gross profits increased by 331% to US$92.6 million, as compared to US$21.5 million in the first six months of 2005. We have continuously improved our financial performance. The Company recorded a net loss of US$6.5 million for the first six months of 2006, as compared to a net loss of US$70.4 million for the six months of 2005. We expect to continue improving our operations and I am proud that the Company has been able to show significant progress.

During the period, we made significant progress on three product categories at 90 nanometer. Our customers have successfully qualified their memory and logic products using 90 nanometer manufacturing processes, all at our 300mm facility in Beijing. We have delivered the first engineering samples of our advanced NAND flash product, and we continue to target mass production of this product by the end of 2006. I am very proud that the expansion of our 300mm fab in Beijing is on track, and we will continue to utilize our management and operational expertise to ensure that our new 300mm facility in Shanghai will be as successful as the rest of the fabs that SMIC currently operates.

We entered into agreements with other parties to help set up and manage two wafer fab projects in Chengdu, Sichuan Province and Wuhan, Hubei Province. This is a new and exciting chapter in SMIC s history as we continue to seek ways to help our customers win business in China. Under these agreements, SMIC will not invest any capital to construct or equip the wafer manufacturing facilities, but will manage the operations, including the wafer loading for these facilities. More importantly we can help to establish advanced semiconductor manufacturing in these parts of China.

May God bless you and SMIC,

Richard R. Chang

Chief Executive Officer

Shanghai, PRC

September 21, 2006

Semiconductor Manufacturing International Corporation

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CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name	
Registered office	PO Box 309 GT Ugland House George Town Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong registered under Part XI of the Companies Ordinance	Suite 3003, 30th floor No. 9 Queen s Road Central Hong Kong
Website address	http://www.smics.com
Company secretary	Anne Wai Yui Chen
Authorized representatives	Richard R. Chang Anne Wai Yui Chen
Places of listing	Hong Kong Stock Exchange New York Stock Exchange
Name of share	Semiconductor Manufacturing International Corporation
Stock code	0981 (SEHK) SMI (NYSE)

* *For identification purposes only*

Semiconductor Manufacturing International Corporation

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

The Board of Directors (the Board) of Semiconductor Manufacturing International Corporation (the Company) would like to announce the unaudited interim results of operations of the Company and its subsidiaries for the six months ended June 30, 2006, and would like to express their gratitude to the shareholders and their staff for their concern and support of the Company.

Six months ended june 30, 2006 compared to six months ended June 30, 2005

Sales

Sales increased by 34.9% from US$528.3 million for the six months ended June 30, 2005 to US$712.6 million for the six months ended June 30, 2006, 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 26.2%, from 615,411 8-inch wafer equivalents to 776,508 8-inch wafer equivalents, between these two periods. The blended average selling price of all wafers the Company shipped during this period increased by 7.1% from US$817 per wafer to US$875 per wafer, while the average selling price of logic wafers the Company shipped during this period, excluding copper interconnects, increased by 1.2% from US$951 per wafer to US$962 per wafer. The percentage of wafers shipped that used 0.18 micron and below process technology increased by 5.6% from 85.0% of sales to 90.6% of sales between these two periods.

Cost of Sales and Gross Profit

Cost of sales increased by 22.3% from US$506.8 million for the six months ended June 30, 2005 to US$620.0 million for the six months ended June 30, 2006. This increase was primarily due to the significant increases in sales volume, depreciation expenses as the Company continues to increase capacity with the installation of new equipment and manufacturing labor expenses due to the increase in headcount. Other factors included an increase in the amount of direct and indirect materials purchased related to the increase in wafers shipped.

The Company had a gross profit of US$92.6 million for the six months ended June 30, 2006 compared to a gross profit of US$21.5 million for the six months ended June 30, 2005. Gross margins increased to 13.0% for the six months ended June 30, 2006 from 4.1% for the six months ended June 30, 2005. The increase in gross margin was primarily due to an increase in the average selling price per wafer and a lower average cost per wafer resulting from an increase in wafers produced.

