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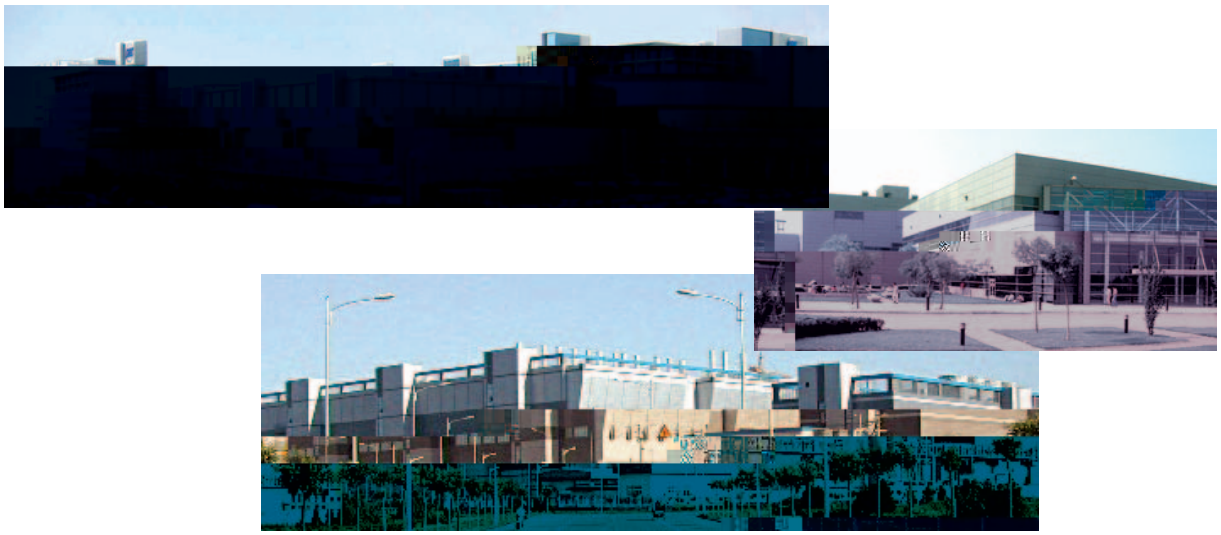

中芯

2004 Interim Report

* For identification purposes only

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CHAIRMAN'S STATEMENT

When Semicond c or Man fac ring In erna ional Corpora ion lis ed o r ordinar shares on The S ock E change of Hong Kong Limi ed (he Hong Kong S ock E change) and he Ne York S ock E change in March 2004, e nders ood ha one of o r ke obliga ions o ld be o ma imi e shareholder al e. D ring he firs si mon hs of 2004, e achie ed man significan opera ional and echnological miles ones hich ha e es ablished a f ndamen al frame ork o mee he increasing demands of o r global c s omer base and o gro in he f re.

1. FINANCIAL PERFORMANCE

D ring he firs si mon hs of 2004, o r re en es increased 259.0% o US$407.9 million as compared o US$113.6 million in he firs si mon hs of 2003. O r ne income increased o US$61.6 million in he firs si h mon hs of 2004 i h a ne profi margin of 15.1%, from a ne loss of US$68.6 million for he firs si mon hs of 2003. O r blended a erage sales price per afer increased 80.1% o US$1,022 in he firs si mon hs of 2004 from US$568 in he firs si mon hs of 2003. We e perienced his gro h primaril d e o o r increase in capaci and increased demands of o r c s omers for afers sing ad anced man fac ring processes. O r sales of logic afers (incl ding copper in erconnec s) reached 73.0% in he firs si mon hs of 2004 from 36.7% in he firs si mon hs of 2003 and he percen age of afer re en es from 0.18 m and belo echnologies increased o 71.0% of afer re en es from 18.4%, respec i el .

2. BUSINESS REVIEW

O r b siness increased d ring he firs si mon hs of 2004, d e o (i) o r increased capaci o appro ima el 81,000 afer s ar s per mon h as of he end of he firs si mon hs of 2004, res l ing in an increase in he n mber of afers shipped o o r c s omers, (ii) an increasing a erage sales price per afer b shif ing o r prod c mi o ard higher-priced afers sing more ad anced man fac ring processes, and (iii) o erall posi i e marke condi ions.

O r mos significan de elopmen d ring he firs si mon hs of 2004 as he comple ion of o r ini ial p blic offering on he Ne York S ock E change and he Hong Kong S ock E change (he Global Offering), hich raised appro ima el US$1,017.1 million for he Compan . We ill se a por ion of he proceeds from he Global Offering o comple e he cons r c ion of, and increase he man fac ring capaci a , o r 12-inch man fac ring facili ies in Beijing hich s ccessf ll began pilo prod c ion in la e J l 2004 and is se for prod c ion in he second half of 2004, and o pgrade he echnolog and increase he man fac ring capaci a o r Shanghai and Tianjin facili ies.

Ano her significan de elopmen d ring he firs si mon hs of 2004 as o r decision o par icipa e in o projec s o mee he demands of o r c s omers. One is a join en re i h Toppan Prin ing Co., L d., hich ill combine SMIC's CMOS image sensor echnolog i h Toppan's leading echnolog and kno -ho in color fil ers and micro-lenses. The marke for CMOS image sensors has increased dras icall beca se CMOS image sensor de ices, hich pro ide image-cap ring capabili ies, are sed for an increasing n mber of cons mer prod c s s ch as mobile phone cameras, digi al s ill cameras, and a omobile and home sec ri applica ions. This marke has gro n par ic larl in China hich is he orld's leading man fac rer and cons mer of cell phones. We hope ha his join en re ill posi ion SMIC as a leading man fac rer of CMOS image sensors b pro iding c s omers i h one-s op, CMOS image sensor afer man fac ring echnolog . We also ha e signed an agreemen i h he go ernmen of Chengd , China o par icipa e in a projec for es ing, assembl and packing ser ices, hich ill allo s o pro ide c s omers i h in-ho se rn-ke ser ices.

Wi h his addi ional capaci and he proceeds from o r Global Offering, e ere able o a rac a significan n mber of ne c s omers b offering he mos ad anced man fac ring processes. D ring he firs si mon hs of 2004, e added 31 ne c s omers, 6 of hich are among he larges fabless companies in China based on re en es in 2003 according o China

2. BUSINESS REVIEW ([illegible])

Cen er of Ind s r De elopmen . F r hermore, e c rren l are orking i h man o her domes ic fabless companies and design ho ses b pro iding o her ser ices s ch as design ser ices and assis ing i h silicon erifica ion. While domes ic fabless companies presen l represen a small amo n of o r re en es, e an icipa e ha as he infras r c re in China for in egra ed circ i s de elops and ma res, domes ic fabless semicond c or companies ill represen an increasing percen age of o r re en es.

We also con in ed o offer o r c s omers ad anced semicond c or man fac ring ser ices. For e ample, e e panded o r por folio of process echnologies o incl de a f ll flo 0.13 m process and q alified o r 90nm process sing a memor de ice. We an icipa e ha e ill offer 90nm process echnolog for logic de ices in he firs si mon hs of 2005.

O r achie emen s d ring he firs si mon hs of 2004 demons ra e o r confidence in, and abili o e ec e, o r b siness plan and s ra eg . We belie e ha d ring he second half of 2004, he demand for o r semicond c or man fac ring ser ices ill remain s rong. We ill con in e o ramp p o r fabs in Shanghai and Tianjin and commence commercial prod c ion of 12-inch afers in Beijing in order o r o mee his demand.

We in end o con in e o gro a a s s ainable ra e and ma imi e shareholder al e b :

- Responding o he semicond c or ind s r marke condi ions. Despi e o r increase in capaci d ring he firs si mon hs of 2004, here is a significan amo n of nsa isfied demand for addi ional capaci . D e o he high cos s associa ed i h increasing capaci , e m s increase o r capaci in a cos -efficien manner hile main aining o r high le el of performance and ili a ion.

- Increasing blended a erage sales prices and gross margins. We ill con in e o shif o r prod c mi o ard higher-priced afers hile red cing o r cos s.

- Increasing o r offerings of man fac ring ser ices sing leading-edge echnolog . We ill con in e o de elop leading-edge echnolog in ernall or hro gh echnolog par nerships.

- De eloping domes ic fabless semicond c or c s omers. We ill con in e o pro ide domes ic fabless companies, hich of en se leading-edge echnolog and h s req ire higher-priced afers, i h q ali ser ices and sol ions.

- A rac ing and re aining ke emplo ees. We ill con in e o a emp o a rac engineering grad a es from China's leading ni ersi ies and re ain o r c rren emplo ees, man of hom ha e significan e perience orking a o her in erna ional semicond c or companies.

I o ld like o e end m hear -fel apprecia ion o o r c s omers, endors, emplo ees, ad isors, and board of direc ors, and in par ic lar he board members ho ser ed prior o o r Global Offering, for heir con rib ion and s ppor since o r es ablishmen in April 2000. Finall , I o ld also like o hank o , he in es men comm ni , for o r ongoing s ppor of SMIC. We belie e ha o r f ndamen als remain s rong, and ha b e ec ing o r b siness plan, e can ma imi e shareholder al e. Accordingl , e ill con in e o adhere o o r b siness plan of increasing capaci o mee he needs of o r global c s omer base and impro ing o r ser ices in order o opera e in he bes in eres s of o r shareholders.

Ma God bless o and SMIC,
Richard R. Chang

Shanghai, he PRC
Sep ember 1, 2004

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

SALES

Sales increased b 259.0% from US$113.6 million for he si mon hs ended J ne 30, 2003 o US$407.9 million for he si mon hs ended J ne 30, 2004, d e primaril o he increase in o r man fac ring capaci and an increase in he a erage selling price. The o al n mber of afers shipped increased b 95.2% from 192,546 afers for he si mon hs ended J ne 30, 2003 o 375,859 afers for he si mon hs ended J ne 30, 2004. The blended a erage selling price of he afers e shipped also increased b 80.1% from US$568 for he si mon hs ended J ne 30, 2003 o US$1,022 for he si mon hs ended J ne 30, 2004, hile he a erage selling price of he logic afers e shipped increased b 44.6% from US$751 o US$1,085, respec i el . The rela i e percen age of afers shipped ha ere 0.18 micron and belo increased from 18.4% o 71.0% be een hese o periods.

