Strengthened to create value for our shareholders

US$1,465,000,000

+25%

Revenue increased in 2006

For more details, please see Consolidated Statements of Operations

Bolstering scale and expertise

182,000

8" equivalent wafer capacity per month

For more details, please see Business Review

Right **People**

Preparing for the future

10,000+

Employees around the world

For more details, please see Report of Directors

Caring for the environment

Renewable energy:

Recycling Scrap Wafer for Solar Cell Production
Water Recycling Systems
Power Savings
Energy Savings
Environmental Protection

SGS Green Product Management System (GPMS)

certification for environmentally friendly products (April 2006)

Sony Green Partner

certification for environment friendly processes and materials (January 2006)

OHSAS18001

certification for health and safety (November 2003)

ISO14001

certification for environmental protection (August 2002)

Technological advancements

<0.13µm-90nm

Constitutes ~ 50% of total revenue

For more details, please see Chief Executive Officer's Statement

The Top 10 patent applicants in Mainland China

Uphold virtues
Boost profitability
Advance technologies
Enrich lives

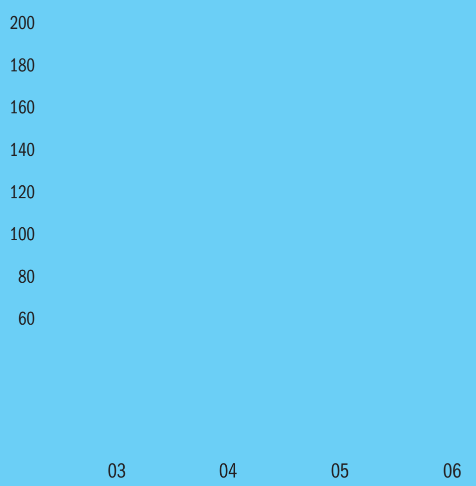
Vision

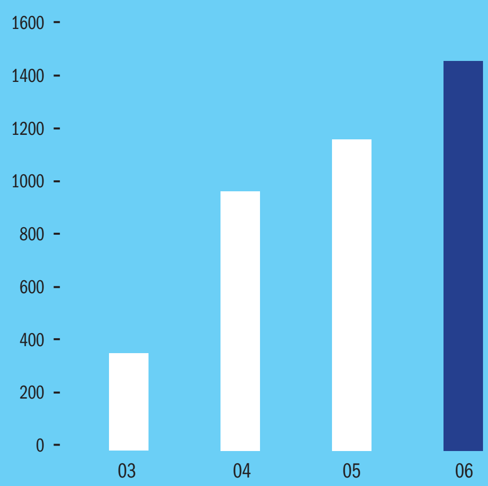
+

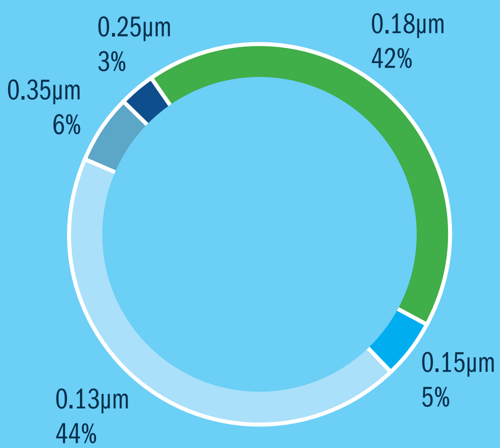
Mission

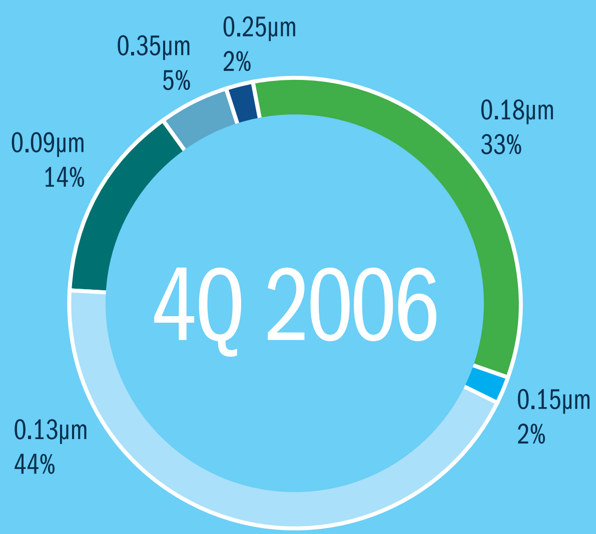
Cultivate talents
Develop innovations
Overcome obstacles
Maintain growth

Monthly Capacity









Contents

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This annual report may contain, in addition to historical information, "forward-looking statements" within the meaning of the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on SMIC's current assumptions, expectations and projections about future events. SMIC uses words like "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the best judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicality and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity and financial stability in end markets.

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

TSMC covenanted not to sue the Company for trade secret misappropriation as alleged in TSMC s legal actions as it related to 0.15µm and larger processes subject to certain conditions (TSMC Covenant). The TSMC Covenant did not cover 0.13µm and smaller technologies after 6 months following execution of the Settlement Agreement (July, 31, 2005). Excluding the 0.13µm and smaller technologies, the TSMC Covenant remains in effect indefinitely, terminable upon a breach by the Company.

The Company is required to deposit certain Company materials relating to 0.13µm and smaller technologies into an escrow account until December 31, 2006 or under certain circumstances for a longer period of time.

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

A A

Re a e e f 2004 a d 2005 F a c a

As a result of review of the accounting treatment for the Settlement Agreement, the Company determined that errors were made in the identification and classification of the components of payment. The Company previously recorded $23.2 million of the settlement amount as an expense in 2004 and $134.8 million of intangible assets associated with the patent license portfolio and covenant not to sue. The Company determined that the payment was made solely for the right to use the licensed patent license portfolio both prior and subsequent to the settlement date.

This determination impacted the allocation of the settlement amount to its various components, which resulted in the Company decreasing the amount of expense recognized in its 2004 financial statements from $23.2 million to $16.7 million in 2004 and increasing a deferred cost associated with patent license portfolio from $134.8 million to $141.3 million. This correction also impacted the amount of expense recorded in periods subsequent to the settlement date given the higher asset value being recorded and the shorter amortization period of the patent license portfolio as compared to the covenant not to sue.

In addition, the Company corrected the classification of the payment for the patent license portfolio from an intangible asset to a deferred cost and has also reclassified the amortization of the deferred asset from amortization of intangible to a component of cost of sales.

See Note 31 to Notes to the Consolidated Financial Statements included with this Annual Report for a more detailed description of the impact of the effects of correcting these errors. See also the section titled Current Accounting below for a description of the accounting treatment for the Settlement Agreement set forth in the Company s financial statements that are included with this Annual Report.

C e Acc g

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

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

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

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

There were no other damages associated with the Settlement Agreement;

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

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

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

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

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

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

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

D C

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

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

a) Existing third-party license agreements with SMIC;

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

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

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

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

R C L D

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

In the present litigation, TSMC alleges that the Company has incorporated TSMC trade secrets in the manufacture of the Company s 0.13 micron or smaller process products. TSMC further alleges that as a result of this claimed breach, TSMC s patent license is terminated and the covenant not to sue is no longer in effect with respect to the Company s larger process products.

The Company has vigorously denied all allegations of misappropriation. Moreover, TSMC has not yet proven, nor produced evidence of, any misappropriation by the Company. At present, the claims rest as unproven allegations, denied by the Company. The Court has made no finding that TSMC s claims are valid, nor has it set a trial date.

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

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

Under the provisions of SFAS 144, the Company is required to make a determination as to whether or not this pending litigation represents an event that requires a further analysis of whether the patent license portfolio has been impaired. We believe that the lawsuit is at a very early stage and we are still evaluating whether or not the litigation represents such an event. The Company expects further information to become available to us which will aid us in making a determination. The outcome of any impairment analysis performed under SFAS 144 might result in a material impact to our financial position and results of operations.

Our main focus in 2007 will be to expand our technology offerings and wafer capacity in a fiscally disciplined manner. Continuous improvement in performance and yield enables expansion of our product mixture in more advanced nodes of 90 nanometer and finer line technologies. Our capital expenditure target for 2007 of approximately US$720 million is based on anticipated customer demand for our services this year and beyond.

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

Consolidated Financial Data

The summary consolidated financial data presented below as of and for the years ended December 31, 2004, 2005 and 2006 are derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, the audited consolidated financial statements, including the related notes, included elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2002 and 2003, is derived from audited consolidated financial statements not included in this Annual Report. The summary consolidated financial data presented below has been prepared in accordance with United States generally accepted accounting principles (the "U.S. GAAP").

Note: The Company has re-stated its 2005 and 2004 financial statements. (Please see notes 24 and 31).

	For the year ended December 31,				
	2002	2003	2004	2005	**2006**
					(in US$ thousands, except for per share and per ADS data)
Income Statement Data:					
Sales	$ 50,315	$ 365,824	$ 974,664	$ 1,171,319	**$ 1,465,323**
Cost of sales(1)	105,238	359,779	716,225	1,105,134	**1,338,155**
Gross profit (loss)	(54,923)	6,045	258,439	66,185	**127,168**
Operating expenses:					
Research and development	38,254	34,913	74,113	78,865	**94,171**
General and administrative	18,351	29,705	54,038	35,701	**47,365**
Selling and marketing	4,776	10,711	10,384	17,713	**18,231**
Litigation settlement	–	–	16,695	–	**–**
Amortization of acquired intangible assets	–	3,462	14,368	20,946	**24,393**
Income from sale of plant and equipment and other fixed assets	–	–	–	–	**(43,122)**
Total operating expenses (income), net	61,381	78,791	169,598	153,225	**141,038**
Income (loss) from operations	(116,304)	(72,746)	88,841	(87,040)	**(13,870)**
Other income (expenses):					
Interest income	10,980	5,616	10,587	11,356	**14,916**
Interest expense	(176)	(1,425)	(13,698)	(38,784)	**(50,926)**
Foreign currency exchange gain (loss)	247	1,523	8,218	(3,355)	**(21,912)**
Other, net	2,650	888	2,441	4,462	**1,821**
Total other income (expense), net	13,701	6,602	7,548	(26,322)	**(56,101)**
(Loss) Income before income tax	(102,603)	(66,144)	96,389	(113,362)	**(69,971)**
Income tax credit (expense)	–	–	(186)	(285)	**24,928**

	For the year ended December 31,				
	2002	2003	2004	2005	**2006**
	(in US$ thousands, except for per share and per ADS data)				
Minority interest	–	–	–	251	**(19)**
Loss from equity investment	–	–	–	(1,379)	**(4,201)**
Net (loss) income before cumulative effect of a change in accounting principle	(102,603)	(66,144)	96,203	(114,775)	**(49,263)**
Cumulative effect of a change in accounting principal	–	–	–	–	**5,154**
Net (loss) income	(102,603)	(66,144)	96,203	(114,775)	**(44,109)**
Deemed dividend on preference shares[(2)]	–	37,117	18,840	–	**–**
Income (loss) attributable to holders of ordinary shares	$ (102,603)	$ (103,261)	$ 77,363	$ (114,775)	**$ (44,109)**
Income (loss) per share, basic	$ (1.27)	$ (1.14)	$ 0.01	$ (0.00)	**$ (0.00)**
Income (loss) per share, diluted	$ (1.27)	$ (1.14)	$ 0.00	$ (0.00)	**$ (0.00)**
Shares used in calculating basic income (loss) per share[(3)(4)]	80,535,800	90,983,200	14,199,163,517	18,184,429,255	**18,334,498,923**
Shares used in calculating diluted income (loss) per share[(3)(4)]	80,535,800	90,983,200	17,934,393,066	18,184,429,255	**18,334,498,923**

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

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

(3) Anti-dilutive preference shares, options and warrants were excluded from the weighted average ordinary shares outstanding for the diluted per share calculation. For 2001, 2002 and 2003, basic income (loss) per share did not differ from diluted loss per share.

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

	As of December 31,				
	2002	2003	2004	2005	**2006**
	(in US$ thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 91,864	$ 445,276	$ 607,173	$ 585,797	**$ 363,620**

	For the year ended December 31,				
	2002	2003	2004	2005	**2006**
	(in US$ thousands, except for percentages and operating data)				
Cash Flow Data:					
Net income (loss)	$ (102,603)	$ (66,145)	$ 96,203	$ (114,775)	**$ (49,263)**
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	84,537	233,905	456,961	769,472	**919,616**
Net cash provided by (used in) operating activities	(48,802)	114,270	518,662	648,105	**769,649**
Purchases of plant and equipment	(761,704)	(453,097)	(1,838,773)	(872,519)	**(882,580)**
Net cash used in investing activities	(751,144)	(454,498)	(1,826,787)	(859,652)	**(917,369)**
Net cash provided by financing activities	712,925	693,497	1,469,764	190,364	**(74,440)**
Net increase (decrease) in cash and cash equivalents	$ (87,056)	$ 353,412	$ 161,896	$ (21,376)	**$ (222,177)**
Other Financial Data:					
Gross margin	–109.2%	1.7%	26.5%	5.7%	**8.7%**
Operating margin	–231.2%	–19.9%	9.1%	–7.4%	**–0.9%**
Net margin	–203.9%	–18.1%	9.9%	–9.8%	**–3.0%**
Operating Data:					
Wafers shipped (in units):					
Total(1)	82,486	476,451	943,463	1,347,302	**1,614,888**
ASP (in US$)(2):	610	768	1,033	869	**907**

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

(2) Total sales/total wafers shipped.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Sales

Sales increased by 25.1% from US$1,171.3 million for 2005 to US$1,465.3 million for 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 19.9%, from 1,347,302 8-inch wafer equivalents to 1,614,888 8-inch wafer equivalents, between these two periods. The average selling price of the wafers the Company shipped increased by 4.4% from US$869 per wafer to US$907 per wafer. The percentage of wafer revenues that used 0.13 micron and below process technology increased from 40.6% to 49.6% between these two periods.

Cost of sales and gross profit (loss)

The cost of sales increased by 21.1% from US$1,105.1 million for 2005 to US$1,338.2 million for 2006. This increase was primarily due to the significant increase in sales volume, depreciation expenses as the Company installed new equipment to increase its capacity, and manufacturing labor expenses due to the increase in headcount. Other factors included an increase in the amount of direct and indirect materials purchased corresponding to the increase in wafers shipped and a product mix shift.

