SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
September 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of September, 2011

Commission File Number: 001-31994

Semiconductor Manufacturing International Corporation

(Translation of registrant's name into English)

18 Zhangjiang Road
Pudong New Area, Shanghai 201203
People's Republic of China
(Address of principal executive office)

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

þForm 20-F o Form 40-F

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

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

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

oYes þ No

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

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

(Incorporated in the Cayman Islands with limited liability)
(STOCK CODE: 0981)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2011

HIGHLIGHTS

Financial

- Sales increased by 0.4% from US$720.1 million for the six months ended June 30, 2010 to US$722.9 million for the six months ended June 30, 2011, primarily due to increase in wafer shipments.
- The Company's gross profit was US$119.1 million for the six months ended June 30, 2011 compared to gross profit of US$108.9 million for the six months ended June 30, 2010.
- The Company had a net income attributable to holders of ordinary shares of US$6.5 million for the six months ended June 30, 2011 compared to a net loss of US$85.9 million for the six months ended June 30, 2010.

Operational

- The number of wafers the Company shipped decreased by 2.4%, from 945,654 8-inch wafer equivalents to 922,783 8-inch wafer equivalents, between these two periods.
- This announcement is made pursuant to the disclosure obligations under Rule 13.09(1) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the Company made the press release, reproduced below, on August 29, 2011.

LETTER TO SHAREHOLDERS

Dear Shareholders,

We are very honored to be SMIC's newly appointed Chairman and Chief Executive Officer. One of our major priorities is to ensure that the board, management, and all employees are working together cohesively and effectively in best serving our valued customers and maximizing shareholder value. Our primary target remains unchanged, which is to achieve sustainable profitability while maintaining our momentum in technology development.

On behalf of the Board, we would like to express sorrow for the loss of our former Chairman Jiang Shang Zhou and sincere gratitude for his dedication to SMIC. We are also happy to welcome Professor Lawrence Juen-Yee Lau and Mr. Frank Meng to our Board.

During the first half of 2011, China Investment Corporation (or "CIC") invested $250 million in SMIC, becoming our second largest shareholder. Following this announcement, Datang, our largest shareholder, also supported us by expressing their intention to exercise its pre-emptive right by investing additional $58 million for convertible preferred shares and pre-emptive warrants. We welcome our new and existing shareholders and greatly appreciate their confidence in our future execution. These capital injections will further help SMIC to expand its technology roadmap and strengthen our foothold as one of the leading foundries globally.

We are aware that some investors may have experienced uncertainty or anxiety due to recent events, and we sincerely apologize on behalf of the Board, but we also want to reassure you that none of our operations were interrupted. In addition, the management has been working vigorously in collaborating and in communicating with our customers, suppliers, banks, and investors. We are working to rebuild shareholder value by focusing on our value-added strengths and opportunities.

Given its crucial role in China's semiconductor industry with its advanced node foundry capability, SMIC's position in China provides ample opportunities, meanwhile, it remains independent and international to capture market share globally, and to grow its value.

We recognize the recent macroeconomic turmoil and the need to be equipped for the worst, so we are preparing for a long industry downturn. We will work to implement cost reduction and speed up technology and new product development, and we will pay special attention to refining our mature processes and products. We are determined to achieve company-wide unity and to focus on growth and development; putting in full effort and solid performance to create concrete results, in order to quickly create a new phase of stability, harmony, and progress.

We appreciate your continued support and trust, as we continue to execute for shareholder value.

Zhang Wenyi
Chairman of the Board and Executive Director

Tzu-Yin Chiu
Chief Executive Officer and Executive Director

Shanghai, China
August 29, 2011

RESULTS

The Board of Directors (the "Board") of Semiconductor Manufacturing International Corporation (the "Company") would like to announce the unaudited interim results of operations of the Company and its subsidiaries for the six months ended June 30, 2011, and would like to express their gratitude to the shareholders and their staff for the support of the Company.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended June 30, 2011 and 2010

(in US$ thousands, except share data)
(unaudited)