COST OF SALES AND GROSS PROFIT (LOSS)

Cos of sales increased b 88.2% from US$152.1 million for he si mon hs ended J ne 30, 2003 o US$286.3 million for he si mon hs ended J ne 30, 2004. This increase as primaril d e o he increase in sales ol me, labor, deprecia ion and o erhead e penses. O her fac ors incl ded an increase in he amo n of direc and indirec ma erials p rchased corresponding o he increase in afers shipped. In addi ion, o r deferred s ock compensa ion increased from US$2.3 million o US$5.2 million. The increase in he s ock compensa ion e penses res l ed from an increase in he fair marke al e of o r ordinar shares, as ell as an increase in he n mber of s ock op ion gran s d e o he addi ion of ne personnel d ring he si mon hs ended J ne 30, 2004.

We had a gross loss of US$38.5 million in he si mon hs ended J ne 30, 2003 compared o a gross profi of US$121.6 million in he si mon hs ended J ne 30, 2004. This impro emen as primaril d e o an impro emen in a erage selling prices be een he o periods, a shif in prod c ion o more logic and less DRAM afers, migra ion o ards more ad anced and rj30n oigh al gc ion eens0368 -1.D(c

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OPERATING EXPENSES AND INCOME (LOSS) FROM OPERATIONS

As a res l , e had an opera ing loss of US$66.2 million from opera ions for he si mon hs ended J ne 30, 2003 compared o opera ing income of US$63.2 million for he si mon hs ended J ne 30, 2004. O r opera ing margin as (58.3%) for he si mon hs ended J ne 30, 2003 compared o 15.5% for he si mon hs ended J ne 30, 2004.

OTHER EXPENSES

O her e penses decreased b 30.7% from US$2.3 million for he si mon hs ended J ne 30, 2003 o US$1.6 million for he si mon hs ended J ne 30, 2004.

NET INCOME (LOSS)

D e o he fac ors described abo e, e recorded a ne loss of US$68.6 million for he si mon hs ended J ne 30, 2003 compared o a ne income of US$61.6 million for he si mon hs ended J ne 30, 2004.

DEEMED DIVIDENDS ON PREFERENCE SHARES

For he si mon hs ended J ne 30, 2004, e recorded aggrega e deemed di idends on Series D con er ible preference shares of US$18.8 million. The deemed di idends, hich did no arise in he si mon hs ended J ne 30, 2003, ere non-cash and non-rec rring i ems represen ed b he difference be een he sale and con ersion prices of Series D con er ible preference shares and arran s o p rchase Series D con er ible preference shares e iss ed in he firs q ar er of 2004 and heir respec i e fair marke al es.

LIQUIDITY AND CAPITAL RESOURCES

We inc rred capi al e pendi res of US$216.4 million for he si mon hs ended J ne 30, 2003 and US$1,314.7 million for he si mon hs ended J ne 30, 2004. We ha e financed o r s bs an ial capi al e pendi re req iremen s hro gh he iss ance of eq i sec ri ies in se eral ro nds of pri a e financing, iss ance of eq i hro gh o r ini ial p blic offering on March 18, 2004, cash flo s from opera ions, and bank borro ings.

As of J ne 30, 2004, e had US$1,198.6 million of cash and cash eq i alen s. O r ne cash pro ided b opera ing ac i i ies for he si mon hs ended J ne 30, 2004 as US$241.7 million. This as primaril a rib able o he US$61.6 million from ne income, he add back of US$186.1 million in deprecia ion and amor i a ion, and US$6.8 million in he amor i a ion of acq ired in angible asse s as non-cash i ems. O r ne cash pro ided b opera ing ac i i ies for he si mon hs ended J ne 30, 2003 as US$4.6 million, primaril d e o he US$68.6 million ne loss, he add back of US$103.4 million in deprecia ion and amor i a ion, and US$1.5 million in he amor i a ion of acq ired in angible asse s as non-cash i ems.

O r ne cash sed in in es ing ac i i ies as US$638.2 million for he si mon hs ended J ne 30, 2004 and US$158.8 million for he si mon hs ended J ne 30, 2003. This as primaril a rib able o p rchases of plan and eq ipmen and land se righ s for Fab 1, Fab 2, Fab 3, Fab 4, and Fab 7 in hese periods in he amo n s of US$577.8 million for he for he si mon hs ended J ne 30, 2004 and US$168.6 million for he si mon hs ended J ne 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES *([illegible])*

O r ne cash pro ided b financing ac i i ies as US$1,149.6 million for he si mon hs ended J ne 30, 2004. This as primaril deri ed from he US$1,017.1 million in proceeds genera ed from o r ini ial p blic offering, US$30.0 million in proceeds from he iss ance of Series D con er ible preference shares, US$105.4 million from he collec ion of s bscrip ions recei able, US$33.9 million from he collec ion of no es recei able from emplo ees, and US$30.0 million in he form of long- erm deb borro ings. O r ne cash pro ided b financing ac i i ies as US$108.0 million for he si mon hs ended J ne 30, 2003, hich as mainl deri ed from US$88.7 million in long- erm borro ings and US$45.0 million from he collec ion of s bscrip ions recei able.

As of J ne 30, 2004, e had commi men s of US$10.0 million o p rchase land se righ s for he li ing q ar ers a he Beijing fabs, US$173.0 million for facili ies cons r c ion obliga ions for he Beijing, Tianjin, and Shanghai fabs, and US$944.5 million o p rchase machiner and eq ipmen for he Beijing, Tianjin, and Shanghai fabs.

As of J ne 30, 2004, o r o s anding long- erm liabili ies primaril consis ed of US$510.0 million in sec red bank loans, hich are repa able in ins allmen s commencing in March 2005 and March 2006, i h he las pa men s d e in March 2007 and March 2009, respec i el .

In December 2001, SMIC Shanghai en ered in o a long- erm loan agreemen i h fo r Chinese banks for US$432.0 million. The dra do n period of he facili is 18 mon hs s ar ing from he loan agreemen da e. As of J ne 30, 2004, SMIC Shanghai had dra n do n he f ll amo n . The in eres ra e on he loan ranged from 2.82% o 3.47% in he si mon hs ended J ne 30, 2004. In eres is d e on a semi-ann al basis. The principal amo n is repa able s ar ing in March 2005 in fi e semi-ann al ins allmen s of US$86.4 million each. The in eres e pense inc rred for he si mon hs ended J ne 30, 2004 and for he si mon hs ended J ne 30, 2003 as US$6.24 million and US$6.62 million, respec i el .

As par of he same long- erm loan arrangemen , SMIC Shanghai has a line of credi in Renminbi eq i alen o US$48.0 million. As of J ne 30, 2004, e had f ll dra n do n he line of credi . The principal amo n is repa able s ar ing in March 2005 in fi e semi-ann al ins allmen s of US$9.6 million each. The in eres ra e on he loan as 5.02% for he si mon hs ended J ne 30, 2004. The in eres e pense inc rred in he si mon hs ended J ne 30, 2004 and he si mon hs ended J ne 30, 2003 as US$1.2 million and US$1.1 million, respec i el .

In Jan ar 2004, SMIC Shanghai en ered in o o long- erm loan agreemen s i h fo r Chinese banks for US$256.5 million and RMB235.7 million (eq i alen o appro ima el US$28.5 million), respec i el . These fi e- ear bank loans ill be sed o e pand he capaci of o r Shanghai fabs and are colla erali ed b he Shanghai fab's plan and eq ipmen . The dra do n period of hese facili ies ends on he earlies of (i) el e mon hs af er he firs dra do n, (ii) March 28, 2005, and (iii) he da e on hich he loans ha e been f ll dra n do n. As of J ne 30, 2004, e had dra n do n US$30.0 million. The in eres ra e on he loan ranged from 2.75% o 3.47% for he si mon hs ended J ne 30, 2004. The principal amo n is repa able s ar ing in March 2006 in se en semi-ann al ins allmen s of US$40.7 million each. The in eres e pense inc rred in he si mon hs ended J ne 30, 2004 as US$0.2 million.

LIQUIDITY AND CAPITAL RESOURCES *([illegible])*

In Febr ar 2004, SMIC Beijing, o r s bsidiar , en ered in o a shor - erm loan agreemen for US$10.0 million. As of J ne 30, 2004, e had alread repaid he principal of US$10.0 million. The in eres ra e on his loan ranged from 1.77% o 1.85% from Febr ar 27, 2004 o J ne 30, 2004. In March 2004, SMIC Shanghai en ered in o a shor - erm loan agreemen for US$15.0 million. As of J ne 30, 2004, e had alread repaid he principal of US$15.0 million. The in eres ra e on his loan ranged from 1.84% o 1.85% for he si mon hs ended J ne 30, 2004. The in eres e pense inc rred for he shor - erm loans for he si mon hs ended J ne 30, 2004 as US$0.034 million.

The por ion of in eres capi ali ed as addi ions o he asse s nder cons r c ion in he si mon hs ended J ne 30, 2004 and 2003 as US$2.2 million and US$7.4 million, respec i el .

As of J ne 30, 2004, he Compan 's deb o eq i ra io as 16.6% calc la ed based on he c rren por ion of long- erm deb pl s long- erm deb di ided b o al shareholders' eq i .

FOREIGN EXCHANGE RATE FLUCTUATION RISK

We p rchase foreign c rrenc for ard e change con rac s i h con rac erms normall las ing less han si mon hs o pro ec agains he ad erse effec ha e change ra e fl c a ions ma ha e on foreign c rrenc -denomina ed p rchase ac i i ies. These for ard e change con rac s are principall denomina ed in U.S. dollars, Japanese Yen or E ros and do no q alif for hedge acco n ing in accordance i h SFAS No. 133. As of J ne 30, 2004, e had o s anding foreign c rrenc for ard e change con rac s i h no ional amo n s of US$182.8 million. No ional amo n s are s a ed in he U.S. dollar eq i alen s a spo e change ra es as of he respec i e da es. As of J ne 30, 2004, he fair al e of foreign c rrenc for ard e change con rac s as appro ima el a loss of US$0.2 million, hich is incl ded in accr ed e penses and o her c rren liabili ies. We had US$63.3 million of foreign c rrenc e change con rac s o s anding as of J ne 30, 2003, all of hich ma red b December 31, 2003. We do no en er in o foreign c rrenc e change con rac s for spec la i e p rposes.

INTEREST RATE RISK

O r e pos re o in eres ra e risks rela es primaril o o r long- erm deb obliga ions, hich e generall ass me o f nd capi al e pendi res and orking capi al req iremen s. O r long- erm deb obliga ions are all s bjec o ariable in eres ra es. The in eres ra es on o r U.S. dollar-denomina ed loans are linked o he LIBOR ra e, hile o r Renminbi-denomina ed loans ha e in eres ra es linked o he ra es de ermined b he People's Bank of China. As a res l , he in eres ra es on o r loans are s bjec o fl c a ions in he nderl ing in eres ra es o hich he are linked. We ha e no en ered in o an in eres ra e hedging con rac s.