The Company had a gross profit of US$127.2 million for 2006 compared to a gross profit of US$66.2 million in 2005. Gross margins were 8.7% in 2006 compared to 5.7% in 2005. The increase in gross margins was primarily due to a higher blended ASP and a product mix shift.

Operating income, expenses and loss from operations

Operating expenses decreased by 8.0% from US$153.2 million for 2005 to US$141.0 million for 2006 primarily due to an increase in depreciation and amortization expense costs associated with research and development, and foreign exchange loss. Meanwhile, the Company incurred an income from sale of plant and equipments of US$43.1 million in 2006.

As a part of the settlement with TSMC, as described in "Note 11. – Acquired intangible assets, net" and "Note 25. – Litigation", the amortization of acquired intangible assets increased from US$41.3 million for 2005 to US$51.2 million for 2006.

Research and development expenses increased by 19.4% from US$78.9 million for 2005 to US$94.2 million for 2006. This increase in research and development expenses resulted primarily from an increase in depreciation and amortization costs associated with research and development, 65nm research and development activities.

General and administrative expenses increased by 32.7% to US$47.4 million for 2006 from US$35.7 million for 2005, primarily due to an increase in bad debt, tax related expenses, and foreign exchange loss.

Selling and marketing expenses increased by 2.9% from US$17.7 million for 2005 to US$18.2 million for 2006, primarily due to an increase in sales and marketing personnel.

As a result, the Company's loss from operations was US$13.9 million in 2006 compared to loss from operations of US$87.0 million in 2005. Operating margin was negative 0.9% and 7.4%, respectively, for these two years.

Other income (expenses)

Other expenses increased from US$26.3 million in 2005 to a US$56.1 million in 2006. This increase was primarily attributable to the increase in interest expense from US$38.8 million in 2005 to US$51.0 million in 2006, and the increase in foreign exchange loss from US$3.4 million in 2005 to US$21.9 million in 2006. This increase of the interest expense was primarily due to the increases in borrowing and the costs of borrowing.

Net income (loss)

Due to the factors described above, the Company had a net loss of US$44.1 million in 2006 compared to a net loss of US$114.8 million for 2005.

Bad debt provision

The Company determines its bad debt provision based on the Company's historical experience and the relative aging of receivables. The Company's bad debt provision excludes receivables from a limited number of customers due to a high level of collection confidence. The Company provides bad debt provision based on the age category of the remaining receivables. A fixed percentage of the total amount receivable is applicable to receivables in each past due age category, ranging from 1% for the shortest past due age category to 100% for the longest past due age category. Any receivables deemed non-collectible will be written off against the relevant amount of provision. The Company's bad debt provision made (reversed) in 2004, 2005, and 2006 amounted to US$1.0 million, US$(0.01) million, and US$3.0 million, respectively. The Company reviews, analyzes and adjusts bad debt provisions on a monthly basis.

Deemed dividends on preference shares

As of December 2006 and 2005, the Company did not record any deemed dividends on preference shares.

Debt Arrangements

Set forth in the table below are the aggregate amounts, as of December 31, 2006, of the Company's future cash payment obligations under the Company's existing contractual arrangements on a consolidated basis:

		Payments due by period			
Contractual obligations	Total	Less than 1 year	1-2 years	3-5 years	After 5 years
		(consolidated) (in US$ thousands)			
Short-term borrowings	$ 71,000	$ 71,000	$ –	$ –	$ –
Long-term debt					
Secured long-term loans	890,368	170,797	290,447	429,124	–
Operating lease obligations(1)	3,460	377	163	214	2,706
Purchase obligations(2)	611,543	611,543	–	–	–
Investment commitments(3)	29,260	29,260			
Other long-term obligations(4)	146,500	43,000	40,000	63,500	–
Total contractual obligations	$ 1,752,073	$ 925,954	$ 330,604	$ 492,809	$ 2,706

(1) Represents our obligations to make lease payments to use the land on which our fabs are located in Shanghai and other office equipment we have leased.
(2) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.
(3) Represents commitments to invest in certain joint venture projects.
(4) Includes the settlement with TSMC for an aggregate of US$175 million payable in installments over six years and the other long-term liabilities relating to certain license agreements.

As of December 31, 2006, the Company's outstanding long-term liabilities primarily consisted of US$890.37 million in secured bank loans, which are repayable in installments commencing in May 2006, with the last payment in November 2010.

2001 Loan Facility (SMIC Shanghai)

In December 2001, the Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai") entered into a USD denominated long-term debt agreement for US$432.0 million with a syndicate of four Chinese banks. The withdrawal period of the facility was 18 months starting from the loan agreement date. As of December 31, 2004, SMIC Shanghai had fully drawn down on this loan facility. In 2006, the interest rate on the loan ranges from 6.16% to 7.05%. The interest payment is due on a semi-annual basis. The principal amount is repayable starting in March 2005 in five semi-annual installments of US$86.4 million. The interest expense incurred in 2006, 2005, and 2004 was US$6.6 million, US$16.5 million, and US$14.0 million, respectively, of which US$0.8 million, US$3.6 million, and US$6.4 million was capitalized as additions to assets under construction in 2006, 2005, and 2004, respectively.

As part of the same long-term loan arrangements, SMIC Shanghai had a RMB denominated line of credit of RMB396,960,000 (approximately US$48.0 million) in 2001, with the same financial institutions. As of December 31, 2004, SMIC Shanghai had fully drawn on this line of credit. The interest rate for the loan is calculated based on the basic rate of a five-year term loan published by the People's Bank of China. The principal amount is repayable starting in March 2005 in five semi-annual installments of US$9,593,289. The interest rate on the loan ranged from 5.02% to 5.27% in 2005. The interest expense incurred in 2005 and 2004 was US$1.6 million and US$2.5 million, respectively, of which US$0.4 million and US$1.1 million was capitalized as additions to assets under construction in 2005 and 2004, respectively. As of December 31, 2006 and 2005, this facility was fully repaid.

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

2004 Loan Facility (SMIC Shanghai)

In January 2004, SMIC Shanghai entered into the second phase USD denominated long-term facility arrangement for US$256.5 million with four Chinese banks. As of December 31, 2005 and 2004, SMIC Shanghai had fully drawn down on this loan facility. In 2006, the interest rate on the loan ranged from 6.16% to 7.05%. The interest payment is due on a semi-annual basis. The principal amount is repayable starting in March 2006 in seven semi-annual installments of US$36.6 million. The interest expense incurred in 2006, 2005 and 2004 was US$7.2 million, US$12.5 million and US$3.9 million, of which US$0.9 million, US$2.7 million and US$nil were capitalized as additions to assets under construction in 2006, 2005 and 2004, respectively.

In connection with the second phase long-term facility arrangement, SMIC Shanghai has a RMB denominated line of credit of RMB235,678,000 (US$28,476,030). As of December 31, 2004, SMIC Shanghai has no borrowings on this line of credit. In 2005, SMIC Shanghai fully utilized and then repaid in full prior to December 31, 2005. The interest expenses incurred in 2005 was US$0.03 million.

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

2006 Loan Facility (SMIC Shanghai)

In June 2006, SMIC Shanghai entered into a new USD denominated long-term facility arrangement for US$600.0 million with a consortium of international and PRC banks. Of this principal amount, US$393.0 million was used to repay the principal amount outstanding under SMIC Shanghai's bank facilities from December 2001 and January 2004. The remaining principal amount will be used to finance future expansion and general corporate requirement for SMIC Shanghai. This facility is secured by the manufacturing equipment located in SMIC Shanghai 8-inch fabs. As of December 31, 2006, SMIC Shanghai had drawn down US$393.0 million from this facility. The remaining facility amount is available for drawdown until December 2007. The principal amount is repayable starting from December 2006 in ten semi-annual installments. As of December 31, 2006, SMIC Shanghai had repaid US$23.6 million according to the repayment schedule and had early repaid US$95.0 million. The interest rate on the loan ranged from 6.46% to 6.72%. The interest expense incurred ended December 31, 2006 was US$13.5 million, of which US$1.6 million was capitalized as additions to assets under construction in 2006.

The total outstanding balance of these long-term facilities is collateralized by certain plant and equipment at the original cost of US$1,889.1 million as of December 31, 2006. The registration of the mortgage was in process as of December 31, 2006.

The long term loan agreement entered into in June 2006 contains the following covenants:

Financial covenants for the Borrower including:

1. Consolidated Tangible Net Worth of no less than US$1,200 million;

2. Consolidated Total Borrowings to Consolidated Tangible Net Worth of:
   (a) no more than 60% for periods up to and including 31 December 2008; and
   (b) no more than 45% thereafter;

3. Consolidated Total Borrowings to trailing preceding four quarters EBITDA not to exceed 1.50x.

4. Debt Service Coverage Ratio of no less than 1.5x. Debt Service Coverage Ratio means trailing four quarters EBITDA divided by scheduled principal repayments and interest expense for all bank borrowings (including hire purchases, leases and other borrowed monies) for the same period.

Financial covenants for the Guarantor including:

1. Consolidated Tangible Net Worth of no less than US$2,300 million;

2. Consolidated Net Borrowings to Consolidated Tangible Net Worth of:
   (a) no more than 50% for period up to and including June 30, 2009;
   (b) no more than 40% thereafter.

3. Consolidated Net Borrowings to trailing four quarters EBITDA of:
   (a) no more than 1.50x for periods up to and including June 30, 2009;
   (b) no more than 1.30x thereafter.

SMIC Shanghai has met these covenants as of December 31, 2006.

In May 2005, Semiconductor Manufacturing International (Beijing) Corporation ("SMIC Beijing") entered into a five year USD denominated loan facility in the aggregate principal amount of US$600.0 million, with a syndicate of financial institutions based in the PRC. This five-year bank loan will be used to expand the capacity of SMIC Beijing's fabs. The drawdown period of this facility was twelve months from the sign off date of the agreement. As of December 31, 2006, SMIC Beijing had fully drawn-down US$600.0 million on this loan facility. The interest rate on this loan facility in 2006 ranged from 6.26% to 7.17%. The principal amount is repayable starting in December 2007 in six semi-annual installments. The interest expense incurred in 2006 and 2005 was US$28.5 million and US$4.0 million, of which US$0.5 million and US$0.9 million was capitalized as additions to assets under construction in 2006 and 2005, respectively.

The total outstanding balance of SMIC Beijing USD syndicate loan is collateralized by certain plant and equipment at the original cost of US$1,058.4 million as of December 31, 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 wafer 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 December 31, 2006, SMIC Beijing had a capacity of 25,000 12-inch wafers per month. SMIC Beijing has an exemption period from December 28, 2006 to June 30, 2007.

On December 15, 2005, the Company entered into a EUR denominated long-term loan facility agreement in the aggregate principal amount of EUR85 million (equivalent to approximately US$105 million) with a syndicate of banks and ABN Amro Bank N.V. Commerz Bank (Nederland) N.V. as the leading bank. The drawdown period of the facility ends on the earlier of (i) twenty 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. As of December 31, 2006, SMIC Tianjin had drawdown EUR15.1 million and repaid the first two installments with an aggregated amount of EUR3.0 million. As of December 31, 2006, the remaining balance is EUR12.1 million, with the US dollar equivalent of US$15.9 million. The interest rate on the loan ranged from 3.41% to 3.95%. The interest expense incurred in 2006 was US$0.3 million of which US$0.07 million was capitalized additions to assets under construction in 2006.

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

The long-term debt arrangements contain financial covenants as defined in the loan agreements. The Company met these covenants as of December 31, 2006.

Short-term Credit Agreements

As of December 31, 2006, the Company had fifteen short-term credit agreements that provided total credit facilities up to US$474.0 million on a revolving credit basis. As of December 31, 2006, the Company had drawn down US$71.0 million under these credit agreements and US$403.0 million is available for future

Commitments

As of December 31, 2006, the Company had commitments of US$75.1 million for facilities construction obligations for the facility in Chengdu and the Beijing, Tianjin, and Shanghai fabs, and US$536.4 million to purchase machinery and equipment for the testing facility in Chengdu and the Beijing, Tianjin and Shanghai fabs. As of December 31, 2006, the Company had total commitments of US$29.26 million to invest in a certain joint venture project. The Company expects to complete the cash injection of this project in 2007.

Debt to Equity Ratio

As of December 31, 2006, the Company's debt to equity ratio was 32% calculated based on the sum of the short-term borrowings, current portion of long-term debt and long-term debt divided by total shareholders' equity.

Foreign Exchange Rate Fluctuation Risk

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

To minimize these risks, the Company purchases foreign-currency forward exchange contracts with contract terms normally lasting less than six months to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated activities. These forward exchange contracts are principally denominated in Rmb, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with SFAS No. 133.

Cross Currency Swap Fluctuation Risk

On December 15, 2005, the Company entered into a long-term loan facility agreement in the aggregate principal amount of EUR85 million. The company is primarily exposed to changes in exchange rate for the Euro.

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

Outstanding Foreign Exchange Contracts

As of December 31, 2006, the Company had outstanding foreign currency forward exchange contracts with notional amounts of US$35.7 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2006, the fair value of foreign currency forward exchange contracts was approximately a loss of US$2.7 million, which is recorded in accrued expenses and other current liabilities. We had US$35.7 million of foreign currency exchange contracts outstanding as of December 31, 2006, all of which matured during the 2007.

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

The Company had US$61 million of foreign currency exchange contracts outstanding as of December 31, 2004, all of which matured in 2005.

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

	As of December 31, 2006 Expected maturity date (in US$ thousands)	
	2006	**Fair Value**
Forward Exchange Agreement		
(Receive JPY/Pay US$)		
Contract Amount	35,660	(2,694)
(Receive Euro/Pay US$)		
Contract Amount	0	0
(Receive US$/Pay Rmb)		
Contract Amount	0	0
Total Contract Amount	35,660	(2,694)

Outstanding Cross Currency Swap Contracts

As of December 31, 2006, the Company had outstanding cross currency swap contracts with notional amounts of US$15.9 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2006, the fair value of cross currency swap contracts was approximately a gain of US$0.3 million, which is recorded in other income and other current assets. We had US$15.9 million of cross currency swap contracts outstanding as of December 31, 2006, all of which will mature in 2010.