Operating Expenses and Income (Loss) From Operations

Operating expenses increased by 39.6% from US$75.6 million for the six months ended June 30, 2005 to US$105.5 million for the six months ended June 30, 2006 due primarily to increases in research and development expenses and amortization of acquired intangible assets.

As a part of the settlement with TSMC, as described in Item 16. Notes to the Unaudited Consolidated Financial Statements Litigation , the Company has allocated US$10.3 million and US$10.0 million of the total settlement amount to amortization of acquired intangible assets for the six months ended June 30, 2005 and 2006, respectively.

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Semiconductor Manufacturing International Corporation

Interim Report 2006

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Research and development expenses increased by 34.0% from US$33.5 million for the six months ended June 30, 2005 to US$44.9 million for the six months ended June 30, 2006. This increase in research and development expenses resulted primarily from 90 nanometer and 65 nanometer research and development activities and an increase in depreciation and amortization expenses.

Selling and marketing expenses increased by 47.8% from US$6.7 million for the six months ended June 30, 2005 to US$9.9 million for the six months ended June 30, 2006, primarily due to an increase in engineering material costs associated with sales activities.

General and administrative expenses increased by 85.7% from US$15.4 million for the six months ended June 30, 2005 to US$28.6 million for the six months ended June 30, 2006, primarily due to the foreign exchange gain relating to operating activities of US$6.1 million for the six months ended June 30, 2005 compared to a foreign exchange loss of US$4.4 million for the six months ended June 30, 2006 and an increase in the bad debt provision.

As a result, the Company s operating loss was US$12.9 million for the six months ended June 30, 2006 compared to operating loss of US$54.1 million for the six months ended June 30, 2005.

The Company s operating margin was negative 1.8% for the six months ended June 30, 2006 and negative 10.2% for the six months ended June 30, 2005.

Other Income (Expenses)

Other expenses increased 6.8% from US$16.2 million for the six months ended June 30, 2005 to US$17.3 million for the six months ended June 30, 2006. This increase was primarily attributable to the increase in interest expense from US$16.7 million for the six months ended June 30, 2005 to US$24.4 million for the six months ended June 30, 2006. This interest expense increase was primarily due to the increase in interest rates related to the Company s long-term debt. In addition, the foreign exchange loss decreased from a loss of US$4.0 million for the six months ended June 30, 2005 to a loss of US$2.6 million for the six months ended June 30, 2006 relating to financing and investing activities, particularly forward contracts.

The Company s net foreign exchange gain and loss, including operating, financing and investing activities, was a loss of US$6.9 million for the six months ended June 30, 2006 compared to a gain of US$2.1 million for the six months ended June 30, 2005.

Net Income (Loss)

Due to the factors described above as well as the strategic tax planning described in the following paragraph, the Company had a net loss of US$6.5 million for the six months ended June 30, 2006 compared to a net loss of US$70.4 million for the six months ended June 30, 2005.

Semiconductor Manufacturing International Corporation

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

As a result of strategic tax planning that became effective in the second quarter of 2006, a temporary difference between the tax and book basis of certain assets was created. Under FAS109 (Accounting for Income Taxes), the Company recognized a deferred tax asset of US$24.4 million and assessed a valuation allowance of US$5.5 million. Accordingly, an income tax benefit of US$18.9 million was recorded in the second quarter of 2006.

Liquidity and Capital Resources

The Company incurred capital expenditures of US$484.4 million for the six months ended June 30, 2005 and US$542.3 million for the six months ended June 30, 2006. The Company has financed substantial capital expenditure requirements through the proceeds received from the cash flows from operations and bank borrowings.

As of June 30, 2006, the Company had US$584.6 million in cash and cash equivalents. These cash and cash equivalents are held in the form of United States Dollars, Japanese Yen, European Euro, and Chinese Renminbi. The net cash provided by operating activities increased by 35.6% from US$274.9 million for the six months ended June 30, 2005 to US$372.7 million for the six months ended June 30, 2006. The net cash provided by operating activities for the six months ended June 30, 2006 was primarily due to proceeds from sales about US$639 million, purchase of material about US$399 million and other net cash inflow about US$132.7 million. The net cash provided by operating activities for the six months ended June 30, 2005 was primarily due to an increase of US$32.5 million in inventories as a result of an increase in commercial production, an increase of US$25.9 million in accounts receivable as a result of an increase in sales, decrease of US$7.4 million in accounts payable relating to the purchase of materials and inventories, US$20.0 million in amortization of acquired intangible assets and the add-back of US$352.2 million in depreciation and amortization relating to commercial production.