ACQUISITIONS

In Sep ember 2003, e en ered in o agreemen s i h Mo orola, Inc. (Mo orola) and i s holl o ned s bsidiar , Mo orola (China) Elec ronic Limi ed (MCEL), pro iding for o r acq isi ion of he asse s cons i ing a fab in Tianjin, he ass mp ion of cer ain obliga ions, he ransfer of cer ain echnolog o s from Mo orola, o r e change of cer ain licenses i h Mo orola, he pro ision b Mo orola of US$30 million in cash o s and o r iss ance o Mo orola and MCEL of o r Series D Con er ible Preference Shares and arran s o p rchase Series D Con er ible Preference Shares in e change for he foregoing. Upon comple ion of hese ransac ions, hich occ rred in Jan ar 2004, Mo orola, oge her i h MCEL, became he beneficial o ner of more han 10% of o r ordinar shares o s anding and iss able pon con ersion of o s anding preference shares and Mo orola became en i led o appoin a direc or o o r board.

AUDIT COMMITTEE ([illegible])

ob aining and re ie ing repor s from managemen , o r in ernal a di or and o r independen a di or regarding compliance i h applicable legal and reg la or req iremen s, incl ding he Foreign Corr p Prac ices Ac .

The c rren members of o r a di commi ee, all of hom are independen non-e ec i e direc ors, are Henr Sha , Lip-B Tan, Yang Y an Wang and Yen-Pong Jo .

COMPENSATION COMMITTEE

The compensa ion commi ee mee s a leas q ar erl o appro e and o ersee he Compan 's compensa ion polic , incl ding:

appro ing and o erseeing he o al compensa ion package for o r e ec i e officers and an o her officer, e al a ing he performance of and de ermining and appro ing he compensa ion o be paid o o r chief e ec i e officer and re ie ing he res l s of o r chief e ec i e officer's e al a ion of he performance of o r o her e ec i e officers;

re ie ing and making recommenda ions o o r board of direc ors i h respec o direc or compensa ion, incl ding eq i -based compensa ion;

adminis ering and periodicall re ie ing and making recommenda ions o o r board of direc ors regarding he long- erm incen i e compensa ion or eq i plans made a ailable o o r direc ors, emplo ees and cons l an s;

re ie ing and making recommenda ions o o r board of direc ors regarding e ec i e compensa ion philosoph , s ra eg and principles and re ie ing ne and e is ing emplo men , cons l ing, re iremen and se erance agreemen s proposed for o r e ec i e officers; and

ens ring appropria e o ersigh of o r h man reso rces policies and re ie ing s ra egies es ablished o f lfill o r e hical, legal and h man reso rces responsibili ies.

The c rren members of o r compensa ion commi ee, all of hom are independen non-e ec i e direc ors, are Ta-Lin Hs , Ts oshi Ka anishi and Lip-B Tan.

PROSPECTS AND FUTURE PLANS

We belie e ha d ring he second half of 2004, he demand for o r semicond c or man fac ring ser ices ill remain s rong. We ill con in e o ramp p o r fabs in Shanghai and Tianjin and commence commercial prod c ion of 12-inch afers in Beijing. F r hermore, e ill con in e o r par icipa ion in o projec s one i h Toppan Prin ing Co., L d. and ano her i h he go ernmen of Chengd hich ill allo s o e pand o r offerings o o r c s omers and pro ide in-ho se rn-ke ser ices.

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2004

(na di ed; in US$ ho sands, e cep per share da a)

	Six months ended June 30, 2004	2003
Sales (, . ,)	**407,926**	113,635
Cos of sales	**(281,068)**	(149,827)
Cos of sales Amor i a ion of deferred s ock compensa ion	**(5,220)**	(2,313)
Gross profi (loss)	**121,638**	(38,505)
Opera ing e penses:		
Research and de elopmen	**(30,073)**	(14,457)
General and adminis ra i e	**(16,707)**	(6,765)
Selling and marke ing	**(3,687)**	(4,430)
* Amor i a ion of deferred s ock compensa ion	**(7,937)**	(2,078)
To al opera ing e penses	**(58,404)**	(27,730)
Income (loss) from opera ions (, . , ,)	**63,234**	(66,235)
O her income (e penses):		
In eres income	**4,216**	1,070
In eres e pense	**(5,503)**	(292)
O hers, ne	**(329)**	(3,109)
To al o hers, ne	**(1,616)**	(2,331)
Ne income (loss)	**61,618**	(68,566)
Deemed di idends on preference shares (, . ,)	**(18,839)**	
Income (loss) a rib able o holders of ordinar shares	**42,779**	(68,566)
Ne income (loss) per share, basic (, . ,)	**0.0042**	(0.7844)
Ne income (loss) per share, dil ed (, . ,)	**0.0025**	(0.7844)
Share sed in comp a ion:		
Basic	**10,269,399,903**	87,412,433
Dil ed	**16,923,027,185**	87,412,433
* Amor i a ion of deferred s ock compensa ion rela ed o:		
Research and de elopmen	**2,617**	1,058
General and adminis ra i e	**4,066**	558
Selling and marke ing	**1,254**	462
To al	**7,937**	2,078

See accompan ing no es o consolida ed financial s a emen s.

CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2004
(na di ed; in US$ ho sands)

	June 30, 2004	December 31, 2003
Assets		
C rren asse s:		
Cash and cash eq i alen s	**1,198,592**	445,276
Shor - erm in es men s	**90,464**	27,165
Acco n s recei able, ne of allo ances of US$357,000 and US$114,000 respec i el (. .)	**131,708**	90,539
In en ories (. .)	**113,563**	69,924
Prepaid e pense and o her c rren asse s	**7,866**	15,387
Asse s held for sale	**32,592**	32,591
To al c rren asse s	**1,574,785**	680,882
Land se righ s, ne	**34,804**	41,935
Plan and eq ipmen , ne	**2,658,128**	1,523,564
Acq ired in angible asse s, ne	**61,777**	41,120
In es men s held o ma ri	**–**	3,005
Total assets	**4,329,494**	2,290,506
Liabilities and stockholders' equity		
C rren liabili ies:		
C rren por ion of long- erm deb (. .)	**95,992**	
Redeemable con er ible promissor no e	**–**	15,000
Acco n s pa able (. .)	**699,587**	211,762
No e pa able o s ockholder	**–**	27,018
Deposi recei ed from s ockholder	**200**	38,351
Accr ed e penses and o her c rren liabili ies	**54,243**	33,299
To al c rren liabili ies	**850,022**	325,430
Long- erm liabili ies:		
Long- erm deb (. .)	**413,965**	479,961
Total liabilities	**1,263,987**	805,391

See accompan ing no es o consolida ed financial s a emen s.

CONSOLIDATED BALANCE SHEET ([illegible])

AS OF JUNE 30, 2004
(na di ed; in US$ ho sands)

	June 30, 2004	December 31, 2003
Commi men s ([illegible])		
S ockholders' eq i		
Ordinar shares, US$0.0004 par al e, 50,000,000,000 shares a hori ed, shares iss ed and o s anding 18,224,817,010 and 242,595,000 respec i el	**7,290**	97
Series A con er ible preference shares, US$0.0004 par al e, 1,000,000,000 shares a hori ed, shares iss ed and o s anding nil and 954,977,374 respec i el	**–**	382
Series A-1 non-con er ible preference shares, US$0.00001 par al e, 1,000,000,000 shares a hori ed, shares iss ed and o s anding nil and 219,499,674 respec i el	**–**	2
Series A-2 con er ible preference shares, US$0.0004 par al e, 42,373,000 a hori ed, shares iss ed and o s anding nil and 42,373,000 respec i el	**–**	17
Series B con er ible preference shares, US$0.0004 par al e, 50,000,000 a hori ed, shares iss ed and o s anding nil and 2,350,000 respec i el	**–**	1
Series C con er ible preference shares, US$0.0004 par al e, 215,285,714 a hori ed, shares iss ed and o s anding nil and 181,718,858 respec i el	**–**	73
Series D con er ible preference shares, US$0.0004 par al e, 122,142,857 a hori ed, shares iss ed and o s anding nil and 7,142,857 respec i el	**–**	3
Warran s	**125**	37,840
Addi ional paid-in capi al	**3,294,694**	1,835,820
S bscrip ion recei able from s ockholders	**–**	(105,420)
No es recei able from s ockholders	**(1,892)**	(36,026)
Acc m la ed o her comprehensi e income	**400**	200
Deferred s ock compensa ion	**(70,598)**	(40,583)
Acc m la ed defici	**(164,512)**	(207,291)
Total stockholders' equity	**3,065,507**	1,485,115
Total liabilities and stockholders' equity	**4,329,494**	2,290,506
Ne c rren asse s	**724,763**	355,452
To al asse s less c rren liabili ies	**3,479,472**	1,965,076

See accompan ing no es o consolida ed financial s a emen s.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

FOR THE SIX MONTHS ENDED JUNE 30, 2004

(na di ed; in US$ ho sands)

	Preference Shares														
	Ordinary		Series A convertible shares		Series A-1 non-convertible shares		Series A-2 convertible shares		Series B convertible shares		Series C convertible shares		Series D convertible shares		Warrants
	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Amount
Balance at January 1, 2004	242,595,000	97	954,977,374	382	219,499,674	2	42,373,000	17	2,350,000	1	181,718,858	73	7,142,857	3	37,840
Iss ance of Series D con er ible preference shares and Series D arran for acq isi ion of asse s													95,714,286	38	27,664
Iss ance of Series D preference shares in e change for in angible asse s													914,285	1	
Redemp ion of Series A-1 preference shares					(219,499,674)	(2)									
Iss ance of Series B con er ible preference shares									762,343	1					
Rep rchase of res ric ed preference shares			(54,750)	(1)											
Con ersion of preference share o ordinar shares pon ini ial p blic offering	14,927,787,480	5,971	(954,922,624)	(381)			(42,373,000)	(17)	(3,112,343)	(2)	(181,718,858)	(73)	(103,771,428)	(42)	(65,374)
Iss ance of ordinar shares															

Additional paid-in capital	Subscription receivable from stockholders	Notes receivable from stockholders	Accumulated deficit	Accumulated other comprehensive income (loss)	Deferred stock compensation net	Total stockholders equity	Comprehensive income (loss)
1,835,820	(105,420)	(36,026)	(207,291)	200	(40,583)	1,485,115	
308,142						335,844	
5,060						5,061	
						(2)	
2,785						2,786	
(61)						(62)	
59,918							
1,015,339						1,016,551	
656						657	
		34,134				34,134	
(189)						(190)	
						(5)	
5,213						5,223	
	105,420					105,420	
43,172					(30,015)	13,157	
18,839			(18,839)				
			61,618			61,618	61,618
				103		103	103
				97		97	97
3,294,694		(1,892)	(164,512)	400	(70,598)	3,065,507	61,818
1,139,760	(107,430)	(36,994)	(104,029)	30	(20,843)	870,991	
3,313		(1,355)				1,963	
(690)						(692)	
	45,000					45,000	
14,387					(9,996)	4,391	
			(68,566)			(68,566)	(68,566)
				(9)		(9)	(9)
				(22)		(22)	(22)
1,156,770	(62,430)	(38,349)	(172,595)	(1)	(30,839)	853,056	(68,597)

See accompan ing no es o consolida ed financial s a emen s.