Interest Rate Risk

The Company's exposure to interest rate risks relates primarily to the Company's long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the Company's debt obligations outstanding as of December 31, 2006. The Company's long-term debt obligations are all subject to variable interest rates. The interest rates on the Company's U.S. dollar-denominated loans are linked to the LIBOR rate. The interest rates on the Company's EUR-denominated loan is linked to the EURIBOR rate. As a result, the interest rates on the Company's loans are subject to fluctuations in the underlying interest rates to which they are linked.

	As of December 31,			
	2007	2008	2009	2010

Directors and Senior Management

Members of the Board who served during the year of 2006 were:

Yang Yuan Wang (Chairman of the Board and Independent Non-executive Director);
Richard Ru Gin Chang (Executive Director, President and Chief Executive Officer of the Company);
Lai Xing Cai (ex-Non-executive Director who resigned as of February 6, 2006);
Fang Yao (Non-executive Director);
Ta-Lin Hsu (Independent Non-executive Director);
Yen-Peng Jou (ex-Independent Non-executive Director who retired at the 2006 annual general meeting held on May 30, 2006 ("2006 AGM"));
Tsuyoshi Kawanishi (Independent Non-executive Director);
Henry Shaw (Independent Non-executive Director);
Lip-Bu Tan (Independent Non-executive Director);
Albert Y. C. Yu (Independent Non-executive Director); and
Jiang Shang Zhou (Independent Non-executive Director).

Re-election of Class III Directors

Shareholders are invited to re-elect Class III Directors at the 2007 annual general meeting of the Company's shareholders (the "2007 AGM") to fill the vacancies available due to the retirements of the Directors mentioned below.

Three Class III Directors, Yang Yuan Wang, Tsuyoshi Kawanishi and Fang Yao, whose initial appointments as Directors took effect on September 25, 2001 (in respect of Yang Yuan Wang and Tsuyoshi Kawanishi who were re-appointed as Directors and designated as Class III Directors on March 18, 2004) and February 6, 2006 (in respect of Fang Yao who was re-appointed as Director and designated as Class III Director at the 2006 AGM), will retire from office at the 2007 AGM pursuant to Article 90 of the Company's Articles of Association. Each of Prof. Wang, Mr. Kawanishi and Mr. Yao will offer himself for re-election as a Class III Director. If elected, each of Prof. Wang, Mr. Kawanishi and Mr. Yao would hold office until the 2010 annual general meeting of the Company.

Pursuant to the resolution passed at a Board meeting held on March 29, 2006, the Board increased the numbers of Directors from eight (8) to nine (9), such increase took effect on the date of the 2006 AGM held on May 30, 2006. Dr. Albert Y. C. Yu was elected and served as a Class I Director at the 2006 AGM to fill the vacancy available following such increase of number of Directors.

Details of the proposed candidates for re-election as Directors at the 2007 AGM are set out in the circular to the shareholders sent together with this annual report.

Alternate Directors

Upon the resignation of Lai Xing Cai as a Director on February 6, 2006, Fang Yao ceased being an alternate Director to Lai Xing Cai. On the same date, Fang Yao was appointed as a Director.

Board of Directors and Senior Management

Members of the Board are re-elected or elected by the Company's shareholders. As of December 31, 2006, the Board consisted of nine (9) Directors.

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

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

Name	Age	Position
Directors		
Yang Yuan Wang	72	Chairman, Independent Non-executive Director
Richard Ru Gin Chang	59	Founder, President, Chief Executive Officer and Executive Director
Ta-Lin Hsu	64	Independent Non-executive Director
Jiang Shang Zhou	60	Independent Non-executive Director
Tsuyoshi Kawanishi	78	Independent Non-executive Director
Henry Shaw	53	Independent Non-executive Director
Lip-Bu Tan	48	Independent Non-executive Director
Albert Y. C. Yu	66	Independent Non-executive Director
Fang Yao	38	Non-executive Director
Senior Management		
Morning Wu	50	Acting Chief Financial Officer, Chief Accounting Officer and Qualified Accountant
Marco Mora	48	Chief Operating Officer
Toshiaki Ikoma	65	Chief Technology Officer
Akio Kawabata	61	Vice President, Marketing
Anne Wai Yui Chen	44	Company Secretary, Hong Kong Representative and Compliance Officer

Brief Biographical Details

Chairman of the Board, Independent Non-executive Director

Yang Yuan Wang is currently the Chairman and has been a Director since 2001. Professor Wang has more than 40 years of experience related to the semiconductor industry. He is the Chairman of SMIC Shanghai, SMIC Beijing and SMIC Tianjin and is also the Chief Scientist of the Microelectronics Research Institute at Beijing University. He is a fellow of the Chinese Academy of Sciences, The Institute of Electrical and Electronics Engineers (USA), and The Institute of Electrical Engineers (UK).

Founder, President, Chief Executive Officer and Executive Director

Richard Ru Gin Chang founded the Company in April 2000 and is currently President, Chief Executive Officer and Executive Director. Dr. Chang is also a director of SMIC Shanghai, SMIC Beijing, SMIC Tianjin, Semiconductor Manufacturing International (AT) Corporation, SMIC Solar Cell Corporation and Magnificent Tower Limited. Dr. Chang has over 28 years of semiconductor experience in foundry operations, wafer fabrication and research and development. From 1998 to 1999, Dr. Chang was President of Worldwide Semiconductor Manufacturing Corp., or WSMC, after joining the company in 1997. Prior to joining WSMC, Dr. Chang worked for 20 years at Texas Instruments Incorporated, where he helped build and manage the technology development and operations of ten semiconductor fabs and integrated circuit operations in the United States, Japan, Singapore, Italy and Taiwan. Dr. Chang received a PhD in Electrical Engineering from Southern Methodist University and a master's degree in Engineering Science from the State University of New York. In December 2003, Dr. Chang was selected by the China Center of Information Development as one of the ten “China IT Economic People of 2003” for his role in influencing and contributing to the development of China's information technology industry. In February 2004, Dr. Chang received The Magnolia Silver Award, which is generally recognized as the highest award an individual may receive from the Shanghai Municipal Foreign Affairs Office. The award recognizes Dr. Chang's contributions to Shanghai's economy, social development and interchange and cooperation with foreign companies. In April 2005, Dr. Chang received The International Scientific and Technological Cooperation Award of The People’s Republic of China. In November 2005, Dr. Chang received the Award of 2005 China IT Person of the Year and in February 2006 and March 2007, he received the 2004-2005 China Semiconductor Industry Leadership Award.

Non-executive Director

Fang Yao was an alternate Director to Lai Xing Cai, a Director, from July 2004 until February 6, 2006, at which time Mr. Cai resigned as a Director and Mr. Yao ceased to be an alternate Director. On the same date, Mr. Yao was appointed as a Director. Mr. Yao is an executive director of Shanghai Industrial Holdings Limited (“SIHL”). Mr. Yao also serves as a director and general manager of Shanghai Industrial Pharmaceutical Investment Co., Ltd. chairman of Guangdong Techpool Bio-Pharma Co., Ltd. and Shanghai Sunway Biotech Co., Ltd., vice chairman of Bright Dairy and Food Co., Ltd. and Shenzhen KangTai Biological Products Co., Ltd. and a director of Microport Medical (Shanghai) Co., Ltd., XiaMen Traditional Chinese Medicine Co., Ltd. and Shanghai Industrial Development Co., Ltd. He graduated from Chinese University of Hong Kong with a master’s degree in Business Administration and has over 10 years experience in money and capital markets.

Independent Non-executive Directors

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

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

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

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

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

Albert Y. C. Yu has been a Director since 2006. Dr. Yu is chairman of OneAngstrom LLC, and has been active in investing and mentoring high technology companies. Dr. Yu retired from Intel Corporation ("Intel") in late 2002, after almost thirty years with Intel. He had been senior vice president, member of the corporate management committee and general manager of Intel's business including microprocessors, chipsets and software for over sixteen years. Under his leadership, Intel's microprocessors from 386™ to the Pentium 4 and Pentium M Processors have become the highest volume microchips that power the computers and the Internet and propelled Intel to be the largest semiconductor company in the world. He was also in charge of Intel's corporate strategy that led to its entry into the optoelectronics business and its extensive international expansions. Dr. Yu serves on the boards of a number of high technology companies, venture capital firms and non-profit organizations. In February 2006, he received the "Distinguished Life Time

Toshiaki Ikoma joined the Company as Chief Technology Officer in January 2004. Dr. Ikoma has extensive semiconductor experience in both academia and industry. Dr. Ikoma was the president of Texas Instruments Japan, Inc. for five years and, prior to that position, served as a professor of Electronics at the Institute of Industrial Science at the University of Tokyo from 1968 to 1994. Prior to joining the Company, he was a professor of Technology Management at the Graduate School of International Corporate Strategy of Hitotsubashi University, Tokyo, beginning in 2002. Dr. Ikoma received a PhD in Electronics from the University of Tokyo.

Akio Kawabata joined the Company in 2002 and is currently the Vice President of Marketing. Mr. Kawabata has over 33 years of experience in the semiconductor industry. Prior to joining the Company, Mr. Kawabata held various management positions with Toshiba Corporation, including general manager of Toshiba's International Division, president of Toshiba Electronics Europe GmbH and managing director of Toshiba Asia Pacific. Mr. Kawabata received a master's degree in Electrical Engineering from Stanford University.

Company Secretary

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

Report of the Directors

Except as otherwise listed below, the Company owns 100% of the issued and outstanding share capital of its subsidiaries. As of December 31, 2006, these subsidiaries are as follows:

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

2. **S u Ma ua u I a a (B) C a (SMIC B)**
   Principal country of operation: Beijing, PRC
   Place of incorporation: Beijing, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$3,000,000,000
   Registered capital: US$1,000,000,000
   Equity holder: the Company (100%)

3. **中芯國際集成電路製造(天津)有限公司**
   S u Ma ua u I a a (T a) C a * (SMIC T a)
   Principal country of operation: Tianjin, PRC
   Place of incorporation: Tianjin, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$1,100,000,000
   Registered capital: US$690,000,000
   Equity holder: the Company (100%)

4. **S u Ma ua u I a a (C u) C a (SMIC C u)**
   Principal country of operation: Chengdu, PRC
   Place of incorporation: Chengdu, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$175,000,000
   Registered capital: US$60,000,000
   Equity holder: the Company (56.7%, indirectly through Semiconductor Manufacturing International (AT) Corporation)

* *For identification purposes only*

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

( ) C a C a

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

( ) C a a a u u C a

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

( ) P Sub a P a

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

( ) A a T a

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

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

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

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

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

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

2001 S O P a

Na /E b E	Da G a	P u R E ab	O N . G a	E P P S a (USD)	O Ou a a 1/1/06	O La Du P	O La R u a O a S a Du Du P *	O E Du P	O Ca Du P	O Ou a a 12/31/06	W A a C P S a a b Da O E (USD)	W A a C P S a a b Da O G a (USD)
[redacted]												

Na /E b E	Da G a	P u R E ab	O G a	N . G a	E P P S a (USD)	O Ou a a 1/1/06	O Du La P	O La Du R u a O a S a Du P *	O E Du P	O Ca Du P	O Ou a a 12/31/06	W A a C P S a a b Da O E (USD)	W A a C P S a a b Da O G a (USD)
[redacted]													

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

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

2001 P S a P a

Na /E b E	Da G a	P u R E ab	N . O G a	E P P S a (USD)	O Ou a a 1/1/06	O La Du P	O La Du R u a O a S a Du P *	O E Du P	O Ca Du P	O Ou a a 12/31/06	W A a C P S a a b Da O E (USD)	W A a C P S a a b Da O G a (USD)
[redacted]												

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

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

2004 S O P a

Na /E b E	Da G a	P u R E ab	O G a	N . G a	E P P S a (USD)	O Ou a a 1/1/06	A a G a 2006	O Du	La P	O La Du R u a O a S a Du P *	O E Du P	O Ca Du P	O Ou a a 12/31/06	W A a C P S a a b Da O E (USD)	W A a C P S a a b Da O G a (USD)
[redacted]															

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

2004 Eɥu I P a

Na /E b E	Da Ga	P u R E ab	O Ga N .	E P P S a (USD)	O Ou a a 1/1/06	A a O Ga Du P	O Du La P	O La Du R u a O a S a Du P *	O E Du P	O Ca Du P	O Ou a a 12/31/06	W A a C P S a a b Da R S a U V (USD)	W A a C P S a a b Da R S a U Ga (USD)
[redacted]													

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

Corporate Governance Report

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

Corporate Governance Practices

In November 2004, the HKSE 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 HKSE's Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, which contains code provisions to which an issuer such as the Company, are expected to comply or advise as to reasons for deviations (the "Code Provisions") and recommended best practices to which an issuer is encouraged to comply (the "Recommended Practices"). At the meeting of the Board on January 25, 2005, the Board approved the Corporate Governance Policy (the "CG Policy") with effect from such date. The updated CG Policy, a copy of which can be obtained on the Company's website at www.smics.com under "Corporate Governance", incorporates all of the Code Provisions of the CG Code and many of the Recommended Practices.

In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provision of the CG Policy. None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, during the financial period from January 1, 2006 to December 31, 2006, in compliance with the CG Policy.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted an Insider Trading Compliance Program (the "Insider Trading Policy") which encompasses the requirements of the Model Code as set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry of all Directors, confirms that all members of the Board have complied with the Insider Trading Policy and the Model Code throughout the year ended December 31, 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 achievement, of corporate goals and objectives, the oversight of the Company's financial performance and the responsibility for preparing the accounts, the establishment of corporate governance practices and policies, and the review of the Company's system of internal controls. The management of the Company is responsible for the implementation of the overall strategy of the Company and its daily operations and administration. The Board has access to the senior management of the Company to discuss enquiries on management information.

The Board consists of nine Directors as at the date of the annual report. Directors may be elected or re-elect 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 2005 AGM (except Dr. Albert Y. C. Yu who was elected at the 2006 AGM). The Class II Directors were re-elected for a term of three years at the 2006 AGM. The Class III Directors will be re-elected at the AGM for a term of three years.