The Company s net cash used in investing activities was US$347.0 million for the six months ended June 30, 2006, primarily attributable to purchases of plant and equipment for Fab 1, Fab 2, Fab 3, Fab 4, Fab 6, Fab 7, and Fab 9 as well as costs associated with the construction of Fab 8. Net cash used in investing activities were US$469.5 million for the six months ended June 30, 2005, primarily attributable to the purchases of plan and equipment for Fab 1, Fab 2, Fab 3, Fab 4, Fab 6, and Fab 7, as well as costs associated with the construction of Fab 9, Fab 10, and the assembly and testing facility in Chengdu of US$475.6 million.

The Company s net cash used in financing activities was US$26.9 million for the six months ended June 30, 2006. This was primarily due to repayment of US$295.5 million in the form of short-term borrowings, repayment of US$515.7 million in the form of long-term debt borrowings, repayment of US$15.0 million in the form of promissory notes, proceeds of US$148.3 million from short-term borrowings, and proceeds of US$652.9 million from long-term borrowings.

The Company s net cash provided by financing activities was US$164.1 million for the six months ended June 30, 2005. This was primarily derived from proceeds of US$238.0 million in the form of short-term borrowings, proceeds of US$128.4 million in the form of long-term debt borrowings, proceeds of US$39.0 million from minority interest shareholders, repayment of US$105 million in the form of short-term borrowings, and repayment of US$124.5 million in the form of long-term debt borrowings.

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Semiconductor Manufacturing International Corporation

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

As of June 30, 2006, the Company s outstanding long-term liabilities primarily consisted of US$877.9 million in secured bank loans, of which US$47.2 million is classified as the current portion of long-term loans. The long- term loans are repayable in installments commencing in December 2006 and December 2007 with the last payments due in June 2011 and June 2010, respectively.

Long-term debt. In December 2001, Semiconductor Manufacturing International (Shanghai) Corporation (SMIC Shanghai) entered into a 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. The interest rate on the loan ranged from 6.16% to 7.05% for the six months ended June 30, 2006. 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 for the six months ended June 30, 2006 and for the six months ended June 30, 2005 were US$6.6 million and US$8.5 million, respectively, of which a significant portion was capitalized as additions to assets under construction. As of June 30, 2006, this facility was fully repaid.

In January 2004, SMIC Shanghai entered into the second phase long-term facility arrangement for US$256.5 million with four Chinese banks. As of December 31, 2004, SMIC Shanghai had fully drawn down on this loan facility. The interest rate on the loan ranged from 6.16% to 7.05% for the six months ended June 30, 2006. 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 for the six months ended June 30, 2006 and for the six months ended June 30, 2005 were US$7.2 million and US$5.7 million, respectively, of which US$2.7 million and US$nil were capitalized as additions to assets under construction in 2006 and 2005, respectively. As of June 30, 2006, this facility was fully repaid.

In June 2006, SMIC Shanghai entered into a new long-term facility arrangement for US$600.0 million with a consortium of international and PRC banks. Of this principal amount, US$392.6 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 our Shanghai 8-inch fabs. We have guaranteed SMIC Shanghai s obligations under this facility. As of June 30, 2006, SMIC Shanghai had drawn down US$392.6 million from this facility. The interest expense incurred for the six months ended June 30, 2006 was US$0.2 million.

The key financial covenants contained in the loan agreement entered into in June 2006 include the following:

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

Consolidated tangible net worth of less than US$1.2 billion;

The percentage of consolidated total borrowings to consolidated tangible net worth of more than 60% for periods up to and including December 31, 2008 and exceeds 45% thereafter;

Semiconductor Manufacturing International Corporation

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

The ratio of consolidated total borrowings to EBITDA for the prior four quarters exceeds 1.50x; or

The debt service coverage ratio is less than 1.5x, where the debt service coverage ratio is the ratio of EBITDA for the previous four quarters divided by scheduled principal repayments and interest expense for all bank borrowings (including hire purchases, leases and other borrowed monies) for the same period.