CONSOLIDATED STATEMENT OF CASH FLOWS ([illegible])

FOR THE SIX MONTHS ENDED JUNE 30, 2004
(na di ed; in US$ ho sands)

	Six months ended June 30,	
	2004	2003
Financing activities:		
Repa men of no e pa able o s ockholder for land se righ s	**(13,659)**	
Proceeds from long- erm deb	**29,996**	88,665
Repa men of redeemable con er ible promissor no e	**(15,000)**	
Proceeds from iss ance of ordinar shares	**1,017,051**	
Proceeds from iss ance of Series D con er ible preference shares	**29,975**	
Proceeds from e ercise of emplo ee s ock op ions	**123**	1,271
Collec ion of no es recei ables from emplo ees	**33,884**	
Collec ion of s bscrip ion recei ables	**105,420**	45,000
Change in deposi recei ed from s ockholders	**(38,151)**	(26,957)
Ne cash pro ided b financing ac i i ies	**1,149,639**	107,979
Effec of foreign e changes ra e changes	**103**	(9)
Net increase (decrease) in cash and cash equivalents	**753,316**	(46,176)
Cash and cash equivalents, beginning of period	**445,276**	91,864
Cash and cash equivalents, end of period	**1,198,592**	45,688

See accompan ing no es o consolida ed financial s a emen s.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompan ing na di ed consolida ed financial s a emen s ha e been prepared in accordance i h Acco n ing Principles Board Opinion 28, In erim Financial Repor ing (APB 28), iss ed b Acco n ing Principles Board nder general acco n ing principles accep ed in he Uni ed S a es of America and Appendi 16, Disclos re of financial informa ion , of he R les Go erning he Lis ing of Sec ri ies on he S ock E change of Hong Kong Limi ed. In he opinion of managemen , he consolida ed financial s a emen s incl de all adj s men s (consis ing onl of normal rec rring accr als) ha managemen considers necessar for a fair presen a ion of i s financial posi ion, opera ing res l s and cash flo s for he in erim periods presen ed. Opera ing res l s and cash flo s for in erim periods are no necessaril indica i e of res l s for he en ire ear.

These in erim consolida ed financial s a emen s and no es sho ld be read in conj nc ion i h o r a di ed consolida ed financial s a emen s and no es here o, as se for h in he Appendi I, Acco n an s' repor , appearing in he prospec s of he Compan da ed March 8, 2004.

The Compan gran s s ock op ions o i s 0. TD(.e0.0ers necessar aspen5 0 TD392Go erninon-0.0ers n. gran s s o princis3

1. Basis of Presentation ([illegible])

[illegible] ([illegible])

Had compensa ion cos for op ions gran ed and shares iss ed o emplo ees nder he Compan 's s ock op ion plans (he Plans) been de ermined based on he fair al e a he gran da e, as prescribed in SFAS No. 123, he Compan 's pro forma ne income (loss) o ld ha e been as follo s:

	Six months ended June 30, 2004	2003
	(in US$ ho sands, e cep per share da a)	
Ne income (loss) as repor ed	**61,618**	(68,566)
Add: S ock-based compensa ion as repor ed	**13,157**	4,391
Less: S ock-based compensa ion de ermined sing he fair al e me hod	**(18,457)**	(7,278)
Pro forma income (loss)	**56,318**	(71,453)
Deemed di idends on preference shares	**(18,839)**	
Pro forma ne income (loss) a rib able o holders of ordinar shares	**37,479**	(71,453)
Ne income (loss) per share:		
Basic-pro forma	**0.0036**	(0.8174)
Dil ed-pro forma	**0.0022**	(0.8174)
Basic-as repor ed	**0.0042**	(0.7844)
Dil ed-as repor ed	**0.0025**	(0.7844)

The fair al e of each op ion gran ed is es ima ed on he da e of gran sing he Black-Scholes op ion pricing model i h he follo ing ass mp ions sed for gran s d ring he applicable period.

	Six months ended June 30, 2004	2003
Option Grants		
A erage risk-free ra e of re rn	**2.42%**	2.91%
Weigh ed a erage e pec ed op ion life	**3.5 years**	4.0 ears
Vola ili ra e	**54.37%**	68.98%
Di idend ield (Preference share onl)	**0%**	8%

[illegible]

On March 18, 2004, he Compan effec ed a 10-for-1 share spli in he form of a share di idend immedia el af er he con ersion of preference shares in o ordinar shares. All share informa ion rela ing o ordinar shares of he Compan in he accompan ing financial s a emen s, incl ding he con ersion price rela ing o s ch shares, ha e been adj s ed re roac i el , hich gi es effec o he share spli .

2. Motorola Asset Purchase and License Agreements

On Sep ember 23, 2003, he Compan en ered in o an agreemen o acq ire cer ain asse s and ass med cer ain obliga ions from Mo orola, Inc. (Mo orola) and Mo orola (China) Elec ronics Limi ed (MCEL), a holl o ned s bsidiar of Mo orola in e change for 82,857,143 Series D con er ible preference shares con er ible in o ordinar shares a a con ersion price of US$0.2087 per share and a arran o p rchase 8,285,714 Series D con er ible preference shares for US$0.01 per share (he Asse P rchase). In addi ion, he Compan iss ed 8,571,429 Series D con er ible preference shares and a arran o p rchase 857,143 Series D con er ible preference shares for US$0.01 per share in e change of US$30,000,000. The Compan and Mo orola ha e comple ed he Asse P rchase on Jan ar 16, 2004.

In conj nc ion i h he Asse P rchase, he Compan and Mo orola en ered in o an agreemen o license cer ain echnolog and in ellec al proper . In e change for hese licenses, he Compan iss ed o Mo orola an aggrega e of 11,428,571 Series D con er ible preference shares con er ible in o ordinar shares a a con er ible price of US$0.2087 per share and a arran o p rchase 1,142,857 Series D con er ible preference shares for US$0.01 per share. On December 5, 2003, he Compan par iall closed his license agreemen i h Mo orola and iss ed o Mo orola 7,142,857 Series D con er ible preference shares and a arran o p rchase 714,286 Series D con er ible preference shares a US$0.01 per share. On Jan ar 16, 2004, he Compan closed he license agreemen i h Mo orola and iss ed o Mo orola 4,285,714 Series D con er ible preference share and a arran o p rchase 428,571 Series D con er ible preference shares a US$0.01 per share.

3. Recently Issued Accounting Standards

In Ma 2003, Financial Acco n ing S andard Board (FASB) iss ed SFAS No. 150, Acco n ing for Cer ain Financial Ins r men s i h Charac eris ics of bo h Liabili ies and Eq i (SFAS 150). The S a emen es ablishes s andards for ho an iss er classifies and meas res cer ain financial ins r men s. The S a emen is effec i e for financial ins r men s en ered in o or modified af er Ma 31, 2003, and o her ise is effec i e a he beginning of he firs in erim period beginning af er J ne 15, 2003. The [illegible] bef er a d Moer pre io s g idance, iss ers co ld acco n are: (i) manda oril redeemable shares ha an iss er is obliga ed o b back in e change for cash or o he asse s; (ii) [illegible] shares ha o or ma req ire e change for cash or o her asse s; and (iii) financial ins r men s ha embodies an obliga ion ha can be se led i h shares, he mone ar al e of hich is fi ed, ied solel or predominan l o a ariable s ch as a marke inde , or aries in ersel i h he al e of he iss er's shares (e cl ding cer ain financial ins r men s inde ed par l o he iss er's eq i shares and par l , b no predominan l , o some hing else). This S a emen does no appl o fea res embedded is a financial ins r men ha is

3. Recently Issued Accounting Standards (-)

In March 2004, he Emerging Iss es Task Force (EITF) reached a consens s on Iss e No. 03-01, The Meaning of O her-Than-Temporar Impairmen and i s Applica ion o Cer ain In es men s . EITF No. 03-01 pro ides g idance on recording o her- han- emporar impairmen s of cos me hod in es men s and req ires addi ional disclos res for hose in es men s. The recogni ion and meas remen g idance in EITF No. 03-01 sho ld be applied o o her- han- emporar impairmen e al a ions in repor ing periods beginning af er J ne 15, 2004. The disclos re req iremen s are effec i e for fiscal ears ending af er J ne 15, 2004 and are req ired onl for ann al periods. The Gro p does no belie e ha he adop ion of his s andard ill ha e a ma erial impac on i s financial posi ions or res l s of opera ions.

In December 2003, he Sec ri and E change Commission (SEC) iss ed S aff Acco n ing B lle in No. 104, Re en e Recogni ion (SAB 104), hich codifies, re ises and rescinds cer ain sec ions of SAB 101, Re en e Recogni ion in Financial S a emen s in order o make his in erpre i e g idance consis en i h c rren a hori a i e acco n ing and a di ing g idance and SEC r les and reg la ions. The changes no ed in SAB 104 did no ha e a ma erial effec on he Gro p's consolida ed res l s of opera ions, financial posi ion or cash flo s.

In Jan ar 2003, he FASB iss ed FAS In erpre a ion No.46, Consolida ion of Variable In eres En i ies (FIN 46). FIN 46 clarifies he applica ion of Acco n ing Research B lle in No. 51, Consolida ed Financial S a emen s and pro ides g idance on he iden ifica ion of en i ies for hich con rol is achie ed hro gh means o her han o ing righ s (ariable in eres en i ies or VIEs) and ho o de ermine hen and hich b siness en erprise sho ld consolida e he VIEs. This ne model for consolida ion applies o an en i in hich ei her: (1) he eq i in es ors (if an) lack one or more charac eris ics deemed essen ial o a con rolling financial in eres or (2) he eq i in es men a risk is ins fficien o finance ha en i 's ac i i ies i ho recei ing addi ional s bordina ed financial s ppor from o her par ies. FIN 46 as applicable for periods ending December 15, 2003. In December 2003 he FASB iss ed FIN 46R hich defers he implemen a ion da e o he end of he firs repor ing period af er March 15, 2004 nless he Compan has a special p rpose en i in hich case he pro isions m s be applied for fiscal ears ending December 31, 2003. The Compan does no ha e a special p rpose en i ; herefore he Compan ill adop he pro isions in December 2004 and does no e pec hese pro isions ill ha e an effec on he Gro p's consolida ed res l s of opera ions, financial posi ions and cash flo s.