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

Name of Director	Category of Director	Class of Director
Yang Yuan Wang	Chairman, Independent Non-executive Director	Class III
Richard Ru Gin Chang	President, Chief Executive Officer, Executive Director	Class I
Henrma3ss I		

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

(6) 2 of these meetings were attended by proxy. Mr. Jiang was elected as Director at the 2006 AGM.
(7) 1 of these meetings was attended by proxy
(8) 2 of these meetings were attended by proxy. Dr. Yu was elected as Director at the 2006 AGM.

Procedure regarding the Appointment of Directors

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

Board Commi ees

The Board has established the following principal committees to assist it in exercising its obligations. These committees consist of only Independent Non-executive Directors who have been invited to serve as members. The committees are governed by their respective charters setting out clear terms of reference.

Compensation Committee

As of December 31, 2006, the members of the Company's compensation committee (the "Compensation Committee") were Ta-Lin Hsu (chairman of Compensation Committee), Tsuyoshi Kawanishi and Lip-Bu Tan. None of these members of the Compensation Committee has been an executive officer or employee of the Company or any of its subsidiaries. See "Connected Transactions" for a description of transactions between the Company and the members of the Compensation Committee.

The responsibilities of the Compensation Committee include, among other things:

- approving and overseeing the total compensation package for the Company's executive officers and any other officer, evaluating the performance of and determining and approving the compensation to be paid to the Company's Chief Executive Officer and reviewing the results of the Chief Executive Officer's evaluation of the performance of the Company's other executive officers;

- reviewing and making recommendations to the Board with respect to Director compensation, including equity-based compensation;

- administering and periodically reviewing and making recommendations to the Board regarding the long-term incentive compensation or equity plans made available to the Directors, employees and consultants;

- reviewing and making recommendations to the Board regarding executive compensation philosophy, strategy and principles and reviewing new and existing employment, consulting, retirement and severance agreements proposed for the Company's executive officers; and

- ensuring appropriate oversight of the Company's human resources policies and reviewing strategies established to fulfill the Company's ethical, legal and human resources responsibilities.

In 2006, the Compensation Committee reviewed and approved the total compensation package for Richard Ru Gin Chang, who is the President and Chief Executive Officer of the Company and an Executive Director, as well as that of the other members of the management team of the Company. Based on the Compensation Committee’s review of the Company’s corporate goals for 2006 and comparable total compensation packages for presidents and chief executive officers of other publicly-listed companies in the same or a similar industry, the Compensation Committee awarded Richard Ru Gin Chang an emolument of US$348,968. In 2005, the Compensation Committee granted Dr. Chang fifteen million (15,000,000) options to purchase ordinary shares under the 2004 Stock Option Plan and awarded him two million (2,000,000) RSUs under the 2004 Equity Incentive Plan. As of December 31, 2006, none of such options have been exercised and 50% of such RSUs have vested.

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

On September 29, 2006, the Board granted to Dr. Albert Y. C. Yu 500,000 Restricted Share Units. Shares under the Restricted Share Units are to be automatically vested as to 50% per year starting from May 30, 2007.

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

In addition to reviewing the remuneration of the Non-executive Directors and the members of the Company’s management, the Compensation Committee reviewed:

(i) the remuneration policy for employees for the fiscal year 2006;

(ii) the profit-sharing and bonus policies;

(iii) the long term compensation strategy, including a review of the issuance of the shares under the Option Plans;

(iv) the accounting treatment and financial implications of the employees’ share options under U.S. GAAP; and

(v) the attrition rate.

The Compensation Committee reports its work, findings and recommendations to the Board during each quarterly Board meeting.

The Compensation Committee meets in person at least on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting the compensation policy of the Company. The meeting schedule for a year is planned in the preceding year. The Company Secretary assists the chairman of the Compensation Committee in preparing the agenda for meetings and assists the Compensation Committee in complying with the relevant rules and regulations. The relevant papers for the Compensation Committee meeting were dispatched to Compensation Committee members in accordance with the CG Code. Members of the Compensation Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Compensation Committee meeting, minutes are circulated to the members of the Compensation Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Compensation Committee meeting.

During the year ended December 31, 2006, the Compensation Committee held a total of five (5) meetings. Details of Directors' attendance at the Compensation Committee are set forth below:

	Number of Meetings Attended	Attendance Rate
Ta-Lin Hsu	5/5	100%
Tsuyoshi Kawanishi	4/5	80%
Lip-Bu Tan	5/5	100%
Average Attendance Rate		93%

Audit Committee

As of December 31, 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. See "Connected Transactions" for a description of transactions between the Company and the members of the Audit Committee. In addition to acting as Audit Committee member of the Company, Mr. Lip-Bu Tan, one of the members of the Audit Committee, currently also serves on the audit committee of three other publicly traded companies, namely SINA Corporation, Flextronics International Ltd. and Integrated Silicon Solution, Inc. In general and in accordance with section 303A.07(a) of the Listed Company Manual of the New York Stock Exchange, the Board considered and determined that such simultaneous service would not impair the ability of Mr. Tan to effectively serve on the Company's Audit Committee.

The responsibilities of the Audit Committee include, among other things:

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of compensating and overseeing the work of the Company's independent auditor, including reviewing the experience, qualifications and performance of the senior members of the independent auditor team and pre-approving all non-audit services to be provided by the Company's independent auditor;

- approving the remuneration and terms of engagement of the Company's independent auditor;

- reviewing reports from the Company's independent auditor regarding its internal quality-control procedures and any material issues raised in the most recent review or investigation of such procedures and regarding all relationships between the Company and the independent auditor;

- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding two years;

- reviewing the Company's annual and interim financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;

- reviewing the planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (as defined and discussed below) and the quality and effectiveness of the Company's internal controls;

- reviewing the Company's risk assessment and management policies;

- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of the Company's legal and regulatory compliance procedures;

- establishing procedures for the treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters, potential violations of law and questionable accounting or auditing matters; and

- obtaining and reviewing reports from management, the Company's internal auditor and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

During 2006, the Audit Committee reviewed:

- the financial reports for the year ended December 31, 2005 and the six month period ended June 30, 2006;

- the quarterly earnings releases and any updates thereto;

- the report and management letter submitted by the Company's outside auditors summarizing the findings of and recommendations from their audit of the Company's financial reports;

- the Company's budget for 2006;

- the findings and recommendations of the Company's outside consultants regarding the Company's compliance with the requirements of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act");

- the effectiveness of the Company's internal control structure in operations, financial reporting integrity and compliance with applicable laws and regulations in collaboration with the Internal Audit Department;

- the findings of the Company's Risk Management Committee (as defined and discussed below) which assesses risks relating to the Company and the compliance office, which ensures compliance with the CG Code and Insider Trading Policy;

- the audit fees and other non-audit fees such as fees relating to transfer pricing, Sarbanes-Oxley compliance testing, for the Company's outside auditors; and

- the Company's outside auditors' engagement letters.

The Audit Committee reports its work, findings and recommendations to the Board during each quarterly Board meeting.

The Audit Committee meets in person at least on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting the audit policy of the Company. The meeting schedule for a year is planned in the preceding year. The Company Secretary assists the co-chairmen of the Audit Committee in preparing the agenda for meetings and assists the Compensation Committee in complying with the relevant rules and regulations. The relevant papers for the Audit Committee meetings were dispatched to the Audit Committee in accordance with the CG Code. Members of the Audit Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Audit Committee meeting, minutes are circulated to the members of the Audit Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Audit Committee meeting.

During the year ended December 31, 2006, the Audit Committee held a total of eight (8) meetings. Details of Directors' attendance at the Audit Committee are set forth below:

	Number of Meetings Attended	Attendance Rate
Henry Shaw	8/8	100%
Lip-Bu Tan[1]	8/8	100%
Yang Yuan Wang[2]	8/8	100%
Average Attendance Rate		100%

[1] 1 of these meetings was attended by proxy
[2] 4 of these meetings were attended by proxy

At each quarterly Audit Committee meeting, the Audit Committee reviews with the Acting Chief Financial Officer and the Company's outside auditors, the financial statements for the financial period and the financial and accounting principles, policies and controls of the Company and its subsidiaries. In particular, the Committee discusses (i) the changes in accounting policies and practices, if any; (ii) the going concern assumptions, (iii) compliance with accounting standards and applicable rules and other legal requirements in relation to financial reporting and (iv) the internal controls of the Company relating to financial reporting. Upon the recommendation of the Audit Committee, the Board will approve the financial statements.

Auditors' Remuneration

The following table sets forth the aggregate audit fees, Sarbanes-Oxley compliance testing fee, audit-related fees, tax fees and all other fees we paid or incurred for audit services, audit-related services, tax services and other services rendered by our principal accountants during the fiscal year ended December 31, 2006.

	2006
Audit Fees	$1,460,000
Audit-Related Fees	–
Tax Fees	$33,789
All Other Fees	$85,597
Total	$1,579,386

Internal Controls

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

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

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

Internal Audit Department

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

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

- reviewing management's control to ensure the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- reviewing the systems established or to be established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the Company is in compliance;
- reviewing the means of safeguarding assets and, when appropriate, verifying the existence of assets;
- appraising the economy and efficiency with which resources are employed;
- identifying significant risks to the ability of the Company to meet its business objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks; and
- evaluating the effectiveness of controls supporting the operations of the Company and providing recommendations as to how those controls could be improved.

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

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

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

Risk Management Committee

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

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

The Board, through the Audit Committee, has reviewed the effectiveness of the Company's system of internal control and believes that the system of internal controls in place at December 31, 2006 and at the date of this annual report, is effective and adequate.

Disclosure Committee

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

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

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

Compliance Office

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

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

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

Shareholder Righ s

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

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

Shareholder Communications and Investor Relations

The Company and the Board recognizes the importance of maintaining open and frequent communications with its shareholders. At the 2006 AGM, the President of the Company, as well as the Company's outside auditors, were present to answer questions from the shareholders. Together with this annual report, an annual general meeting circular is distributed to all shareholders within the prescribed time period required by the Listing Rules, notifying the shareholders about the AGM. The circular and the accompanying materials set forth the procedures for demanding and conducting a poll, including applicable notice requirements, and other relevant information relating to the proposed resolutions. Separate resolutions are proposed at these annual general meetings on each substantially separate issue, including the election of individual Directors. The Chairman reveals how many proxies for and against have been filed in respect to each resolution. The results of the poll are published in newspapers with circulation in Hong Kong and on the web sites of the Company and HKSE.

On the first business day after the 2006 AGM, which was held on May 30, 2006 at the Company's headquarters in Shanghai, China, the results of the poll were published in two newspapers with circulation in Hong Kong and on the web sites of the Company and HKSE. During the 2006 AGM, the Company's shareholders:

- received and considered the audited financial statements and the reports of the Directors and Auditors of the Company for the year ended December 31, 2005;

- elected Albert Y. C. Yu as Class I Director to hold office until 2008 AGM and authorized the Board to fix his remuneration;

- re-elected Ta-Lin Hsu and Lip-Bu Tan as Class II Directors and elected Jiang Shang Zhou as Class II Director for terms of three years and authorised the Board to fix their remuneration;

- re-elected Fang Yao as Class III Director to hold office until 2007 AGM and authorised the Board to fix his remuneration;

- re-elected Deloitte Tohmatsu as Auditors of the Company and authorised the Audit Committee to fix their remuneration;

- approved the general mandate to Directors to allot, issue, grant, distribute, and otherwise deal with additional shares in the Company not exceeding 20% of the issued share capital of the Company as of the date of the 2006 AGM;

- approved the general mandate to Directors to repurchase shares in the Company not exceeding 10% of the issued share capital of the Company as of the date of the 2006 AGM;

- approved amendments to the 2004 Stock Option Plan;

- approved amendments to the 2004 EIP;

- approved amendments to the 2004 ESPP; and

- approved a standard form of stock option plan for subsidiaries of the Company.

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

In addition to the 2006 AGM and the above referenced conference calls, the Company's shareholders were invited to gatherings in Hong Kong to meet members of the management of the Company.

A table setting forth information regarding the beneficial ownership as of December 31, 2006 of the ordinary shares, of each shareholder who is known by the Company to beneficially own more than 5% of the Company's outstanding shares, is contained on page 51.

The market capitalization of the Company as of December 31, 2006 was HK$18,617,084,027.6 (issued share capital of 18,432,756,463 ordinary shares at the closing market price of HK$1.01 per ordinary share). The public float as of such date was approximately 84.59%.

The AGM is scheduled to be held at the Company's headquarters at 18 Zhangjiang Road, PuDong New Area, Shanghai, China 201203 on May 23, 2007 at 3:00 p.m. All shareholders are invited to attend.

Code of Business Conduct and Ethics

The Board has adopted a code of business conduct and ethics (the "Code of Conduct") which provides guidance about doing business with integrity and professionalism. The Code of Conduct addresses issues including among others, fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in the Company's securities, use of the Company's assets, and relationships with customers and third parties. Any violation of the Code of Conduct is reported to the Compliance Office, which will subsequently report such violation to the Audit Committee.

US Corporate Governance Practices

Companies listed on the New York Stock Exchange must comply with certain corporate governance standards under Section 303A of the New York Stock Exchange Listed Company Manual. However, foreign private issuers such as the Company are permitted to follow home country practices in lieu of the provisions of Section 303A, except that such companies are required to comply with the rules relating to the audit committee. Please refer to the following website at http:/www.smics.com/website/enVersion/IR/corporateGovernance.htm for a summary of the significant differences between the Company's corporate governance practices and those required of U.S. companies under New York Stock Exchange listing standards.