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

Consolidated tangible net worth of less than US$2.3 billion;

The percentage of consolidated net borrowings to consolidated tangible net worth of more than 50% for periods up to and including June 30, 2009 and exceeds 40% thereafter; or

The ratio of consolidated net borrowings to EBITDA for the prior four quarters exceeds 1.50x for periods up to and including June 30, 2009 and exceeds 1.3x thereafter.

As of June 30, 2006, SMIC Shanghai had met these covenants such that no event of default had been triggered.

In May 2005, Semiconductor Manufacturing International (Beijing) Corporation (SMIC Beijing) entered into a five year 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 and is collateralized by the site s plant and equipment. The drawdown period of this facility was twelve months from the sign off date of the agreement. As of June 30, 2006, SMIC Beijing had drawn-down US$484.9 million on this loan facility. The interest rate ranged on this loan facility from 6.26% to 7.17% for the six months ended June 30, 2006. The principal amount is repayable starting in December 2007 in six semi-annual installments. The interest expense incurred for the six months ended June 30, 2006 was US$8.7 million of which US$86,540 was capitalized as additions to assets under construction for the six months ended June 30, 2006.

Any of the following would constitute an event of default for SMIC Beijing during the term of the facility:

[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).

As of June 30, 2006, SMIC Beijing had a capacity of 15,750 12-inch wafers per month. SMIC Beijing had met these covenants such that no event of default had been triggered.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

On December 15, 2005, the Company entered into a long-term loan facility agreement in the aggregate principal amount of EUR 85 million (equivalent to approximately US$105 million) with ABN Amro Bank N.V. and Commerz Bank (Nederland) N.V.. The drawdown period of the facility ends on the earlier of (i) twenty 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. This long- term loan facility is backed by credit insurance issued by Atradius Dutch State Business N.V. and secured by the manufacturing equipment purchased using the funds drawn down under this facility. As of June 30, 2006, the Company had no borrowings on this facility.

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 Dutch Loan, and our land use rights and plant in proportion to the principal amount outstanding under this facility and the Dutch Loan. We have guaranteed SMIC Tianjin s obligations under this facility.

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

[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.

As of June 30, 2006, SMIC Tianjin had no borrowings on this facility.

Short-term borrowings. As of June 30, 2006, the Company had short-term credit agreements that provided total credit facilities up to approximately US$357 million on a revolving credit basis. As of June 30, 2006, the Company had drawn down approximately US$118 million under these credit agreements and approximately US$239 million is available for future borrowings. The outstanding borrowings under the credit agreements are unsecured. The interest expense incurred for the six months ended June 30, 2006 and for the six months ended June 30, 2005 were US$5.5 million and US$3.0 million, respectively. The interest rate on the loans ranged from 3.41% to 6.52% for the six months ended June 30, 2006.

Capitalized Interest

Interest cost incurred on funds used to construct plant and equipment during the active construction period is capitalized, net of government subsidies received. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interest of US$2.9 million and $3.7 million has been added to the cost of the underlying assets during the six months ended June 30, 2006 and June 30, 2005, respectively, and is amortized over the respective useful life of the assets. For the six months ended June 30, 2006 and June 30, 2005, the Company recorded amortization expenses relating to the capitalized interest of US$2.2 million and US$1.4 million, respectively.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Commitments

As of June 30, 2006, the Company had commitments of US$0.1 million to purchase land use rights for the living quarters at SMIC Beijing, US$118.1 million for facilities construction obligations for the assembly and testing facility in Chengdu and the Beijing, Tianjin, and Shanghai fabs, and US$308.7 million to purchase machinery and equipment for the assembly and testing facility in Chengdu and the Beijing, Tianjin and Shanghai fabs. As of June 30, 2006, the Company had total commitments of US$42 million to invest in certain joint venture projects. The Company expects to complete the cash injection of these projects in the next year.