4. Revenue Recognition

The Gro p man fac res semicond c or afers for i s c s omers based on he c s omers' designs and specifica ions p rs an o man fac ring agreemen s and/or p rchase orders. The Gro p also sells cer ain s andard semicond c or prod c s o c s omers. C s omers do no ha e an righ s of re rn e cep p rs an o arran pro isions, hich has been minimal. The Gro p picall performs es s of i s prod c s prior o shipmen o iden if ield of accep able prod c s per afer. Occasionall , prod c es s performed af er shipmen iden if ields belo he le el agreed i h he c s omer. In hose circ ms ances, he c s omer arrangemen ma pro ide for a red c ion o he price paid or for i s cos s o ship replacemen prod c s. The Gro p es ima es he amo n of sales re rns and he cos of replacemen prod c s based on i s his orical rend of re rns and arran replacemen s rela i e o sales and an c rren informa ion regarding specific c s omer ield iss es ha ma e ceed his orical rends. The Gro p recogni es re en e o c s omers pon shipmen and i le ransfer. The Gro p also pro ides cer ain ser ices s ch as mask making and probing and re en e is recogni ed hen he ser ices are comple ed.

8. Indebtedness

Shor - erm and long- erm deb is as follo s:

	Maturity	Interest rate	June 30, 2004	December 31, 2003
			(in US$ ho sands)	
USD denomina ed bank loan I	2005-2007	2.82%-3.47%	**432,000**	432,000
USD denomina ed bank loan II	2006-2009	2.75%-3.47%	**30,000**	
RMB denomina ed bank loan	2005-2007	5.02%	**47,957**	47,961
			509,957	479,961
Less: C rren por ion of long- erm deb			**95,992**	
			413,965	479,961

9. Income Taxes

The Compan is a a e emp ed compan incorpora ed in he Ca man Islands. The s bsidiaries incorpora ed in he PRC are go erned b he Income Ta La of he PRC Concerning Foreign In es men and Foreign En erprises and Vario s local income a la s (he Income Ta La s). P rs an o he rele an reg la ion and pon appro al b he go ernmen al agenc , he Compan 's Shanghai and Beijing s bsidiaries are en i led o a f ll e emp ion from Foreign En erprise Income Ta (FEIT) for fi e ears s ar ing i h he firs ear of posi i e acc m la ed earnings and a 50% red c ion for he follo ing fi e ears. In addi ion, i s Tianjin s bsidiar enjo s preferen ial a rea men , nder hich i is en i led o a o- ear f ll e emp ion and a hree- ear 50% red c ion in FEIT, s ar ing he firs ear of posi i e acc m la ed earnings. The Compan 's o her s bsidiaries are s bjec o respec i e local co n r 's income a la , incl ding hose of Japan, he Uni ed S a es of America, Tai an and E rope. For he si mon hs ended J ne 30, 2004 and 2003, he Gro p did no ha e ma erial income a e penses being recorded.

The Gro p had minimal a able income in j risdic ions o her han China.

10. Segments and Geographic Information

The Gro p is engaged primaril in he man fac ring, rading, packaging, es ing, and comp er-aided design of in egra ed circ i s and o her semicond c or ser ices, and man fac ring design masks. In accordance i h SFAS No. 131, Disclos res abo Segmen s of an En erprise and Rela ed Informa ion , he Gro p's chief opera ing decision maker has been iden ified as he Chief E ec i e Officer, ho re ie s consolida ed res l s of man fac ring opera ions hen making decisions abo alloca ing reso rces and assessing performance of he Gro p. The Gro p belie es i opera es in one segmen , and all financial segmen informa ion req ired b SFAS No. 131 can be fo nd in he consolida ed financial s a emen s.

10. Segments and Geographic Information (Continued)

Geographic Information:

	Six months ended June 30, 2004	2003
	(in US$ thousands)	
Total sales:		
United States	**174,585**	40,025
Japan	**66,362**	4,229
Europe	**57,713**	1,290
Taiwan	**53,046**	57,428
Korea	**48,242**	8,066
Asia Pacific (Excluding Japan, Korea and Taiwan)	**7,978**	2,597
	407,926	113,635

Revenue is attributed to countries based on location of customers invoiced.

All of the Group's long lived assets are located in the PRC.

11. Income (Loss) from Operation

	Six months ended June 30, 2004	2003
	(in US$ thousands)	
Income (loss) from operations is arrived at after charging:		
Depreciation and amortization of plant and equipment	**185,662**	102,934
Amortization of land use rights	**391**	434
Amortization of intangible assets	**6,769**	1,470

12. Dividend

A deemed dividend represents the beneficial conversion feature relating to the preferential price of certain convertible equity instruments an investor receives when the effective conversion price of the equity instruments is lower than the fair market value of the common stock to which the convertible

13. Commitments

( ) [illegible]

A J ne 30, 2004 he Gro p had he follo ing commi men s o p rchase land se righ s, machiner and eq ipmen and cons r c ion obliga ions. The machiner and eq ipmen is sched led o be deli ered a he Gro p's facili ies b J ne 30, 2005. The Gro p e pec s o ob ain he land se righ s and ha e he facili cons r c ion comple ed no la er han J ne 30, 2005.

	Six months ended June 30,	
	2004	2003
	(in US$ ho sands)	
Land se righ s	**10,000**	10,000
Facili cons r c ion	**173,049**	118,000
Machiner and eq ipmen and o hers	**944,481**	525,000
	1,127,530	653,000

( ) [illegible]

Beginning in 2002, he Gro p has en ered in o se eral license and echnolog agreemen s i h hird par ies. The d ra ion of he agreemen s range from 3 o 10 ears. The Gro p makes ro al pa men s based on a cer ain percen age of prod c sales sing he hird par ies' echnolog or license. In he si mon hs ended J ne 30, 2004 and 2003, he Gro p inc rred ro al e penses of US$2,221,000 and US$1,185,000, respec i el .

Beginning in 2003, he Gro p has en ered in o se eral license agreemen s i h hird par ies p rs an o hich he Gro p licenses cer ain echnolog o hird par ies. The Gro p ill recei e ro al pa men s based on a cer ain percen age of prod c sales sing he Gro p's licensed echnolog . In he si mon hs ended J ne 30, 2004 and 2003, he Gro p earned ro al income of US$67,000 and nil, respec i el .

( ) [illegible]

The Gro p o ns apar men facili ies ha are leased o he Gro p's emplo ees a nego ia ed prices. The apar men ren al agreemen is rene ed on an ann al basis. The Gro p leases office space o non-rela ed hird par ies. Office lease agreemen s are rene ed on an ann al basis as ell. The o al amo n of ren al income recorded in he si mon hs ended J ne 30, 2004 and 2003 as US$873,000 and US$1,040,000, respec i el .

(:) [illegible]

The Gro p leases land se righ s and opera ional eq ipmen hich are nder non-cancelable leases e piring a ario s imes hro gh 2053. F re minim m lease pa men s nder hese leases a J ne 30, 2004 are as follo s:

Year ending	(in US$ ho sands)
2004	1,237
2005	
2006	58
2007	58
2008	58
Thereaf er	2,726
	4,137

The o al opera ing lease e penses recorded in he si mon hs ended J ne 30, 2004 and 2003 ere US$1,825,000 and US$1,353,000, respec i el .

14. Reconciliation of Basic and Diluted Income (Loss) Per Share

The follo ing able presen s he calc la ion of basic and dil ed ne income (loss) per share:

	Six months ended June 30, 2004	2003
	(in US$ ho sands e cep per share da a)	
Ne income (loss) a rib able o holders of ordinar shares	**42,779**	(68,566)
Basic and dil ed:		
Weigh ed a erage ordinar shares o s anding	**10,506,146,416**	241,867,833
Less: Weigh ed a erage ordinar shares o s anding s bjec o rep rchase	**(236,746,513)**	(154,455,400)
Weigh ed a erage shares sed in comp ing basic ne income (loss) per share	**10,269,399,903**	87,412,433
Effec or dil i e sec ri ies:		
Weigh ed a erage preference shares o s anding	**6,248,493,164**	
Less: Weigh ed a erage preference shares o s anding s bjec o rep rchase	**(83,727,227)**	
Warran s	**194,061,201**	
Emplo ee s ock op ions	**294,800,144**	
Weigh ed a erage shares sed in comp ing dil ed ne income (loss) per share	**16,923,027,185**	87,412,433
Basic ne income (loss) per share	**0.0042**	(0.7844)
Dil ed ne income (loss) per share	**0.0025**	(0.7844)

For he si mon hs ended J ne 30, 2004, emplo ee s ock op ions o p rchase 45,604,850 ordinar shares and arran s o p rchase an aggrega e of 9,721,040 ordinar shares ere o s anding b ere e cl ded in he comp a ion of dil ed ne income per share beca se hese op ions and arran s ere an idil i e in ha period. For he si mon hs ended J ne 30, 2003, 10,498,123,750 ordinar share eq i alen s, consis ing of 9,987,568,470 preference shares and emplo ee s ock op ions o p rchase 510,555,280 preference shares or ordinar shares ere e cl ded from he calc la ion of dil ed loss per share beca se s ch sec ri ies ere an idil i e in ha period.

15. Litigation

On December 19, 2003, Tai an Semicond c or Man fac ring Compan (TSMC), WaferTech, L.L.C. and TSMC Nor h America filed a complain agains he Compan in he Uni ed S a es Dis ric Co r for he Nor hern Dis ric of California, alleging pa en infringemen and rade secre misappropria ion and seeking inj nc i e relief as ell as compensa or and p ni i e damages. On Jan ar 12, 2004, TSMC amended he complain o add Semicond c or Man fac ring In erna ional (Shanghai) Corpora ion, he Compan 's holl -foreign o ned s bsidiar , as a defendan .

15. Litigation (. - . :)

Wi h respec o he fi e (5) pa en claims made in he original complain , he Federal Dis ric Co r originall sched led a Markman Hearing for cons r c ion of cer ain erms in he pa en s for No ember 15, 2004, b ha da e ma be changed d e o he fac ha TSMC has s bseq en l amended i s complain and added si (6) o her pa en s allegedl infringed b he Compan . The Federal Dis ric Co r has no sched led a Markman Hearing for hese addi ional pa en s. If he case is no resol ed earlier, he Federal Dis ric Co r has se a j r rial da e of April 11, 2006.