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Report by Management on Internal Control over Financial Reporting

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, 2005 and 2004 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
April 24, 2007

Consolidated Balance Sheets

[illegible]

	[illegible]	December 31, 2006	[illegible]	[illegible]
ASSETS				
[illegible]				
[illegible]		$ 363,619,731	[illegible]	[illegible]
[illegible]	[illegible]	57,950,603	[illegible]	[illegible]
[illegible]				
[illegible]	[illegible]	252,184,975	[illegible]	[illegible]
[illegible]	[illegible]	275,178,952	[illegible]	[illegible]
[illegible]		20,766,945	[illegible]	[illegible]
[illegible]		70,544,560	[illegible]	[illegible]
[illegible]	[illegible]	9,420,729	[illegible]	[illegible]
[illegible]		1,049,666,495	[illegible]	[illegible]
[illegible]	[illegible]	38,323,333	[illegible]	[illegible]
[illegible]	[illegible]	3,244,400,822	[illegible]	[illegible]
[illegible]	[illegible]	71,692,498	[illegible]	[illegible]
[illegible]	[illegible]	94,183,034	[illegible]	[illegible]
[illegible]	[illegible]	13,619,643	[illegible]	[illegible]
[illegible]		4,119,433	[illegible]	[illegible]
[illegible]	[illegible]	25,286,900	[illegible]	[illegible]
[illegible]		$ 4,541,292,158	[illegible]	[illegible]
LIABILITIES AND STOCKHOLDERS' EQUITY				
[illegible]				
[illegible]	[illegible]	$ 309,129,199	[illegible]	[illegible]
[illegible]		97,121,231	[illegible]	[illegible]
[illegible]	[illegible]	71,000,000	[illegible]	[illegible]
[illegible]	[illegible]	29,242,001	[illegible]	[illegible]
[illegible]	[illegible]	170,796,968	[illegible]	[illegible]
[illegible]		72,417	[illegible]	[illegible]
[illegible]		677,361,816	[illegible]	[illegible]

Consolidated Balance Sheets

[illegible]

	Notes	December 31, 2006	[illegible]	[illegible]
[illegible]				
[illegible]	[illegible]	77,601,657	[illegible]	[illegible]
[illegible]	[illegible]	719,570,905	[illegible]	[illegible]
[illegible]	[illegible]	16,992,950	[illegible]	[illegible]
[illegible]		3,333,333	[illegible]	[illegible]
[illegible]	[illegible]	210,913	[illegible]	[illegible]
[illegible]		817,709,758	[illegible]	[illegible]
[illegible]		1,495,071,574	[illegible]	[illegible]
[illegible]	[illegible]			
[illegible]		38,800,666	[illegible]	[illegible]
[illegible]				
[illegible]	[illegible]	7,373,103	[illegible]	[illegible]
[illegible]	[illegible]	32,387	[illegible]	[illegible]
[illegible]		3,288,733,078	[illegible]	[illegible]
[illegible]	[illegible]	–	[illegible]	[illegible]
[illegible]		91,840	[illegible]	[illegible]
[illegible]		–	[illegible]	[illegible]
[illegible]		(288,810,490)	[illegible]	[illegible]
[illegible]		3,007,419,918	[illegible]	[illegible]
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 4,541,292,158	[illegible]	[illegible]
[illegible]		$ 372,304,679	[illegible]	[illegible]
[illegible]		$ 3,863,930,342	[illegible]	[illegible]

[illegible]

Consolidated Statements of Operations

(In US dollars, except share data)

	Notes	2006	Year ended December 31, 2005 (As Restated, see Note 31)	2004 (As Restated, see Note 31)
Sales	22	**$ 1,465,322,867**	$ 1,171,318,735	$ 974,664,696
Cost of sales	2	**1,338,155,004**	1,105,133,544	716,225,372
Gross profit		**127,167,863**	66,185,191	258,439,324
Operating expenses and income:				
Research and development	2	**94,170,750**	78,865,306	74,113,116
General and administrative	2	**47,364,533**	35,700,768	54,038,382
Selling and marketing	2	**18,231,048**	17,713,228	10,383,794
Litigation settlement	24	**–**	–	16,694,741
Amortization of acquired intangible assets	2	**24,393,561**	20,946,051	14,368,025
Income from sale of plant and equipment and other fixed assets	10	**(43,121,929)**	–	–
Total operating expenses (income), net		**141,037,963**	153,225,353	169,598,058
(Loss) income from operations	27	**(13,870,100)**	(87,040,162)	88,841,266
Other income (expense):				
Interest income		**14,916,323**	11,355,972	10,587,244
Interest expense		**(50,926,084)**	(38,784,323)	(13,697,894)
Foreign currency exchange (loss) gain		**(21,912,234)**	(3,355,279)	8,217,567
Others, net		**1,821,337**	4,461,925	2,441,057
Total other (expense) income, net		**(56,100,658)**	(26,321,705)	7,547,974
(Loss) income before income tax		**(69,970,758)**	(113,361,867)	96,389,240
Income tax credit (expense)	17	**24,927,744**	(284,867)	(186,044)
Minority interest		**(18,803)**	251,017	–
Loss from equity investment	12	**(4,201,247)**	(1,379,110)	–
Net (loss) income before cumulative effect of a change in accounting principle		**(49,263,064)**	(114,774,827)	96,203,196
Cumulative effect of a change in accounting principle	3	**5,153,986**	–	–

Consolidated Statements of Operations

(In US dollars, except share data)

	Notes	2006	2005 (As Restated, see Note 31)	2004 (As Restated, see Note 31)
			Year ended December 31,	
Net (loss) income		**$ (44,109,078)**	$ (114,774,827)	$ 96,203,196
Deemed dividends on preference shares	29	**–**	–	18,839,426
(Loss) income attributable to holders of ordinary shares		**$ (44,109,078)**	$ (114,774,827)	$ 77,363,770
On the basis of net loss before accounting change per share, basic	20	**$ (0.00)**	$ (0.01)	$ 0.01
On the basis of net loss before accounting change per share, diluted	20	**$ (0.00)**	$ (0.01)	$ 0.00
Cumulative effect of an accounting change per share, basic and diluted	20	**$ 0.00**	$ –	$ –
(Loss) income per share, basic	20	**$ (0.00)**	$ (0.01)	$ 0.01
(Loss) income per share, diluted	20	**$ (0.00)**	$ (0.01)	$ 0.00
Shares used in calculating basic (loss) income per share	20	**18,334,498,923**	18,184,429,255	14,199,163,517
Shares used in calculating diluted (loss) income per share	20	**18,334,498,923**	18,184,429,255	17,934,393,066

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

(In US dollars, except share data)

	Preference shares																						
	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		Ordinary										
	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Warrants	Additional Paid-in capital	Subscription receivable from stockholders	Notes receivables from stockholders	Accumulated other comprehensive income (loss)	Deferred stock compensation, net	Accumulated deficit	Total stockholders equity	Comprehensive income (loss)
Balance at December 31, 2003	954,977,374	381,990	219,499,674	2,195	42,373,000	16,949	2,350,000	940	181,718,858	72,688	7,142,857	2,857	242,595,000	97,038	37,839,931	1,835,820,085	(105,420,031)	(36,026,073)	199,827	(40,582,596)	(207,290,355)	1,485,115,445	(65,974,677)
Issuance of Series D convertible preference shares and Series D warrants to Motorola and MCEL	-	-	-	-	-	-	-	-	-	-	95,714,286	38,286	-	-	27,663,780	308,141,738	-	-	-	-	-	335,843,804	
Issuance of Series D preference shares in exchange for software licenses	-	-	-	-	-	-	-	-	-	-	914,285	365	-	-	-	5,059,891	-	-	-	-	-	5,060,256	
Issuance of series B convertible preference shares in exchange for intangible assets	-	-	-	-	-	-	750,000	300	-	-	-	-	-	-	-	2,739,553	-	-	-	-	-	2,739,853	
Issuance of Series B convertible preference shares to a service provider	-	-	-	-	-	-	12,343	5	-	-	-	-	-	-	-	45,085	-	-	-	-	-	45,090	
Conversion of preference share to ordinary shares																							

Consolidated Statements of Cash Flows

(In US dollars, except share data)

Consolidated Statements of Cash Flows

(In US dollars, except share data)

	Year ended December 31,		
	2006	2005 (As Restated, see Note 31)	2004 (As Restated, see Note 31)
Financing activities:			
Proceeds from short-term borrowings	**255,003,999**	394,158,994	91,000,000
Repayment of short-term borrowings	**(449,485,081)**	(219,677,912)	–
Repayment of note payable to stockholder for land use rights	**–**	–	(12,778,797)
Proceeds from long-term debt	**785,344,546**	253,432,612	256,487,871
Repayment of long-term debt	**(635,613,638)**	(249,244,093)	–
Repayment of promissory note	**(30,000,000)**	(30,000,000)	(15,000,000)
Payment of loan initiation fee	**(3,596,938)**	–	–
Proceeds from issuance of Series D convertible preference shares	**–**	–	30,000,000
Proceeds from issuance of ordinary shares from initial public offering	**–**	–	1,016,859,151
Collection of subscription receivables, net	**–**	–	105,420,031
Proceeds from exercise of employee stock options	**3,907,118**	2,303,151	681,339
Collection of notes receivables from employees	**–**	391,376	35,245,774
Change in deposits received from stockholders	**–**	–	(38,151,407)
Proceeds from minority investor (note 1)	**–**	39,000,025	–
Net cash (used in) provided by financing activities	**(74,439,994)**	190,364,153	1,469,763,962
Effect of exchange rate changes	**(16,885)**	(192,246)	256,389
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(222,177,156)**	(21,375,683)	161,896,236
CASH AND CASH EQUIVALENTS, beginning of year	**585,796,887**	607,172,570	445,276,334
CASH AND CASH EQUIVALENTS, end of year	**$ 363,619,731**	$ 585,796,887	$ 607,172,570
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	**$ 164,409**	$ 436,867	$ 34,044
Interest paid	**$ 46,808,533**	$ 47,113,456	$ 20,104,223

Consolidated Statements of Cash Flows

(In US dollars, except share data)

	Year ended December 31,		
	2006	2005 (As Restated, see Note 31)	2004 (As Restated, see Note 31)
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Note payable waived by stockholder in exchange for land use rights	**$ –**	$ –	$ (14,239,246)
Series D convertible preference shares issued to acquire assets and assume liabilities from Motorola and MCEL	**$ –**	$ –	$ 278,180,024
Issuance of Series D convertible preference share warrants	**$ –**	$ –	$ 27,663,780
Series D convertible preference shares issued in exchange for certain software licenses	**$ –**	$ –	$ 5,060,256
Series B convertible preference shares issued in exchange for acquired intangible assets	**$ –**	$ –	$ 2,739,853
Series B convertible preference shares issued to a service provider	**$ –**	$ –	$ 45,090
Conversion of preference shares into ordinary shares upon initial public offering	**$ –**	$ –	$ 5,971,115
Ordinary shares and warrants issued to a service provider	**$ –**	$ –	$ (79,590)
Ordinary shares issued in exchange for equipment	**$ –**	$ –	$ 5,222,180
Ordinary and preference shares issued in exchange for employee note receivable	**$ –**	$ –	$ (388,924)
Inception of accounts payable for plant and equipment	**$ (165,828,795)**	$ (143,723,643)	$ (272,164,643)
Issuance of promissory note for acquired intangible assets	**$ –**	$ (132,496,437)	$ –
Inception of long-term payable for acquired intangible assets	**$ (16,992,950)**	$ (24,686,398)	$ –
Inception of other receivable for sales of manufacturing equipment	**$ 70,544,560**	$ 5,490,000	$ –

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

Notes to the Consolidated Financial Statements

[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

1. [illegible]t [illegible]t t

[illegible] 3, 2000 [illegible] 31, 200[illegible] [illegible]

Name of company	Place and date of incorporation/establishment	Attributable equity interest held	Principal activities
[illegible]	[illegible], 2000	100%	[illegible]
[illegible]	[illegible], 2000	100%	[illegible]
[illegible] ([illegible])*#	[illegible] 21, 2000	100%	[illegible]
[illegible]	[illegible] 22, 2001	100%	[illegible]
[illegible] ([illegible])*	[illegible] 2[illegible], 2002	100%	[illegible]
[illegible]	[illegible], 2002	100%	[illegible]
[illegible]	[illegible] 3, 2003	100%	[illegible]
[illegible])*	[illegible] 30, 2003	100%	[illegible]
[illegible] ([illegible])*#	[illegible] 3, 2003	100%	[illegible]
[illegible] ([illegible])	[illegible] 2[illegible], 2004	[illegible]%	[illegible]
[illegible] ([illegible])*	[illegible] 1[illegible], 2004	[illegible]%	[illegible]
[illegible] ([illegible])	[illegible] 30, 200[illegible]	100%	[illegible]
[illegible] ([illegible])*#	[illegible], 200[illegible]	100%	[illegible]
[illegible] *#	[illegible] 2[illegible], 200[illegible]	100%	[illegible]
[illegible]	[illegible], 200[illegible]	100%	[illegible]

* [illegible]
\# [illegible]

[illegible] 31, 200[illegible], 200[illegible] 2004
([illegible])

1. [illegible]

[illegible]

[illegible] 2004, [illegible] 200[illegible] [illegible] $3 [illegible] 43.33% [illegible]

2. [illegible]

( ) [illegible] 200[illegible] [illegible] 10[illegible] [illegible]

( ) [illegible] 31, 200[illegible] [illegible]

3. [illegible]

( ) [illegible]

[illegible]

( ) [illegible]

[illegible]

( ) [illegible]

[illegible]

3. [illegible]

[illegible]

$1[illegible],10[illegible],4[illegible], [illegible] $13, 0[illegible] [illegible] $10, 0[illegible],3[illegible],4[illegible], [illegible]

31, 200 , 200 2004

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	10
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31, 200 31, 200 , 200 2004.

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[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

3. [illegible]

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[illegible]

( ) [illegible]

[illegible] $4,[illegible],002, [illegible] $[illegible]1,[illegible]123 [illegible] $[illegible] 31,03[illegible] [illegible] $22,3[illegible]13, [illegible] $3,[illegible] [illegible] $[illegible] 200[illegible], 200[illegible] [illegible] 2004, [illegible]

	For the year ended December 31		
	2006	200[illegible]	2004
[illegible]	**$ 78,120,699**	$ [illegible]	$ 21,22[illegible]
[illegible]	**22,396,613**	3,[illegible]	[illegible]
[illegible]	**4,798,002**	[illegible]1,[illegible]123	[illegible] 31,03[illegible]
[illegible]	**$ 50,926,084**	$ 3[illegible]4,323	$ 13[illegible]4

( ) [illegible]

[illegible]

[illegible] $13,[illegible],3[illegible]3, [illegible] $12,3[illegible] 2[illegible] [illegible] $[illegible] 200[illegible], 200[illegible] [illegible] 2004, [illegible]

1

[illegible] $[illegible] 2,[illegible]0, [illegible] $3,[illegible] 1[illegible] [illegible] $1,[illegible]4[illegible],2[illegible] [illegible] 200[illegible], 200[illegible] [illegible] 2004, [illegible]

[illegible] $[illegible]0[illegible], [illegible] $[illegible]0[illegible],4[illegible]1 [illegible] $[illegible]8,[illegible]2[illegible] 200[illegible], 200[illegible] [illegible] 2004, [illegible]

31, 200 , 200 2004

3. t t (t)

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31, 200 , 200 2004

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1, 200 . 2 , (2), 123, 14 , 1, 200 . 1, 200 . 123( ), (123( ))

123( ), 123( )

123( ) 1, 200 $ .2 31, 200 $0.002 .