Debt to Equity Ratio

As of June 30, 2006, the Company s debt to equity ratio was 32.9% 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.

Contingent Liabilities

As of June 30, 2006, the Company did not have any material contingent liabilities.

Foreign Exchange Rate Fluctuation Risk

The Company s revenues, expenses, and capital purchasing activities are primarily transacted in United States Dollars. However, since the Company has operations consisting of manufacturing, sales activities and capital purchasing outside of the U.S., the Company enters into transactions in other currencies and is primarily exposed to changes in exchange rates for the European Euro, Japanese Yen, and Chinese Renminbi.

To minimize these risks, the Company purchases foreign-currency forward exchange contracts with contract terms normally lasting less than twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign currency denominated activities. These forward exchange contracts are principally denominated in Chinese Renminbi, Japanese Yen or European Euro and do not qualify for hedge accounting in accordance with SFAS No. 133. As of June 30, 2006, the Company had outstanding foreign currency forward exchange contracts with a notional amount of US$567.5 million. Notional amounts are stated in U.S. dollar equivalent spot market exchange rates, as of the respective dates.

As of June 30, 2006, the fair value of foreign currency forward exchange contracts was a loss of approximately US$2.4 million, which is recorded in accrued expenses and other current liabilities. The Company had foreign currency exchange contracts with a total notional amount of US$355.1 million outstanding as of June 30, 2005, all of which matured by December 31, 2005. The Company does not enter into foreign currency exchange contracts for speculative purposes.

Semiconductor Manufacturing International Corporation

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Interest Rate Risk

The Company s exposure to interest rate risks relates primarily to the Company s long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The Company s long-term debt obligations are all subject to variable interest rates. The interest rates on the Company s U.S. dollar-denominated loans are linked to the LIBOR 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. For the six months ended June 30, 2006, the Company has entered into interest rate derivative contracts to hedge against rising interest rates. For the six months ended June 30, 2006, the mark-to-market result for interest rate swaps was a loss of US$3.8 million.

LITIGATION

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

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, the Company filed on September 12, 2006 a cross-complaint (Cross-Complaint) against TSMC, seeking, amongst other things, damages for TSMC s breach of contract and breach of implied covenant of good faith and fair dealing.

In the Cross-Complaint, the Company sets out in detail the background of why the Company s leading role in Mainland China poses a substantial threat to competitors like TSMC. It describes how TSMC, rather than compete in the marketplace, has undertaken a concerted effort since the previous lawsuits to discredit the Company by making unfair and misleading accusations; how the Company takes its obligations under the Settlement Agreement seriously and fully complied with the agreement; how TSMC did not voice any complaint for a period of over 17 months, until July 2006, after the Company succeeded in meeting a number of major business and technical milestones during Q2 2006; how TSMC failed to negotiate or act in good faith, and how TSMC used the lawsuit and subsequent campaign to repeat its previous campaign to disrupt the Company s business and valued relationships with its customers.

The Company will vigorously pursue the Cross-Complaint and the defence to TSMC s lawsuit in order for the California court, upon full consideration of all evidence, to dismiss TSMC s claims and grant judgment in favour of the Company. The Company believes that this lawsuit will not distract the Company from its mission to provide world class technologies and services and to achieve outstanding and rewarding performance, and its commitment to play a constructive role in the semiconductor industry.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

EMPLOYEES

Save as disclosed in this interim report, there is no material change to the information disclosed in the 2005 annual report of the Company in relation to the number and remuneration of employees, remuneration policies, bonus and share option schemes of employees.

Prospects and Future Plans

Based on the demand forecasts provided by the Company s customers, we expect the second half of 2006 to be a period of expansion as the Company continues to ramp up fabs in Shanghai, Beijing, and Tianjin and expands its service offering. From a technology standpoint, the Company s first 90nm logic product has been successfully qualified and went into commercial production at the end of the second quarter 2006. The first 90nm DDR2 SDRAM product has been successfully qualified at the 300mm facility in Beijing. Further along the technology roadmap, the Company is now developing its 65nm technology process flow at its 300mm fabs.