Wi h respec o he rade secre misappropria ion claims, on April 21, 2004, he Federal Dis ric Co r dismissed one of he rade secre rela ed claims i h prej dice and o of he o her rade secre rela ed claims i ho prej dice. On Ma 20, 2004, TSMC filed a rade misappropria ion case in he S perior Co r of California, Co n of Alameda. Tha case is in i s er earl s ages. I is e pec ed ha in Oc ober 2004 he S a e Co r ill se he rial da e. The earlies possible rial da e appears o be in mid-2006.

On A g s 18, 2004, TSMC filed a proceeding agains he Compan in he Uni ed S a es In erna ional Trade Commission (he ITC). In his ITC proceeding, TSMC has alleged s bs an iall he same rade secre misappropria ion claims hich are c rren l pending before he California S a e Co r , and pa en infringemen claims in ol ing hree pa en s hich are he s bjec of a ne s i TSMC filed conc rren l i h he ITC proceeding, agains he Compan in he U.S. Dis ric Co r for he Nor hern Dis ric of California. The Compan is in es iga ing he ne pa en claims. As i h he claims in o her la s i s TSMC has filed agains he Compan , he Compan ill assess and form la e i s s rong defenses o hese ne claims.

Managemen in ends o igoro sl defend he Compan agains hese claims b TSMC. The Compan implemen s a arie of meas res o pro ec i s in ellec al proper and rela ed in eres s, as ell as he in ellec al proper and rela ed in eres s of i s c s omers and echnolog par ners. For e ample, he Compan req ires ha all emplo ees e ec e a confiden ial informa ion and in en ion assignmen agreemen rela ing o non-compe i ion and in ellec al proper pro ec ion iss es prior o commencing heir emplo men a he Compan .

The Compan is c rren l a par o ario s claims and legal proceedings, incl ding he ma er no ed abo e. If managemen belie es ha a loss arising from hese ma ers is probable and can reasonabl be es ima ed, he Compan records he es ima ed amo n of he loss. An nfa orable r ling on hese ma ers co ld incl de mone ar damages, an inj nc ion prohibi ing he Compan from ili ing cer ain echnologies in i s man fac ring processes and/or a geographical res ric ion on he Compan 's sales. If an nfa orable r ling ere o occ r, here e is s he possibili of a ma erial ad erse impac on he res l s of opera ions and financial posi ion of he Compan . D e o he preliminar s age of he ma er i h TSMC and he inheren ncer ain regarding hese ma ers, managemen is nable o es ima e he range of possible loss from o s anding li iga ion and no amo n s ha e been pro ided for s ch ma ers in he consolida ed financial s a emen s.

16. Subsequent Event

On J l 21, 2004, he Compan and Toppan Prin ing Co., L d (Toppan), one of he larges in egra ed prin ing companies in Japan, signed an agreemen o form a join en re compan in Shanghai o man fac re on-clip color fil ers and micro lenses for CMOS image sensors. Under he join en re agreemen , he Compan ill in es US$19.2 million in he ne join en re.

In J l 2004, he Compan signed an in es men agreemen an icipa ing o b ild an assembl and es ing plan i h a o al in es men of US$175 million in Chengd . The regis ered capi al of his in es men is US$60 million. SMIC's req iremen is o in es US$9 million i hin hree mon hs of he receip of he b siness license. The res of he regis ered capi al in es men ill be pro ided i hin hree ears of he receip of he b siness license.

OTHER INFORMATION

1. DIVIDENDS

The board of direc ors of he Compan (he Board) proposed no o declare an in erim di idend for he period of he si mon hs ended J ne 30, 2004.

2. SHARE CAPITAL

D ring he firs si mon hs of 2004, he Compan iss ed he follo ing shares:

762,343 Series B Con er ible Preference Shares, hich ere con er ed in o 8,439,220 Ordinar Shares pon he comple ion of he Compan 's ini ial p blic offering on he Ne York S ock E change and he Hong Kong S ock E change (he Global Offering);

3,428,571 Series C Con er ible Preference Shares, hich ere con er ed in o 59,999,990 Ordinar Shares pon he comple ion of he Global Offering;

96,628,571 Series D Con er ible Preference Shares, hich ere con er ed in o 1,620,507,900 Ordinar Shares pon he comple ion of he Global Offering;

1,200,000 Ordinar Shares (af er gi ing effec o he 10-for-1 s ock spli immedia el prior o he Global Offering) o an emplo ee p rs an o he emplo ee's e ercise of op ions o p rchase Ordinar Shares in accordance i h he Compan 's emplo ee s ock op ion plans; and

3,030,303,000 Ordinar Shares or American Deposi ar Receip s in o hich o r Ordinar Shares ma con er , in connec ion i h he Global Offering.

D ring he firs si mon hs of 2004 and prior o he Global Offering, he Compan rep rchased 33,750 Series A Con er ible Preference Shares (eq i alen o 337,500 Ordinar Shares) from an emplo ee p rs an o he erms of he Compan 's s ock op ion plans (he S ock Op ion Plans) hich rep rchase has been reflec ed on he Compan 's share regis er as a J ne 30, 2004.

O s anding Share Capi al as of J ne 30, 2004

	Number of Shares Outstanding
*To al Ordinar Shares O s anding	17,714,595,490

* This has no incl ded 487,499,990 Ordinar Shares iss ed o Beida Microelec ronics In es men L d., 23,957,830 Ordinar Shares iss ed o a echnolog par ner, 1,273,200 Ordinar Shares iss ed o he Compan 's emplo ees p rs an o he S ock Op ion Plans, and 2,509,500 Ordinar Shares rep rchased b he Compan from cer ain of he Compan 's emplo ees p rs an o he erms of he S ock Op ion Plans af er J ne 30, 2004, b hich, for acco n ing p rposes ha e been reflec ed in he Compan 's Consolida ed S a emen of Shareholders' Eq i and Comprehensi e Income (Loss).

3. SUBSTANTIAL SHAREHOLDERS

Se o belo are he names of he par ies hich ere in eres ed in 5 percen or more of he nominal al e of he share capi al of he Compan and he respec i e rele an n mbers of shares in hich he ere in eres ed as a J ne 30, 2004 as recorded in he regis er kep b he Compan nder sec ion 336 of he SFO.

Name of Shareholder	Number of Shares Owned	Percentage of Shareholding of Issued Shares	Short Position
Shanghai Ind s rial Holdings Limi ed ( )	1,814,991,340	10.2%	
Mo orola, Inc. and i s s bsidiar	1,427,915,070	8.1%	
Blessing on Ser ices Limi ed	1,051,493,250 ( )	5.9%	

1. All of he shares beneficiall o ned b Shanghai Ind s rial Holdings Limi ed are regis ered in he name of S.I. Technolog Prod c ion Holdings Limi ed, i s holl o ned s bsidiar . Shanghai Ind s rial Holdings Limi ed is a Hong Kong p blicl -lis ed compan , majori -o ned b Shanghai Ind s rial In es men (Holdings) Compan Limi ed, hich is a holl beneficiall o ned and con rolled b he Shanghai m nicipal go ernmen . O r c rren direc or, Lai Xing Cai, is Chairman of Shanghai Ind s rial Holdings Limi ed. I is o r nders anding ha o ing and in es men con rol o er o r Shares beneficiall o ned b Shanghai Ind s rial Holdings Limi ed are main ained b he board of direc ors of Shanghai Ind s rial Holdings Limi ed.

2. Consis s of 195,594,250 Ordinar Shares regis ered in he name of Homer In es men Holdings L d., 171,179,800 Ordinar Shares regis ered in he name of Asse S ccess In es men s Limi ed, 171,179,800 Ordinar Shares regis ered in he name of Eas S ree In es men s Limi ed, 171,179,800 Ordinar Shares regis ered in he name of Seaboard In es men s Limi ed, 171,179,800 Ordinar Shares regis ered in he name of Visible Profi In es men s Limi ed and 171,179,800 Ordinar Shares regis ered in he name of Whole Gain In es men s Limi ed. O r c rren direc or Yen-Pong Jo , is a direc or of each of hese en i ies, all of hich are holl - o ned s bsidiaries of Blessing on Ser ices Limi ed. Blessing on Ser ices Limi ed is acc s omed o ac in accordance i h he direc ors of i s shareholder, De sche In erna ional Corpora e Ser ices Limi ed, ho c rren l holds 84% of he shareholding in Blessing on Ser ices Limi ed.

4. SHAREHOLDING INTERESTS OF THE DIRECTORS OF THE COMPANY

Sa e as disclosed belo , none of he direc ors or chief e ec i e of he Compan had an in eres s or shor posi ions in he shares, nderl ing shares and deben res of he Compan or an of i s associa ed corpora ions (i hin he meaning of Par XV of he Sec ri ies and F res Ordinance), as recorded in he regis er kep b he Compan nder sec ion 352 of he SFO or o her ise no ified o he Compan and The S ock E change of Hong Kong Limi ed (SEHK) p rs an o he Model Code for Sec ri ies Transac ions b Direc ors of Lis ed Iss ers as a J ne 30, 2004:

Name of Director	Name of Corporation	Nature of Interest	Total Number of Ordinary Shares
Richard R. Chang	Semicond c or Man fac ring In erna ional Corpora ion	Personal In eres ( )	29,790,000
		Personal In eres ( )	100,000
		Corpora e In eres ( )	20,000,000
		In eres of Spo se	9,790,000
		In eres of Child nder 18	11,200,000
Ta-Lin Hs	Semicond c or Man fac ring In erna ional Corpora ion	Corpora e In eres ( )	15,300,010
Ts oshi Ka anishi	Semicond c or Man fac ring In erna ional Corpora ion	Personal In eres ( )	1,500,000

1. P rs an o a Chari able Pledge Agreemen da ed December 1, 2003, Richard R. Chang and his spo se, Scarle K. Chang (collec i el , he Donors) ha e pledged o ransfer 10,000,000 of s ch Ordinar Shares as a chari able gif o The Richard and Scarle Chang Famil Fo nda ion, a Dela are nonprofi nons ock corpora ion organi ed e cl si el for religio s, chari able, scien ific, li erar and ed ca ion p rposes i hin he meaning of Sec ion 501(c)(3) of he US In ernal Re en e Code of 1986, as amended, s ch ransfer o be made in f ll a or prior o he dea h of he s r i ing Donor.

2. Richard R. Chang has been gran ed an op ion o p rchase 100,000 Ordinar Shares in he Compan , if f ll e ercised. As of J ne 30, 2004, he op ion has no been e ercised.