31, 200 , 200 2004 $23, 0 , 4 $2 , 8 , 4 $2 011,0 ,

[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

3. [illegible] ([illegible])

( ) [illegible] - [illegible] ([illegible])

[illegible] 123,[illegible] 1, 200[illegible] [illegible]

	Year ended December 31,	
	200[illegible]	2004
[illegible]	$ (114,[illegible]4, 2[illegible])	$ [illegible]3[illegible]3,[illegible]0
[illegible]	2[illegible],[illegible]8[illegible], [illegible]4	2,[illegible]011,0[illegible]
[illegible]	(32,[illegible]2[illegible])	(3,[illegible]4[illegible],[illegible]03)
[illegible]	$ (122,03[illegible]0[illegible])	$ [illegible],[illegible],14
[illegible]		
[illegible]	$ (0.01)	$ 0.00
[illegible]	$ (0.01)	$ 0.00
[illegible]	$ (0.01)	$ 0.01
[illegible]	$ (0.01)	$ 0.00

[illegible] 200[illegible], 200[illegible] [illegible] 2004 [illegible] $0.0[illegible], [illegible] $0.0[illegible] [illegible] $0.1[illegible] [illegible]

[illegible]

	2006	200[illegible]	2004
[illegible]	**4.72%**	4.1[illegible]%	2[illegible]4%
[illegible]	**2-4 years**	1-4 [illegible]	0.[illegible]-4 [illegible]
[illegible]	**32.69%**	30.3[illegible]%	2.4[illegible]%
[illegible]		[illegible]	[illegible]

[illegible] 31, 2006, 2005 [illegible] 2004
([illegible])

3. [illegible] ([illegible])

( ) [illegible]

[illegible]

[illegible]

		December 31,	
	2006	2005	2004
[illegible]	**$ 35,660,177**	$ 24 [illegible]22, 12	$ [illegible]1,034,33
[illegible]	**265,947,874**	340,000,000	[illegible]
	$ 301,608,051	$ [illegible]22, 12	$ [illegible]1,034,33

[illegible] 2006, 2005 [illegible] 2004, [illegible]

Settlement currency	Nominal amount	US dollar equivalent
As of December 31, 2006		
[illegible]	**4,235,537,500**	**$ 35,660,177**
[illegible] 31, 2005		
[illegible]	22,0[illegible],000	$ 1[illegible],310
[illegible]	4,[illegible]00,000	[illegible], 1,2 0
[illegible]	[illegible]1,400	1, 2
		$ 24 [illegible]22, 12
[illegible] 31, 2004		
[illegible]	2, 1 [illegible]14,	$ 2 ,111,40
[illegible]	20,042,03[illegible]	2,[illegible]313,2
[illegible]	4[illegible],42 ,200	[illegible]0 [illegible]42
		$ [illegible]1,034,33

3.

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200 200 $2 0,000,000 $340,000,000,

200 200 31, 200 200

$1 , 4 .

		December 31	
	2006	200	2004
	$ (2,694,415)	$ (2 0 14)	$ (2 3,344)
	(5,317,837)	(1,2 0, 11)	
	$ (8,012,252)	$ (3, , 2)	$ (2 3,344)

31, 200, 200 2004,

[illegible] 31, 200[illegible], 200[illegible] 2004
([illegible])

3. [illegible]

( ) [illegible]

[illegible]

[illegible] 31, 200[illegible], 200[illegible] 2004
[illegible])

. [illegible] t [illegible], t [illegible] (t)

[illegible]

	2006	200[illegible]	2004
[illegible]	$ 213,539,198	$ 1[illegible]2,303,0[illegible]4	$ 14[illegible],[illegible]02,[illegible]1
[illegible]			
[illegible] 30 [illegible]	31,611,729	3[illegible],01[illegible],[illegible]40	1[illegible],[illegible]01,323
[illegible] 31[illegible]0 [illegible]	5,879,705	2,[illegible]2[illegible],24	2[illegible],[illegible]4
[illegible]0 [illegible]	1,154,343	[illegible],4[illegible],0[illegible]1	2,12[illegible]1
	$ 252,184,975	$ 241,333,[illegible]14	$ [illegible],1[illegible],2[illegible]
[illegible]	$ (4,048,845)	$ (1,0[illegible]1,340)	$ (1,10[illegible],[illegible])

[illegible]

	2006	200[illegible]	2004
[illegible]	$ 1,091,340	$ 1,10[illegible],[illegible]	$ 114,4[illegible]8
[illegible]	2,957,505	[illegible]	0[illegible]2
[illegible]		(13,[illegible]2[illegible])	[illegible]
[illegible]	$ 4,048,845	$ 1,0[illegible]1,340	$ 1,10[illegible],[illegible]

. [illegible] t [illegible] t

A[illegible]ailable-f[illegible]-[illegible]ale [illegible]ec[illegible]i[illegible]

[illegible]

	December 31, 2006			
	C[illegible]	G[illegible] [illegible]ealized gai[illegible]	G[illegible] [illegible]ealized l[illegible]e[illegible]	Fai[illegible] [illegible]al[illegible]e
M[illegible]al f[illegible]d[illegible]	$ 52,866,825	$ 0	$	$ 52,866,825

	[illegible] 31, 200[illegible]			
	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	$ 3,4[illegible]2,033	$ [illegible],4[illegible]0	$ [illegible]	$ 3,4[illegible]1,4[illegible]3
L[illegible]	10,2[illegible]3,[illegible]8	20,[illegible]03	[illegible]	10,304,3[illegible]
	$ 13,[illegible]0	$ 30,2[illegible]3	$ [illegible]	$ 13,[illegible],

[illegible] 31, 2006, 2005 and 2004
([illegible])

[illegible]

		[illegible] 31, 2004		
	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	$ 10,000,000	$ [illegible]	$ [illegible]	$ 10,000,000
[illegible]	10,2[illegible]3[illegible]	[illegible], 0	[illegible]	10,3[illegible]4,1 4
	$ 20,2[illegible]3[illegible]	$ [illegible], 0	$ [illegible]	$ 20,3[illegible]4,1 4

Trading securities

[illegible] 31, 2006, [illegible] $,000,000 [illegible] $,0 3,[illegible].

[illegible]

	2006	2005	2004
[illegible]	**$ 89,431,781**	$ [illegible] 2	$ 3 ,33[illegible], 2
[illegible]	**150,506,509**	11 ,210,0 2	3, 3,4 1
[illegible]	**35,240,662**	20,32 [illegible]02	20,[illegible]442
	$ 275,178,952	$ 1 1,23[illegible]3[illegible]	$ 144,01[illegible] 2

[illegible]

[illegible] 2004, [illegible] $12,0 ,113 [illegible] $12,[illegible],0[illegible]2, [illegible] $[illegible] , 4 [illegible] $1 [illegible],0,2[illegible] [illegible] $1,1 [illegible]23, [illegible] 31, 2004 [illegible] $1, 31, [illegible]2, [illegible] 44 [illegible].

[illegible] 2005 [illegible] $1[illegible], 1 [illegible] $2,322,40 , [illegible] $[illegible]42, 1. [illegible] $1 2,1 4 [illegible] $[illegible]3 2, [illegible] 31, 2005.

[illegible] 2006, [illegible] $1,[illegible]0 [illegible] [illegible] $[illegible], 4[illegible] $, 34,[illegible]0, [illegible] $1,2 [illegible]14. [illegible] 31, 2006 [illegible] $,420,[illegible]2 , [illegible] 213 [illegible].

[illegible] 31, 2006, 2005 [illegible] 2004
([illegible])

[illegible]

	2006	2005	2004
[illegible]	$ 42,485,856	$ [illegible]	$ 42,412,4[illegible]3
[illegible]	(4,162,523)	(3,[illegible])	(3,214,[illegible])
	$ 38,323,333	$ 34,[illegible]	$ [illegible]

10. [illegible]

	2006	2005	2004
[illegible]	$ 269,721,109	$ 212,20[illegible]	$ 203,3[illegible]44
[illegible]	435,112,058	[illegible]	[illegible]
[illegible]	4,539,566,491	[illegible]	[illegible],231,0[illegible]4
[illegible]	61,979,029	[illegible],024	[illegible]
[illegible]	1,666,185	[illegible]	1,324,144
	5,308,044,872	[illegible]	3,434,[illegible]
[illegible]	(2,314,667,455)	([illegible])	([illegible])
[illegible]	251,023,405	[illegible]	[illegible]
	$ 3,244,400,822	$ [illegible],131	$ 3,311,[illegible]

[illegible] 2006, [illegible] $34,231,11[illegible] [illegible] $[illegible] [illegible] $43,121,[illegible].

[illegible]

11. [illegible]

	2006	2005 ([illegible] 31)	2004 ([illegible] 31)
[illegible]	$ 20,256,328	$ [illegible]	$ [illegible]
[illegible]	49,308,145	[illegible]	[illegible]
[illegible]	65,297,639	[illegible]	[illegible],122,3[illegible]1
	$ 134,862,112	$ [illegible],443,[illegible]	$ [illegible],301
[illegible]			
[illegible]	(13,712,517)	([illegible])	([illegible],232,[illegible]01)
[illegible]	(12,135,592)	([illegible])	([illegible])
[illegible]	(37,321,505)	(24,0[illegible])	([illegible])
	(63,169,614)	([illegible])	([illegible]30,002)
[illegible]	$ 71,692,498	$ [illegible]	$ [illegible]

31, 200 , 200 2004
( )

11. t t , t (t)

2006

$1 ,41 ,322.

[illegible] 31, 2006, 200[illegible] and 2004
([illegible])

12. [illegible]

	December 31, 2006	
	Carrying Amount	% of Ownership
[illegible]	$ 13,619,643	30

[illegible] 2004, [illegible]

[illegible] 200[illegible] [illegible] $1[illegible],200,000 [illegible] 30% [illegible] 2006 [illegible] 200[illegible] [illegible] $4,201,24[illegible] [illegible] $1,3[illegible],110, [illegible] 31, 2006, [illegible] $[illegible] 0,3[illegible]

13. [illegible]

[illegible]

	2006	200[illegible]	2004
[illegible]	$ 238,864,239	$ 20[illegible],142,[illegible]	$ 30[illegible],3[illegible], [illegible]1
[illegible]			
[illegible] 30 [illegible]	43,364,820	22,4[illegible], [illegible]4	3[illegible], 03[illegible]2
[illegible] 31[illegible]0 [illegible]	9,594,873	4, [illegible]3, 42	4,3[illegible]1, 44
[illegible]0 [illegible]	17,305,267	[illegible],102,[illegible]	13,[illegible]1,1[illegible]3
	$ 309,129,199	$ [illegible]2,31[illegible],432	$ 3[illegible]4,333,[illegible]13

[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

14. [illegible]t

[illegible] 200[illegible] [illegible] 11 [illegible] 24. [illegible] $1[illegible],000,000 [illegible] $1[illegible]030,[illegible] [illegible] 3.4 % [illegible] $30,000,000 [illegible] $30,000,000 [illegible] 200[illegible] [illegible] 200[illegible] [illegible]

Ma[illegible]i[illegible]	December 31, 2006 Face value	December 31, 2006 Discounted value
200[illegible]	**$ 30,000,000**	**$ 29,242,001**
200[illegible]	**30,000,000**	**28,259,668**
200[illegible]	**30,000,000**	**27,310,335**
2010	**25,000,000**	**22,031,654**
	115,000,000	**106,843,658**
[illegible]	**30,000,000**	**29,242,001**
[illegible]	**$ 85,000,000**	**$ 77,601,657**

[illegible]	[illegible] 31, 200[illegible] [illegible]	[illegible]
200[illegible]	$ 30,000,000	$ 2[illegible],242,001
200[illegible]	30,000,000	2[illegible],2[illegible]
200[illegible]	30,000,000	2[illegible],310,33[illegible]
200[illegible]	30,000,000	2[illegible],3[illegible]2,[illegible]3
2010	2[illegible],000,000	21,2[illegible]1,[illegible]40
	14[illegible],000,000	132,4[illegible],43[illegible]
[illegible]	30,000,000	2[illegible],242,001
[illegible]	$ 11[illegible],000,000	$ 103,2[illegible]4,43[illegible]

[illegible]

[illegible] 200[illegible] [illegible] 200[illegible] [illegible] $4,34[illegible],221 [illegible] $4,[illegible]2,[illegible]14[illegible] [illegible]

31, 200[illegible], 200 2004

1 . t

	2006	200	2004
( )	$ 71,000,000	$ [illegible]	$ 1,000,000
( )	$	$ 2 ,200,000	$ 432,000,000
			[illegible]
		[illegible]	[illegible]
	274,420,000		
	600,000,000	224, ,000	
	15,947,873		
	$ 890,367,873	$ [illegible]	$ [illegible]
	$	$	$ [illegible]
200			
200[illegible]		[illegible]	[illegible]
200[illegible]			

31, 2006, 2005 2004

( )

1 . t (t)

( ) t-t (t)

31, 2006, $4.4 31, 2006, $.1 $403 2006 $,4.1, 23. 3.2% . 2% 2006.

( ) -t t

2001, $432,000,000. 1 31, 2004, 2005 $,400,000. 2006, .1 % .0 %. 31, 2006, 2006, 2005 2004 $, .140, $1 ,4 , $14,014, $. 3, 3 , $3 31, .2 $,3 ,2 4 2006, 2005 2004,

3 , 0,000 ($4) 2001, 31, 2004, .02% .2 % 2005 2005 2004 $1, 4 , $2,4 1, $3 2,1.2 $1,134, 4 2005 2004, 31, 2006 2005,

2004, $2 ,4 1, 31, 2005 2004, 2006 $3 , 40,2 . 2006, .1 % .0 %. 2006, 2005 2004 $.1 , 13, $12,4 0,302 $3, 0,10 , $ 4, 4 , $2, 43,1.8 $ 2006, 2005 2004, 31, 2006,

23 , ,000 ($2 ,4 ,030). 31, 2004, 2005, 31, 2005 2005 $2 , 2 .