Furthermore, the Company expects to grow organically through the following projects:

The project in Chengdu to develop and manage an 8-inch fab with product offerings at the 0.35um to 0.18um technology nodes. Equipment move-in is scheduled for the fourth quarter of 2006 with the commencement of pilot production scheduled for the second quarter of 2007.

The project in Wuhan to develop and manage a 12-inch fab with product offerings at the 90nm and below technology nodes. Equipment move-in is scheduled for the fourth quarter of 2007 with the commencement of pilot production scheduled for 2008.

The project with developing a 2GB NROM Flash using the SAIFUN 90nm technology. Engineering samples of this product were successfully delivered by the end of the second quarter of 2006 and commercial production is scheduled for the fourth quarter of 2006.

To the extent that the Company is responsible for the funding of the above projects, this will be satisfied from its internal resources and/or external borrowings.

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CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

In November 2004, the SEHK issued its report entitled the Code on Corporate Governance Practices and Corporate Governance Report , which subject to a grace period, has taken effect for accounting periods commencing on or after January 1, 2005. The SEHK s Code on Corporate Governance Practices (the CG Code) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK (Listing Rules), which contains code provisions to which an issuer such as the Company, is expected to comply or advise as to reasons for deviations (the Code Provisions) and recommended best practices with 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) (which was amended by the Board on July 26, 2005) 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. On July 28, 2005, Mr. Yang Yuan Wang was elected by the Board as the Independent Non-executive Chairman of the Board in compliance with Code Provision A.2.1. of the CG Code, which requires the roles of chairman and the chief executive officer to be segregated and performed by different individuals. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provision of the CG Policy. Subject to the above, 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, 2006 to June 30, 2006, in compliance with the CG Policy.

Model Code For Securities Transactions by Directors of Listed Issuers (the Model Code)

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 six months ended June 30, 2006. 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 the determination of the overall strategy of the Company, the establishment and monitoring of the achievements, of corporate goals and objectives, the oversight of the Company s financial performance, 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.

CORPORATE GOVERNANCE REPORT *(continued)*

In accordance with our articles of association, the Board approved the increase in the number of board members from eight to nine. The Board consists of nine directors as at the date of the interim report. Directors may be elected to hold office until the expiration of their respective terms upon a resolution passed at a duly convened shareholders meeting by holders of a majority of the Company s 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 elected for a term of three years at the Company s 2005 Annual General Meeting of the shareholders of the Company. The Class II directors were elected at the 2006 AGM for a term of three years. The Class III directors (other than Fang Yao) were elected for a term of three years following the completion of the Global Offering. Fang Yao was re-elected as a Class III director at the 2006 AGM and thereafter, will be eligible for re-election at the Company s 2007 Annual General Meeting of the shareholders of the Company.

For the six months ended June 30, 2006, 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.

At the 2006 AGM, Ta-Lin Hsu and Lip-Bu Tan were re-elected as Class II independent non-executive directors of the Company and Fang Yao was re-elected as a Class III non-executive director of the Company.

On May 30, 2006, Yen-Pong Jou retired as a Class II independent non-executive director of the Company. At the Company s 2006 AGM, Jiang Shang Zhou was elected as a Class II independent non-executive director of the Company.

At the 2005 AGM, Albert Y.C. Yu was elected as a Class I independent non-executive director of the Company.

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
Fang Yao	Non-executive Director	Class III

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CORPORATE GOVERNANCE REPORT *(continued)*

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 roles of the Chairman of the Board and the Chief Executive Officer were segregated and exercised by two individuals as of July 28, 2005.

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 regular 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 the 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 a 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.

Board Committees

The Board has established the following 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.

Audit Committee

The Audit Committee primarily oversees the accounting and financial reporting processes of the Company and audits of the financial statements of the Company. The Audit Committee is responsible for assisting the Board s oversight of (1) the quality and integrity of the Company s financial statements and related disclosure, (2) the Company s compliance with legal and regulatory requirements, (3) the independent auditor s qualifications and independence, and (4) the performance of the Company s internal audit function and independent auditors.

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CORPORATE GOVERNANCE REPORT *(continued)*

As of June 30, 2006, 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. 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 tra