3. These shares are held b Jade Capi al Compan , LLC, a Dela are limi ed liabili compan (he LLC), of hich Richard R. Chang and his spo se, Scarle K. Chang (collec i el , he Members), are he sole members. I is he c rren in en of he Members ha all or a por ion of he ne income of he LLC be sed for philan hropic p rposes, incl ding b no limi ed o con rib ions o chari able organi a ions ha are a -e emp nder Sec ion 501(c)(3) of he US In ernal Re en e Code of 1986, as amended.

4. Ta-Lin Hs has a con rolling in eres in AP3 Co-In es men Par ners, LDC, hich holds 15,300,010 Ordinar Shares.

5. Ts oshi Ka anishi has been gran ed op ions o p rchase an aggrega e of 1,500,000 Ordinar Shares in he Compan , if f ll e ercised. As of J ne 30, 2004, none of hese op ions ha e been e ercised.

Outstanding Share Options

De ails of he 2001 S ock Plans, he 2001 Preference Share Plans, and he 2004 Emplo ee S ock Op ion Plan, hich are req ired o be disclosed b he R les Go erning he Lis ing of Sec ri ies on The S ock E change of Hong Kong Limi ed (he Lis ing R les) are as follo s:

2001 Stock Plans

Name/Eligible Employees	Date Granted	No. of Options Granted	Period during which Rights Exercisable	Options Outstanding as of January 1, 2004	Options Lapsed during the Period	Options Exercised during the Period	Options Cancelled during the Period	Price Per Share Paid on Exercise of Options	Options Outstanding as of June 30, 2004	Weighted Average Closing Price * of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price # of Shares immediately before Dates on which Options were Granted
Ts oshi Ka anishi	J l 11, 2002	500,000	J l 11, 2002 - J l 10, 2012	500,000				HK$0.064	500,000		HK$0.068
	Jan ar 15, 2004	1,000,000	Jan ar 15, 2004 - Jan ar 14, 2014	1,000,000				HK$0.128	1,000,000		HK$0.330
Senior Managemen	April 10, 2002	1,350,000	April 10, 2002 - April 9, 2012	1,350,000				HK$0.857	1,350,000		HK$0.049
	Jan ar 15, 2004	9,100,000	Jan ar 15, 2004 - Jan ar 14, 2014	9,100,000				HK$0.779	9,100,000		HK$0.330
	Febr ar 16, 2004	500,000	Febr ar 16, 2004 - Febr ar 15, 2014	500,000				HK$1.948	500,000		HK$0.330
	March 18, 2004	110,000	Sep ember 17, 2006 - March 17, 2014	110,000				HK$2.69	110,000		HK$0.312
Cons l an s	Jan ar 15, 2004	1,000,000	Jan ar 15, 2004 - Jan ar 14, 2014	1,000,000				HK$0.779	1,000,000		HK$0.330
	Febr ar 16, 2004	500,000	Febr ar 16, 2004 - Febr ar 15, 2014	500,000				HK$0.779	500,000		HK$0.330
Ser ice Pro iders	J l 11, 2002	200,000	J l 11, 2002 - J l 10, 2012	200,000		200,000		HK$0.039		HK$0.241	HK$0.068
O hers	Jan ar 15, 2004	2,600,000	Jan ar 15, 2004 - Jan ar 14, 2014					HK$0.779	2,600,000		HK$0.330
	Febr ar 16, 2004	1,000,000	Febr ar 16, 2004 - Febr ar 15, 2014					HK$0.779	1,000,000		HK$0.330
Emplo ees	March 28, 2001	89,385,000	March 28, 2001 - March 27, 2011	9,583,200				HK$0.039	8,939,200	HK$0.034	HK$0.330

* Marke price sed in rela ion o pre-IPO e ercises.
# Marke price sed in rela ion o pre-IPO gran s.

2001 Stock Plans ([illegible])

Name/Eligible Employees	Date Granted	No. of Options Granted	Period during which Rights Exercisable	Options Outstanding as of January 1, 2004	Options Lapsed during the Period	Options Exercised during the Period	Options Cancelled during the Period	Price Per Share Paid on Exercise of Options	Options Outstanding as of June 30, 2004	Weighted Average Closing Price * of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price # of Shares immediately before Dates on which Options were Granted
	April 2, 2001	2,216,000	April 2, 2001 - April 1, 2011	416,000				HK$0.039	416,000	HK$0.030	HK$0.030
	April 16, 2001	575,000	April 16, 2001 - April 15, 2011	39,000				HK$0.039	35,000	HK$0.049	HK$0.030
	April 28, 2001	60,000	April 28, 2001 - April 27, 2011	60,000				HK$0.039	60,000		HK$0.030
	Ma 14, 2001	1,597,000	Ma 14, 2001 - Ma 13, 2011	47,000				HK$0.039	47,000	HK$0.030	HK$0.030
	Ma 15, 2001	95,000	Ma 15, 2001 - Ma 14, 2011	35,000				HK$0.039	35,000		HK$0.030
	Ma 24, 2001	35,000	Ma 24, 2001 - Ma 23, 2011	35,000				HK$0.039	35,000		HK$0.030
	J ne 1, 2001	80,000	J ne 1, 2001 - Ma 31, 2011	40,000				HK$0.039	40,000		HK$0.030
	J l 1, 2001	745,000	J l 1, 2001 - J ne 30, 2011	75,000				HK$0.039	75,000	HK$0.043	HK$0.030
	J l 5, 2001	80,000	J l 5, 2001 - J l 4, 2011	8,000				HK$0.039	8,000		HK$0.030
	J l 10, 2001	20,000	J l 10, 2001- J l 9, 2011	20,000				HK$0.039	20,000		HK$0.030
	J l 12, 2001	25,000	J l 12, 2001 - J l 11, 2011	2,500				HK$0.039	2,500		HK$0.030
	J l 15, 2001	1,045,000	J l 15, 2001 - J l 14, 2011	910,000				HK$0.039	896,000		HK$0.030
	J l 16, 2001	2,220,000	J l 16, 2001 - J l 15, 2011	920,000				HK$0.039	885,000	HK$0.030	HK$0.030
	J l 20, 2001	20,000	J l 20, 2001 - J l 19, 2011	20,000				HK$0.039	20,000		HK$0.030

* Marke price sed in rela ion o pre-IPO e ercises.

\# Marke price sed in rela ion o pre-IPO gran s.

2001 Stock Plans ([illegible])

Name/Eligible Employees	Date Granted	No. of Options Granted	Period during which Rights Exercisable	Options Outstanding as of January 1, 2004	Options Lapsed during the Period	Options Exercised during the Period	Options Cancelled during the Period	Price Per Share Paid on Exercise of Options	Options Outstanding as of June 30, 2004	Weighted Average Closing Price * of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price # of Shares immediately before Dates on which Options were Granted
	J l 27, 2001	50,000	J l 27, 2001 - J l 26, 2011	50,000				HK$0.039	50,000		HK$0.030
	J l 30, 2001	140,000	J l 30, 2001 - J l 29, 2011	100,000				HK$0.039	100,000		HK$0.030
	A g s 1, 2001	195,000	A g s 1, 2001 - J l 31, 2011	195,000				HK$0.039	195,000		HK$0.030
	A g s 7, 2001	20,000	A g s 7, 2001 - A g s 6, 2011	20,000				HK$0.039	20,000		HK$0.030
	A g s 15, 2001	100,000	A g s 15, 2001 - A g s 14, 2011	100,000				HK$0.039	100,000		HK$0.030
	A g s 16, 2001	400,000	A g s 16, 2001 - A g s 15, 2011	20,000				HK$0.039	20,000		HK$0.030
	A g s 20, 2001	20,000	A g s 20, 2001 - A g s 19, 2011	20,000				HK$0.039	20,000		HK$0.030
	Sep ember 24, 2001	100,358,500	Sep ember 24, 2001 - Sep ember 23, 2011	57,510,800				HK$0.086	57,248,000	HK$0.055	HK$0.030
	Sep ember 28, 2001	50,000	Sep ember 28, 2001 - Sep ember 27, 2011	50,000				HK$0.086	50,000		HK$0.030
	Jan ar 24, 2002	55,337,500	Jan ar 24, 2002 - Jan ar 23, 2012	45,039,500		116,200	450,000	HK$0.086	43,573,760	HK$0.092	HK$0.030
	April 10, 2002	48,664,000	April 10, 2002 - April 9, 2012	35,444,000		129,000	40,000	HK$0.086	34,396,500	HK$0.113	HK$0.0491
	April 11, 2002	4,100,000	April 10, 2002 - April 9, 2012	2,100,000				HK$0.086	2,100,000	HK$0.078	HK$0.0491
	J ne 28, 2002	59,614,000	J ne 28, 2002 - J ne 27, 2012	50,686,000		63,000	450,000	HK$0.086-0.390	49,568,500	HK$0.122	HK$0.062
	J l 11, 2002	4,730,000	J l 11, 2002 - J l 10, 2012	4,280,000				HK$0.086-0.390	4,280,000	HK$0.047	HK$0.068
	Sep ember 26, 2002	71,768,300	Sep ember 26, 2002 - Sep ember 25, 2012	59,204,600		20,000	426,000	HK$0.117-0.390	58,323,100	HK$0.131	HK$0.081
	Jan ar 9, 2003	53,831,000	Jan ar 9, 2003 - Jan ar 8, 2013	41,946,000			860,000	HK$0.390	41,006,000	HK$0.123	HK$0.100

* Marke price sed in rela ion o pre-IPO e ercises.

Marke price sed in rela ion o pre-IPO gran s.