31, 200 , 200 2004

( )

1 . t (t)

( ) -t t (t)

, 200 , $ 00,000,000, $3 3,000,000 200 31, 200 , $3 3,000,000 200 200 , $23, 0,000 $,000,000. 31, 200 , $2 4,420,000. 200 , .4 % . 2%. 200 $13, 22, , $1 24,224 200 .

$1, 31, 200 31, 200 .

200 , $ 00,000,000, 31, 200 200 , $ 00,000,000 $224, ,000, 200 , 200 , .2 % 1 %. 200 200 $2 , 2 2 $3, 1,0 0, $4 0, 1 $, 0 200 200 .

$1,0 31, 200 .

1 , 200 , ( ) ( ). ( ) 200 . 200 , 1 ,122, , $1 , 34, 41, 3,024, , $3, , .. 31, 200 , 12,0 ,220, $1 , 4 . 200 , 3.41% 3. %. 200 $2 , 0 $,0 2 200 .

1 31, 200 .

31, 200 .

[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

1[illegible]. [illegible]

[illegible] 31, 200[illegible] [illegible] 200[illegible] [illegible]

Ma[illegible]i[illegible]		December 31, 2006		
		Face [illegible]al[illegible]e		Di[illegible]c[illegible]ed [illegible]al[illegible]e
200[illegible]	$	13,000,000	$	12,690,471
200[illegible]		10,000,000		9,322,990
200[illegible]		8,500,000		7,669,960
		31,500,000		29,683,421
[illegible]		13,000,000		12,690,471
[illegible]	$	18,500,000	$	16,992,950

[illegible]		[illegible] 31, 200[illegible]		
		[illegible]		[illegible]
200[illegible]	$	[illegible]000,000	$	[illegible]
200[illegible]		[illegible],000,000		[illegible]
200[illegible]		10,000,000		[illegible]
200[illegible]		[illegible]		[illegible]
		34,[illegible]00,000		31,4[illegible]
[illegible]		[illegible]000,000		[illegible]
[illegible]	$	2[illegible]00,000	$	24[illegible]

[illegible]

[illegible]

[illegible] 200[illegible] [illegible] 200[illegible] [illegible] $1,3[illegible] [illegible] $[illegible],032 [illegible]

31, 200[illegible], 200[illegible] 2004

1 .

[illegible] 0% [illegible] 31, 200[illegible] [illegible]

[illegible] 0% [illegible] 31, 200[illegible] [illegible] 31, 200[illegible] [illegible]

[illegible] 200[illegible], 200[illegible] 2004, [illegible] $31,030, [illegible] $223, 4[illegible] [illegible] $1[illegible],044, [illegible] 200[illegible], 200[illegible] 2004, [illegible] $112,[illegible] [illegible] $4[illegible] [illegible] 1 [illegible] $ [illegible]

[illegible]

[illegible] 31, 200[illegible], 200[illegible] 2004 [illegible]

	December 31		
	2006	200[illegible]	2004
[illegible]	**$ 4,542**	$ 14,040	$ [illegible]
[illegible]	**(25,075,987)**	[illegible]	[illegible]
[illegible]	**$ 143,701**	$ 2[illegible]0,[illegible]2[illegible]	$ 1[illegible],044
	$ (24,927,744)	$ 2[illegible]4,[illegible]	$ 1[illegible],044

[illegible] 31, 2006, 2005 [illegible] 2004
([illegible])

1 . [illegible]

[illegible]

		2006		2005		2004
[illegible]						
[illegible]	$	1,962,410	$	1, 2,244	$	[illegible]
[illegible]		958,105		1, 44,1 0		2, [illegible] 2
[illegible]		5,201,545		,1, [illegible]		–
[illegible]		47,860		2 [illegible] 4		–
[illegible]		33,715,867		–		–
[illegible]		295,654		–		–
[illegible]		137,719		23, [illegible] 4		–
[illegible]	$	42,319,160	$	,01 , 11	$	3, 34, [illegible]
[illegible]						
[illegible]	$	(210,913)	$	(113,4 0)	$	(2,032)
[illegible]				–		(, 3, [illegible])
[illegible]		(17,032,260)		(, 0 ,021)		(3,432, [illegible] 2, [illegible])
[illegible]	$	(25,075,987)	$	–	$	–

[illegible] 2006, [illegible] 10 ([illegible]) [illegible] $33. [illegible] $ .4 [illegible] $2 .3 [illegible] 2006.

[illegible] 2006, [illegible] $0.2 [illegible]

[illegible] 31, 2006, [illegible] $334.4 [illegible] $32.2 [illegible] $12 . [illegible] $1. 2. [illegible] 2009, 2010 [illegible] 2011.

[illegible] 31, 2006, 2005 [illegible] 2004
([illegible])

1[illegible]. [illegible] ([illegible]t[illegible])

[illegible] 1[illegible]% [illegible]

	2006	200[illegible]	2004
[illegible]	15.0%	1[illegible].0%	1[illegible].0%
[illegible]	3.1%	(1.4%)	0.2%
[illegible]	25.0%	12.0%	(3[illegible].4%)
[illegible]	29.3%	([illegible].2%)	[illegible]%
[illegible]	(11.9%)	(4.[illegible]%)	3.[illegible]%
[illegible]	(24.9%)	(1[illegible].[illegible]%)	14.1%
[illegible]	35.6%	(0.3%)	0.2%

1[illegible]. [illegible]t[illegible]t[illegible]

[illegible] 2004, [illegible]

(1) [illegible]14,2[illegible] [illegible] [illegible]1,42 [illegible] $33[illegible],[illegible]43,[illegible]04 [illegible] $1[illegible],[illegible]3[illegible],42[illegible].

(2) [illegible]14,2[illegible] [illegible] $[illegible],[illegible]0,2[illegible] [illegible] 11)

(3) [illegible]0,000 [illegible] $2,[illegible]8[illegible],[illegible]3. ([illegible] 11)

(4) 12,343 [illegible] $4[illegible],0[illegible]0.

([illegible]) 3,030,303,000 [illegible] ([illegible])

([illegible]) 13[illegible],[illegible]40 [illegible] $1,[illegible].

([illegible]) 23,[illegible] [illegible]30 [illegible] $[illegible],222,1[illegible]0. ([illegible] 11)

[illegible] 31, 200[illegible], 200[illegible] and 2004
([illegible])

1[illegible]

[illegible] 2004 [illegible] 2004 [illegible] (2004 [illegible]) [illegible] 2004 [illegible] 1,31[illegible]000,000 [illegible] 2004 [illegible] 2004 [illegible] 10 [illegible] 4 [illegible] 31, 200[illegible] [illegible] 10,22[illegible],11[illegible] [illegible] [illegible],2[illegible]4[illegible], [illegible]2 [illegible]

[illegible] 2001 [illegible] 2001 [illegible] ("2001 [illegible]"). [illegible], 40 [illegible] 3[illegible],[illegible], [illegible]00 [illegible] 2001 [illegible] 10 [illegible] 4 [illegible] 2001 [illegible] 31, 200[illegible] [illegible] 4[illegible] [illegible] 3[illegible],13[illegible],[illegible]2 [illegible]

[illegible]

	Ordinary shares: Number of options	Weighted average exercise price	Weighted Average Remaining Contractual Term	Aggregated Intrinsic Value
[illegible] 31, 200[illegible]	1,04[illegible],[illegible]3,402	$ 0.13		
[illegible]	1[illegible],[illegible]3,[illegible]0	$ 0.14		
[illegible]	([illegible],32[illegible],[illegible]32)	$ 0.04		
[illegible]	(11[illegible],4[illegible],03[illegible])	$ 0.1[illegible]		
Outstanding at December 31, 2006	**998,025,093**	**$ 0.14**	**7.43**	**46,407,772**
Vested or expected to vest at December 31, 2006	**830,627,032**	**$ 0.13**	**7.27**	**37,243,894**
Exercisable at December 31, 2006	**421,826,973**	**$ 0.12**	**6.31**	**24,277,264**

[illegible] 31, 200[illegible], 200[illegible] and 2004 [illegible] $[illegible],240,221, [illegible] $2,[illegible]2[illegible]1 [illegible] $[illegible], [illegible]04, [illegible]

[illegible] 31, 200[illegible], 200[illegible] and 2004
([illegible])

1[illegible]. [illegible] (continued)

[illegible] $[illegible]4,2[illegible]3, [illegible] $[illegible]2[illegible],4[illegible] [illegible] $[illegible] [illegible] 200[illegible], 200[illegible] and 2004, [illegible].

[illegible]

[illegible] 2004, [illegible] 2004 [illegible] (2004 [illegible]) [illegible] 2004 [illegible] 2.[illegible]% [illegible] 2004, [illegible] 4[illegible],40[illegible],330 [illegible] 31, 200[illegible], 140,2[illegible],14[illegible] [illegible] 24[illegible],4[illegible]1, [illegible] 10 [illegible].

[illegible]

	Number of share units	Restricted share units Weighted average fair value	Weighted Average Remaining Contractual Term	Aggregated Fair Value
[illegible] 31, 200[illegible]	1[illegible],[illegible]8[illegible],1[illegible]1	$ 0.14		
[illegible]	1[illegible],0[illegible],[illegible]4	$ 0.13		
[illegible]	(3[illegible],041,2[illegible])	$ 0.12		
[illegible]	(2,[illegible]4[illegible]1,[illegible]24)	$ 0.13		
Outstanding at December 31, 2006	**140,295,146**	**$ 0.14**	**8.47**	**19,574,050**
Vested or expected to vest at December 31, 2006	**49,555,883**	**$ 0.12**	**8.52**	**5,998,033**
Exercisable at December 31, 2006	**272,500**	**$ 0.15**	**8.84**	**40,880**

[illegible] 2004 [illegible] 1[illegible],0[illegible],[illegible]4, 122,41[illegible],[illegible]40 [illegible] 11[illegible],1[illegible]0,[illegible]24 [illegible] 200[illegible], 200[illegible] and 2004, [illegible] 4 [illegible] $2,0[illegible],[illegible] $23,34[illegible],3[illegible] [illegible] $2[illegible],001,[illegible]1[illegible] 200[illegible], 200[illegible] and 2004, [illegible] $[illegible],4[illegible]2,14[illegible], [illegible] $[illegible]0[illegible]1[illegible] [illegible] $3,0[illegible]0,312 [illegible] 200[illegible], 200[illegible] and 2004 [illegible].

[illegible] 31, 200[illegible], 200[illegible] 2004
([illegible])

1[illegible]. [illegible] ([illegible])

[illegible] 31, 200[illegible], [illegible] $32,40[illegible],1[illegible] [illegible] 2001 [illegible] 2004 [illegible] 1.14 [illegible].

[illegible] 31, 200[illegible] 2004, [illegible] $[illegible] $3[illegible]1,3[illegible] [illegible] 200[illegible] [illegible] $3[illegible]1,3[illegible] [illegible] 200[illegible] 200[illegible] 3.02% [illegible] 4.2[illegible]% [illegible].

[illegible] 200[illegible], 200[illegible] 2004, [illegible] $[illegible] $40,23[illegible] $[illegible]41,1[illegible]8, [illegible].

[illegible] 31, 200[illegible], 200[illegible] 2004 [illegible]

	2006	200[illegible]	2004
[illegible]	**16,498,871**	3[illegible],[illegible]4,021	203,[illegible]8,224

[illegible] 31, 200[illegible], 200 [illegible] 2004
[illegible]

20. [illegible]

[illegible]

	2006	200	2004
[illegible]	$ (44,109,078)	$ (114,[illegible])	$ [illegible]
[illegible]	(5,153,986)	–	–
[illegible]	(49,263,064)	(114,[illegible])	[illegible]
[illegible]	18,361,910,033	1 ,[illegible]	14,441, [illegible]
[illegible]	(27,411,110)	([illegible])	(242,[illegible])
[illegible]	18,334,498,923	1 ,1 4,42 ,2	14,1 [illegible]
[illegible]		–	3,0[illegible]
[illegible]		–	242,[illegible]
[illegible]		–	102,323,432
[illegible]		–	[illegible]
[illegible]		–	4, [illegible]
[illegible]	18,334,498,923	1 ,1 4,42 ,2	1[illegible] 34,3 3,0[illegible]
[illegible]	$ (0.00)	$ (0.01)	$ 0.01
[illegible]	$ (0.00)	$ (0.01)	$ 0.00
[illegible]	$ 0.00	$ –	$ –
[illegible]	$ 0.00	$ –	$ –
[illegible]	$ (0.00)	$ (0.01)	$ 0.01
[illegible]	$ (0.00)	$ (0.01)	$ 0.00

[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

20. [illegible]

[illegible]

[illegible] 31, 200[illegible] [illegible] 200[illegible], [illegible] 223,[illegible] [illegible] 30[illegible],41[illegible],133, [illegible] 200[illegible] [illegible] 200[illegible], [illegible]

[illegible] 31, 2004, [illegible] 3 [illegible] 2004, [illegible]

[illegible]

	December 31		
	2006	200[illegible]	2004
[illegible]		[illegible]	[illegible], 4,403
[illegible]	**62,339,207**	1[illegible]32,[illegible]1	[illegible],1[illegible],[illegible]0
[illegible]	**161,479,670**	12[illegible],0[illegible]3,1[illegible]2	[illegible]
	223,818,877	30[illegible],41[illegible],133	[illegible],[illegible],[illegible]3

[illegible] 31, 200[illegible], 200 [illegible] 2004
([illegible])

21. [illegible] t [illegible] t

( ) [illegible] t [illegible] t

[illegible] 31, 200[illegible] [illegible] 31, 200[illegible]

[illegible]	$ [illegible],101,000
[illegible]	3[illegible],442,000
	$ [illegible]11, 43,000

[illegible] 31, 200[illegible], 200[illegible] 2004 ([illegible])

21. [illegible]

( ) [illegible]

[illegible] 20[illegible] 3[illegible] 31, 200[illegible]

Year ending		
200[illegible]	$	3[illegible]12
200[illegible]		[illegible]2[illegible]
200[illegible]		0[illegible]2
2010		[illegible]1, [illegible]00
2011		[illegible]1, [illegible]00
[illegible]		2[illegible],00[illegible]
	$	3,4[illegible]0,003

22. [illegible]

[illegible] 131, [illegible] 131 [illegible]

	2006	200[illegible]	2004
[illegible]			
[illegible]	**$ 602,506,213**	$ 4[illegible],[illegible]2,[illegible]0	$ 3[illegible] 1,433,443
[illegible]	**440,327,872**	31[illegible], [illegible],024	12[illegible], [illegible],424
[illegible] 0[illegible] ( )- .004[illegible] 0[illegible] 1.34. 0[illegible] [illegible]			

[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004 [illegible]

23. [illegible]

[illegible] 10% [illegible]

	[illegible] Year ended December 31,			Acc[illegible] receivable December 31,		
	2006	200[illegible]	2004	**2006**	200[illegible]	2004
[illegible]	**28%**	2[illegible]%	11%	**29%**	32%	1[illegible]%
[illegible]	**17%**	1[illegible]%	13%	**14%**	1[illegible]%	[illegible]%
[illegible]	**8%**	[illegible]%	10%	**8%**	[illegible]%	[illegible]%
[illegible]	**2%**	[illegible]%	12%	**[illegible]%**	[illegible]%	[illegible]%
[illegible]	**4%**	[illegible]%	[illegible]%	**7%**	[illegible]%	1[illegible]%
[illegible]	**3%**	[illegible]%	13%	**3%**	3%	10%
[illegible]	**1%**	2%	4%	**1%**	2%	12%

24. [illegible]

[illegible]

[illegible] 2003 [illegible] 2004 [illegible] ("[illegible]") [illegible]

[illegible] 31, 200[illegible] [illegible] ("[illegible]") [illegible]

1) [illegible] 200[illegible] [illegible] 2010.

