

Chairman's Statement

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Dear Shareholders,

As integrated circuit (IC) consumption continues to grow at a heady pace, particularly in China, SMIC has been able to capitalize on this growth and remains the largest and most advanced foundry in Mainland China to date. For 2006, SMIC produced approximately 40% of Mainland China's total IC output. Besides sheer volume, we have distinguished ourselves by our ability to develop and manufacture world-class leading edge ICs.

We continued to invest in the people and infrastructure capable of realizing our goals, thereby maintaining our reputation for excellence. Our status as the only foundry in China that is capable of producing 0.15-micron and below technologies is attributed to the 500-strong R&D team and scores of engineers who are dedicated to SMIC's technological progress. In line with our present advancements, we will expand production of 90-nanometer technologies and will continue our research on the 65-nanometer segment.

Turning technologies into viable applications is our comprehensive network of foundries. Strategically located in Beijing, Shanghai and Tianjin, this network now includes two fabs that we will manage: a 200-millimeter fab in Chengdu and a 300-millimeter fab in Wuhan. This new foundry business model reaffirms our position as the premier foundry in Mainland China.

While satisfying growing demand from the IC sector, SMIC has earned the patronage of internationally renowned customers. SMIC's technical and production capabilities, coupled with our intimate knowledge of the China market, have enabled SMIC to remain competitive. Moreover, our presence in the largest IC market in the world allows us to be well positioned to benefit from its ongoing growth.

In addition to the support of our international clients, we have attracted important global business partners. From such partnerships, we have generated synergies that allow us to enrich our technical capabilities and expand our product mix in key market segments. Through the tireless efforts of our sales and marketing teams, we are continuing to expand our reach to the four corners of the world and develop mutually advantageous relationships.

As we approach 2007 with utmost confidence, we subscribe to the opinion that the IC sector's growth will remain robust. Accordingly, with strong demand and increasing sales, SMIC will seek to strengthen its financial position. Through the committed efforts of our management and a dynamic workforce, notable progress was made in 2006. To maintain this trend we will carefully evaluate opportunities that are in the best interest of SMIC, which in turn will bring greater value for our shareholders.

Sincerely,

Yang Yuan Wang

Chairman of the Board

Shanghai, the PRC

April 23, 2007