2001 Stock Plans ([illegible])

Name/Eligible Employees	Date Granted	No. of Options Granted	Period during which Rights Exercisable	Options Outstanding as of January 1, 2004	Options Lapsed during the Period	Options Exercised during the Period	Options Cancelled during the Period	Price Per Share Paid on Exercise of Options	Options Outstanding as of June 30, 2004	Weighted Average Closing Price * of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price # of Shares immediately before Dates on which Options were Granted
	Jan ar 10, 2003	720,000	Jan ar 10, 2003 - Jan ar 9, 2013	720,000				HK$0.390	720,000		HK$0.100
	Jan ar 22, 2003	1,060,000	Jan ar 22, 2003 - Jan ar 21, 2013	1,060,000				HK$0.390	1,060,000		HK$0.100
	April 1, 2003	18,804,900	April 1, 2003 - March 31, 2013	18,158,780			446,400	HK$0.390	17,540,880	HK$0.155	HK$0.138
	April 15, 2003	550,000	April 15, 2003 - April 14, 2013	550,000				HK$0.390	550,000		HK$0.138
	April 24, 2003	60,338,000	April 24, 2003 - April 23, 2013	50,115,000			4,570,000	HK$0.390	45,337,000	HK$0.205	HK$0.138
	J l 15, 2003	59,719,900	J l 15, 2003 - J l 14, 2013	52,779,300		1,700,000	3,582,500	HK$0.390	47,247,500	HK$0.290	HK$0.175
	Oc ober 10, 2003	49,533,600	Oc ober 10, 2003 - Oc ober 9, 2013	47,311,200			3,770,000	HK$0.779	42,283,000		HK$0.290
	Jan ar 5, 2004	130,721,910	Jan ar 5, 2004 - Jan ar 4, 2014				3,480,950	HK$0.779	118,803,320		HK$0.330
	Jan ar 15, 2004	19,885,000	Jan ar 15, 2004 - Jan ar 14, 2014				200,000	HK$0.779-1.948	17,685,000		HK$0.330
	Febr ar 2, 2004	2,240,000	Febr ar 2, 2004 - Febr ar 1, 2014					HK$0.390	2,240,000		HK$0.330
	Febr ar 16, 2004	103,345,480	Febr ar 16, 2004 - Febr ar 15, 2014				5,670,190	HK$0.779-1.948	91,008,190		HK$0.330

Op ions o p rchase ordinar shares iss ed o ne emplo ees generall es a a ra e of 10% pon he second anni ersar , an addi ional 20% on he hird anni ersar and an addi ional 70% pon he fo r h anni ersar of he es ing commencemen da e. Beginning in Jan ar 2004, op ions o p rchase ordinar shares iss ed o hen-e is ing emplo ees generall es a a ra e of 25% pon he firs , second, hird and fo r h anni ersaries of he es ing commencemen da e.

* Marke price sed in rela ion o pre-IPO e ercises.

\# Marke price sed in rela ion o pre-IPO gran s.

2001 Preference Share Plans

Name/Eligible Employees	Date Granted	No. of Options Granted	Period during which Rights Exercisable	Options Outstanding as of January 1, 2004	Options Lapsed during the Period	Options Exercised during the Period	Options Cancelled during the Period	Price Per Share Paid on Exercise of Options	Options Outstanding as of June 30, 2004	Weighted Average Closing Price * of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price # of Shares immediately before Dates on which Options were Granted
Ser ice Pro iders	J l 11, 2002	200,000	J l 11, 2002 - J l 10, 2012	200,000		200,000		HK$0.87		HK$0.241	HK$0.143
O hers	J l 11, 2002	260,000	J l 11, 2002 - J l 10, 2012	260,000				HK$0.87	260,000		HK$0.143
Emplo ees	Sep ember 24, 2001	255,298,700	Sep ember 24, 2001 - Sep ember 23, 2011	37,854,300				HK$0.87	37,493,000	HK$0.121	HK$0.111
	Sep ember 28, 2001	50,000	Sep ember 28, 2001 - Sep ember 27, 2011	50,000				HK$0.87	50,000		HK$0.111
	No ember 3, 2001	780,000	No ember 3, 2001 - No ember 2, 2011	730,000				HK$0.87	712,000		HK$0.111
	Jan ar 24, 2002	58,357,500	Jan ar 24, 2002 - Jan ar 23, 2012	10,446,250				HK$0.87	9,845,510	HK$0.123	HK$0.118
	April 10, 2002	51,384,000	April 10, 2002 - April 9, 2012	8,925,000				HK$0.87	8,148,500	HK$0.151	HK$0.130
	J ne 28, 2002	63,332,000	J ne 28, 2002 - J ne 27, 2012	19,324,500				HK$0.87	18,446,500	HK$0.155	HK$0.139
	J l 11, 2002	4,532,000	J l 11, 2002 - J l 10, 2013	4,082,000				HK$0.87	4,082,000	HK$0.152	HK$0.143
	Sep ember 26, 2002	73,854,800	Sep ember 26, 2002 - Sep ember 25, 2012	23,835,850				HK$0.87	22,916,600	HK$0.165	HK$0.151
	Jan ar 9, 2003	12,686,000	Jan ar 9, 2003 - Jan ar 8, 2013	2,176,000				HK$0.87	2,176,000	HK$0.184	HK$0.167

Op ions o p rchase preference shares iss ed o ne emplo ees generall es a a ra e of 10% pon he second anni ersar , an addi ional 20% on he hird anni ersar and an addi ional 70% pon he fo r h anni ersar of he es ing commencemen da e. Emplo ees ma earl e ercise heir op ions o p rchase preference shares. If an emplo ee earl e ercises 100% of his or her op ions, he op ions es a a ra e of 25% pon each of he firs , second, hird and fo r h anni ersar of he es ing commencemen da e. F r hermore, in his case, if he emplo ee remains emplo ed b he Compan and he Compan has comple ed i s ini ial p blic offering as of he hird anni ersar of he es ing commencemen da e, all of he op ions shall es .

* Marke price sed in rela ion o pre-IPO e ercises.

Marke price sed in rela ion o pre-IPO gran s.

2004 Employee Stock Option Plan

Name/Eligible Employees	Date Granted	No. of Options Granted	Period during which Rights Exercisable	Options Outstanding as of January 1, 2004	Options Lapsed during the Period	Options Exercised during the Period	Options Cancelled during the Period	Price Per Share Paid on Exercise of Options	Options Outstanding as of June 30, 2004	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted
Richard R. Chang	April 7, 2004	100,000	Sep ember 17, 2004 - April 7, 2014					HK$2.45	100,000		HK$0.314
Emplo ees	March 18, 2004	50,119,700 [1]									

5. REPURCHASE, SALE OR REDEMPTION OF SECURITIES

O her han rep rchases b he Compan of Ordinar Shares from emplo ees p rs an o he erms of he S ock Op ion Plans, as of J ne 30, 2004, as disclosed in paragraph 2 (Share Capi al) abo e, he Compan has no rep rchased, sold or redeemed an addi ional shares since he da e of he Compan 's prospec s da ed March 8, 2004 (he Prospec s).

6. COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of he direc ors of he Compan is a are of an informa ion hich o ld reasonabl indica e ha he Compan is no , or as no for an par of he si mon hs ended J ne 30, 2004, in compliance i h he Code of Bes Prac ices as se o in Appendi 14 of he Lis ing R les.

7. COMPLIANCE WITH MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

Af er d e inq ir of he direc ors of he Compan , he Compan reasonabl belie es ha he direc ors ha e complied i h req ired s andards se o in he Model Code on Sec ri ies Transac ions b Direc ors.

8. COMPLIANCE WITH RULES 3.10(1) AND 3.10(2) OF THE LISTING RULES

The Compan is in he process of seeking confirma ion from SEHK ha he Board is composed of a s fficien n mber of independen non-e ec i e direc ors, one of hom has appropria e professional q alifica ions or acco n ing or rela ed financial managemen e per ise, o mee he lis ing req iremen s as se for h in he Lis ing R les.

9. COMPLIANCE WITH RULE 3.21 OF THE LISTING RULES

The Compan is in he process of seeking confirma ion from SEHK ha he a di commi ee consis s of an independen non-e ec i e direc or i h appropria e professional q alifica ions, or acco n ing or rela ed financial managemen e per ise.

10. MATERIAL LITIGATION AND ARBITRATION

On December 19, 2003, Tai an Semicond c or Man fac ring Compan (TSMC), WaferTech, L.L.C. and TSMC Nor h America filed a complain agains he Compan in he Uni ed S a es Dis ric Co r for he Nor hern Dis ric of California, alleging pa en infringemen and rade secre misappropria ion and seeking inj nc i e relief as ell as compensa or and p ni i e damages. On Jan ar 12, 2004, TSMC amended he complain o add Semicond c or Man fac ring In erna ional (Shanghai) Corpora ion, he Compan 's holl -foreign o ned opera ing en i , as a defendan .

10. MATERIAL LITIGATION AND ARBITRATION ([illegible])

Wi h respec o he fi e (5) pa en claims made in he original complain , he Federal Dis ric Co r originall sched led a Markman Hearing for cons r c ion of cer ain erms in he pa en s for No ember 15, 2004, b ha da e ma be changed d e o he fac ha TSMC has s bseq en l amended i s complain and added si (6) o her pa en s allegedl infringed b he Compan . The Federal Dis ric Co r has no sched led a Markman Hearing for hese addi ional pa en s. If he case is no resol ed earlier, he Federal Dis ric Co r has se a j r rial da e of April 11, 2006.

Wi h respec o he rade secre misappropria ion claims, on April 21, 2004, he Federal Dis ric Co r dismissed one of he rade secre rela ed claims i h prej dice and o of he o her rade secre rela ed claims i ho prej dice. On Ma 20, 2004, TSMC filed a rade misappropria ion case in he S perior Co r of California, Co n of Alameda. Tha case is in i s er earl s ages. I is e pec ed ha in Oc ober 2004 he S a e Co r ill se he rial da e. The earlies possible rial da e appears o be in mid-2006.

On A g s 18, 2004, TSMC filed a proceeding agains he Compan i h he Uni ed S a es In erna ional Trade Commission (he ITC). In his ITC proceeding, TSMC has alleged s bs an iall he same rade secre misappropria ion claims hich are c rren l pending before he California S a e Co r , and pa en infringemen claims regarding hree pa en s hich are he s bjec of a ne s i TSMC filed conc rren l i h he ITC proceeding, agains he Compan in he U.S. Dis ric Co r for he Nor hern Dis ric of California. The Compan is in es iga ing he ne pa en claims. As i h he claims in o her la s i s TSMC has filed agains he Compan , he Compan ill assess and form la e i s s rong defenses o hese ne claims.

11. CHANGES IN THE MEMBERS OF THE BOARD OF DIRECTORS

Since he da e of he Prospec s, he Board has appoin ed Lai Xing Cai and Sean H nkler as non-e ec i e direc ors of he Compan and Fang Yao has been appoin ed as an al erna e direc or of he Compan o Lai Xing Cai (a non-e ec i e direc or of he Compan). As disclosed in he prospec s, Da id Tse Yo ng Cho , Charles Richard Kramlich, Jimm Sh eh-mien Lee, Ming Fang L and Philip Richard Nicholls ceased o be members of he Board af er he comple ion of he Global Offering.

12. WAIVER FROM COMPLIANCE WITH THE LISTING RULES

Sa e as disclosed in he Prospec s, he Compan has no recei ed an ai ers from compliance i h he Lis ing R les.

13. REVIEW BY AUDIT COMMITTEE

The a di commi ee of he Compan has re ie ed i h he managemen of he Compan , he acco n ing principles and prac ices accep ed b he Gro p and has disc ssed i h he Direc ors ma ers concerning in ernal con rols and financial repor ing of he Compan , incl ding a re ie of he in erim financial s a emen s of he Compan for he si mon hs ended J ne 30, 2004.