2) [illegible] 0.1[illegible] [illegible] ([illegible]) [illegible] 0.13 [illegible] ([illegible] 31, 200[illegible]) [illegible] 0.13 [illegible]

3) [illegible] 0.13 [illegible] 31, 200[illegible] [illegible]

4) [illegible] $1[illegible] [illegible] $30 [illegible] $2 [illegible]

[illegible]

[illegible]

[illegible]

– [illegible]

– [illegible]

31, 200 , 200 2004

24. t t (t)

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141 142

$1

3.44 4% $1

$1

$141.3

t t

31, 200 , 200 2004

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0.13

13, 200

12, 200

1 , 200

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144

2 .

20-22. %

%- %

$,4 2, 0,

$4,12 ,0 $2, 02, 21 31, 200 , 200 2004,

2 .

10%

$11, ,1 $10,432,23 $12, , 0 200 , 200 2004,

[illegible] 31, [illegible], [illegible] [illegible] 2004
([illegible])

2[illegible]. [illegible]

	2006	[illegible]	2004
[illegible]			
[illegible]	$ 1,577,928	$ 1,121,131	$ [illegible]
[illegible]	919,038,915	[illegible]	[illegible]
[illegible]	577,578	[illegible]	1,013,[illegible]
[illegible]	3,939,745	[illegible]	1,44[illegible],113
[illegible]	(43,121,929)	–	–
[illegible]	2,957,505	(13,[illegible])	[illegible]
[illegible]	2,297,773	3,0[illegible],23	10,[illegible]
[illegible]	$ 108,742,094	$ 102,[illegible]3,244	$ [illegible],41[illegible]

2[illegible]. [illegible]

[illegible]

[illegible] [illegible], [illegible] [illegible] 2004 [illegible]

	Richard Chang	Kawanishi T[illegible]	Wang Yang Yuan	H[illegible] Ta-Lin	Li-B[illegible] Tan	Hen Sha	Fang Yao	J[illegible] Yen-Ping	Albert Y.C.	Lai Xing Cai	Jiang Shang [illegible]	Total
2006												
Salaries and other benefits	192,727											192,727
Stock option benefits	156,241	12,951	12,951	12,951	12,951	12,951			37,742			258,736
Total emolument	348,968	12,951	12,951	12,951	12,951	12,951			37,742			451,463
[illegible]												
[illegible]	[illegible]	–	–	–	–	–	–	–	–	–	–	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	–	–	–	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	–	–	–	[illegible]
2004												
[illegible]	[illegible]	–	–	–	–	–	–	–	–	–	–	[illegible]
[illegible]	–	221,4[illegible]4	–	–	–	–	–	–	–	–	–	221,4[illegible]4
[illegible]	[illegible]	221,4[illegible]4	–	–	–	–	–	–	–	–	–	411,[illegible]

31, 200, 200 2004

2 .

	2006	200	2004
	N mbe f di ec		
$ $1,000,000 ($12 20)	10		
$1,000,001 ($12 20) $1, 00,000 ($1 2, 30)			1
$1, 00,001 ($1 2, 30) $2,000,000 ($2 240)			1
$2,000,001 ($2 240) $2, 00,000 ($321, 0)		1	
$2, 00,001 ($321, 0) $3,000,000 ($3 , 0)	1		

3, 00,000, 1 ,000,000 ,100,000 200, 200 2004, 31, 200, 00,000 .

00,000, 2,000,000 200, 200 2004, 31, 200, 1,000,000 .

200, 200 2004, 200 00,000 2004. 200, 00,000 200.

(200 2004), 200, 200 2004

	2006	200	2004
	$ 518,198	$ 13, 0	$ 430,144
	233,662	2,4	10
	268,528	32 , 0	20,0 0
	$ 1,020,388	$ 31, 0	$ 1,1 ,

[illegible] 31, 2006, 200[illegible] [illegible] 2004
([illegible])

2[illegible]. [illegible] (continued)

[illegible]

	2006	200[illegible]	2004
	Number of individuals	[illegible]	[illegible]
$[illegible] $1,000,000 ($12[illegible]20)		[illegible]	[illegible]
$1,000,001 ($12[illegible]20) [illegible] $1,[illegible]00,000 ($1[illegible]2,[illegible]30)		[illegible]	3
$1,[illegible]00,001 ($1[illegible]2,[illegible]30) [illegible] $2,000,000 ($2[illegible]240)	3	3	[illegible]
$2,000,001 ($2[illegible]240) [illegible] $2,[illegible]00,000 ($321,[illegible]0)	1	1	[illegible]
$4,[illegible]00,001 ($[illegible]0) [illegible] $[illegible],000,000 ([illegible]43,100)		[illegible]	1

2[illegible].

[illegible]

[illegible] 2006, 200[illegible] [illegible] 2004.

30. [illegible]

[illegible]

(a) [illegible] 2, [illegible] 2 [illegible] 1,200[illegible].

[illegible] 123([illegible]) [illegible]

31, 200 , 200 2004

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31, 200 , 200 2004

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[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

30. [illegible]

([illegible])

	2006	200[illegible] ([illegible] 31)	2004 ([illegible] 31)
[illegible]			
[illegible]		[illegible]	[illegible]
[illegible]			
[illegible]	712,521	[illegible]0,[illegible]1	22,114
[illegible]	712,521	[illegible]0,[illegible]1	22,114
[illegible]			
[illegible]	38,323,333	34,[illegible]1	3[illegible],1[illegible]
[illegible]			
[illegible]	(712,521)	([illegible]0,[illegible]1)	([illegible]22,114)
[illegible]	37,610,812	34,1[illegible],[illegible]3[illegible]	3[illegible]0
[illegible]			
[illegible]	3,244,400,822	3,2[illegible]31,131	3,311,[illegible]24,[illegible]
[illegible]			
[illegible]			
[illegible]		[illegible]	(124,[illegible]44)
[illegible]		[illegible]	124,[illegible]44
[illegible]	3,244,400,822	3,2[illegible]31,131	3,311,[illegible]24,[illegible]

[illegible] 31, 200[illegible], 200 [illegible] 2004
[illegible]

30. [illegible]

[illegible]

	2006	200 ([illegible] 31)	2004 ([illegible] 31)
[illegible]			
[illegible]	3,288,733,078	[illegible]	[illegible]
[illegible]			
a) [illegible]		(1,[illegible]20,141)	–
b) [illegible] 2	30,388,316	23,12[illegible]	[illegible]
c) [illegible]	5,153,986	–	–
d) [illegible]		–	(1 , 3 ,42[illegible])
e) [illegible]	(55,956,051)	[illegible]	[illegible]
[illegible]	$ 3,268,319,329	$ [illegible]	$ [illegible]
[illegible]			
[illegible]		(24, 1, 1)	[illegible]
[illegible]			
a) [illegible]		24, 1, 1	–
b) [illegible] 2		–	[illegible]
[illegible]	$	$ –	$ –
[illegible]			
[illegible]	(288,810,490)	(244,[illegible]01,412)	[illegible]
[illegible]			
a) [illegible] 2		[illegible]	(10,4[illegible]2)
b) [illegible] 2	(17,737,403)	(10,4[illegible]2)	–
c) [illegible] 2	(12,650,913)	(12[illegible] 0, 13)	(12[illegible] 0, 13)
d) [illegible]	(5,153,986)	–	–
iii) [illegible]		–	(124, 44)
iiii) [illegible]		–	124, 44
e) [illegible]		–	1 , 3 ,42[illegible]
f) [illegible]	55,956,051	[illegible]	[illegible]
[illegible]	$ (268,396,741)	$ [illegible]	$ [illegible]
[illegible]			
[illegible]	$ 1,338,155,004	$ 1,10 ,133, 44	$ [illegible]
[illegible]			
a) [illegible]		3,3[illegible]22	–
b) [illegible] 2		–	4,4[illegible], 0
[illegible]	$ 1,338,155,004	$ [illegible]	$ [illegible]

[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

30. [illegible]

([illegible])

		2006		200[illegible] ([illegible] 31)		2004 ([illegible] 31)
[illegible]		141,037,963		1[illegible]3,22[illegible],3[illegible]3		[illegible],0
[illegible]						
[illegible]) [illegible]				3,[illegible],0[illegible]		[illegible]
[illegible]) [illegible] 2				[illegible]		[illegible],20
[illegible]	$	141,037,963	$	1[illegible]120,40	$	1[illegible]
[illegible]		(56,100,658)		(2[illegible],321,[illegible]0[illegible])		[illegible]4[illegible]
[illegible]						
[illegible]) [illegible]				[illegible]		[illegible]4,11[illegible]
[illegible]	$	(56,100,658)	$	(2[illegible],321,[illegible]0[illegible])	$	[illegible],222,0[illegible]1

[illegible] 200[illegible], 200[illegible] [illegible] 2004, [illegible]

([illegible]) [illegible]

[illegible]

[illegible]

[illegible]

[illegible] 200[illegible], 200[illegible] [illegible] 2004.

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2004 $134.

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[illegible] 31, 200[illegible], 200[illegible] [illegible] 2004
([illegible])

31. [illegible] (continued)

[illegible] 2004 [illegible] $23.2 [illegible] $1[illegible] [illegible] 2004 [illegible] $134. [illegible] $141.3 [illegible]

[illegible]

	As Previously Reported 2005	As Restated 2005	As Previously Reported 2004	As Restated 2004
[illegible]	$ 1[illegible],1[illegible]	$ 0[illegible]		
[illegible]		11[illegible]2 [illegible]2		
[illegible]	4, [illegible]3,41 [illegible]81	4,[illegible]33,3[illegible]2		
[illegible]				
[illegible]			2, [illegible] 1	[illegible],3 [illegible],1 [illegible]
[illegible]			[illegible]80,32 [illegible] 3[illegible]	[illegible]23, [illegible]1,[illegible]2
[illegible]			1,2[illegible]1[illegible]10	1,2[illegible],333,24[illegible]
[illegible]	(24[illegible] 1[illegible],043)	(244,[illegible]01,412)	(13[illegible],3 4, 4)	(12 [illegible] 2[illegible])
[illegible]	3,02[illegible],0 [illegible] 24	3,02 [illegible],31[illegible],1	3,10 [illegible],4 3, 21	3,11 [illegible] 42,2
[illegible]	4, [illegible]3,41 [illegible]81	4,[illegible]33,3[illegible]2		

[illegible]

	As Previously Reported 2005	As Restated 2005	As Previously Reported 2004	As Restated 2004
[illegible]	1,1[illegible]1,31 [illegible]8	1,1[illegible]1,31 [illegible]8		
[illegible]	1,0 1, [illegible]	1,10 [illegible],133, 44		
[illegible]	[illegible]80, 4	[illegible],1 [illegible],1 1		
[illegible]				
[illegible]			23,1 3,10	1[illegible] 4,[illegible]41
[illegible]	41,2 1,0[illegible]	20, 4[illegible],0 2		
[illegible]	1[illegible]8, 30,3[illegible]	1 3,22 [illegible],3 3	1[illegible],0[illegible],422	1[illegible] [illegible],0
[illegible]	(3,[illegible] [illegible],42)	([illegible]040,1[illegible]2)	2,3 2, 02	[illegible], 41,2[illegible]
[illegible]	(110,121,134)	(113,3[illegible]1,[illegible])	[illegible], 30, [illegible]	[illegible],3 [illegible],240
[illegible]				
[illegible]	(111, 34,0 4)	(114,[illegible]4, 2,[illegible])	[illegible]44, 32	[illegible],203,1[illegible]
[illegible]	(111, 34,0 4)	(114,[illegible]4, 2,[illegible])	[illegible]44, 32	[illegible],203,1[illegible]
[illegible]				
[illegible]	(111, 34,0 4)	(114,[illegible]4, 2,[illegible])	[illegible]0, 0 [illegible],40[illegible]	[illegible]3[illegible]3,[illegible]0
[illegible]	$ (0.01)	$ (0.01)	$ 0.00	$ 0.01
[illegible]	$ (0.01)	$ (0.01)	$ 0.00	$ 0.00

31, 200, 200 2004

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	2005		2004	
	A Pe i		A Pe i	
	Re ed	A e a ed	Re ed	A e a ed
( )				
	(111, 34,0 4)	(114, 4, 2)	0, 0 ,40	3 3, 0
( )	(111, 34,0 4)	(114, 4, 2)	, 4, 32	,203,1
	4 , 2 ,0	, 4, 1, 3		
	41,2 1,0	20, 4 ,0 2		
			32,11 , 3	2 , 1

32.

10, 200 ( ) ( ) ( ), 2001 $320 200

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