	Six months ended June 30,	
	2011	2010
Sales, net	$722,948	$720,063
Cost of sales	603,898	611,170
Gross profit	119,050	108,893
Operating expenses (income):		
Research and development	101,074	94,783
General and administrative	10,494	31,275
Selling and marketing	15,878	12,813
Other operating income	(441)	(231)
Impairment of long-lived assets	—	5,138
Total operating expenses, net	127,005	143,778
Loss from operations	(7,955)	(34,885)
Other income (expense):		
Change in the fair value of commitment to issue shares and warrants relating to litigation settlement	—	(40,609)
Others, net	3,233	(14,709)
Total other income (expense), net	3,233	(55,318)
Loss from continuing operations before income tax and equity investment	(4,722)	(90,203)
Income tax (expense) benefit	(4,993)	8,841
Gain (loss) from equity investment	2,094	(314)
Loss from continuing operations	(7,621)	(81,676)
Income (loss) from discontinued operations net of tax effect	14,741	(3,715)
Net income (loss)	$7,120	$(85,391)
Accretion of interest to noncontrolling interest	(658)	(521)
Income (loss) attributable to Semiconductor Manufacturing International Corporation	$6,462	$(85,912)
Income (loss) attributable to ordinary shares		
— continuing operations	$(8,279)	$(82,197)
— discontinued operations	$14,457	$(3,715)
Income attributable to Convertible Preferred Shares		
— discontinued operations	$284	—
Earnings (loss) per ordinary share, basic and diluted		
— continuing operations	$(0.00)	$(0.00)
— discontinued operations	$0.00	$(0.00)
— net income	$0.00	$(0.00)
Earnings per Convertible Preferred Share, basic and diluted		

— discontinued operations	$0.00	—
— net income	$0.00	—
Weighted average shares used in calculating basic and diluted earnings (loss) per ordinary share	27,401,260,769	22,438,779,149
Weighted average shares used in calculating basic and diluted earnings per Convertible Preferred Share	537,895,272	—

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

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2011 and December 31, 2010

(in US$ thousands, except share data)
(unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	410,912	515,808
Restricted cash	184,808	161,350
Accounts receivable, net of allowances of $43,194 and $49,373 at June 30, 2011 and December 31, 2010, respectively	236,738	206,623
Inventories	196,876	213,404
Prepaid expense and other current assets	212,447	81,917
Total current assets	1,241,781	1,179,102
Prepaid land use rights	78,002	78,798
Plant and equipment, net	2,665,092	2,351,863
Acquired intangible assets, net	187,826	173,821
Other long-term assets	132,093	119,109
TOTAL ASSETS	4,304,794	3,902,693
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	448,321	515,577
Accrued expenses and other current liabilities	139,440	148,880
Short-term borrowings	712,423	372,055
Current portion of promissory notes	29,375	29,374
Current portion of long-term debt	251,486	333,459
Total current liabilities	1,581,045	1,399,345
Long-term liabilities:		
Promissory notes	42,541	56,327
Long-term debt	182,122	178,596
Other long-term liabilities	61,940	59,883
Total long-term liabilities	286,603	294,806
Total liabilities	1,867,648	1,694,151
Noncontrolling interest	3,602	39,004
Commitments		
Equity:		
Ordinary shares	10,982	10,934
Convertible preferred shares	144	—
Additional paid-in capital	4,115,597	3,858,643
Accumulated other comprehensive loss	(694)	(1,092)
Accumulated deficit	(1,692,485)	(1,698,947)
Total equity	2,433,544	2,169,538
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY	4,304,794	3,902,693
Net current liabilities	339,264	220,243
Total assets less current liabilities	2,723,749	2,503,348

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME (LOSS)

For the six months ended June 30, 2011 and 2010

(in US$ thousands, except share data)
(unaudited)

	Common Stock		Convertible Preferred Shares		Additional Paid-in Capital	Accumulated Other comprehensive loss
	Share	Amount	Shares	Amount		
Balance at January 1, 2011	27,334,063,747	$10,934	—	$—	$3,858,643	$(1,092)
Exercise of employee stock options	120,931,576	48	—	—	3,184	—
Issuance of convertible preferred shares and warrants to CIC	—	—	360,589,053	144	249,252	—
Issuance of warrants	—	—	—	—	364	—
Share-based compensation	—	—	—	—	4,154	—
Net Income	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	398
Balance at June 30, 2011	27,454,995,323	$10,982	360,589,053	$144	$4,115,597	$(694)
Balance at January 1, 2010	22,375,886,604	$8,950	—	$—	$3,499,723	$(386)
Exercise of employee stock options	104,372,868	42	—	—	1,031	—
Share-based compensation	—	—	—	—	6,386	—
Net loss	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(776)
Balance at June 30, 2010	22,480,259,472	$8,992	—	$—	$3,507,140	$(1,162)

The accompanying notes are in integral part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2011 and 2010

(in US$ thousands)
(unaudited)

	Six months ended June 30, 2011	Six months ended June 30, 2010
Cash flow from operating activities		
Net income (loss)	$7,120	$(85,391)
Depreciation and amortization	264,429	333,190
(Gain) Loss from equity investment	(2,094)	314
Gain on deconsolidation of a subsidiary	(20,617)	—
Changes in working capital and others	(96,028)	72,697
Net cash provided by operating activities	152,810	320,810
Cash flow from Investing activities:		
Purchase of:		
Property, plant and equipment	(677,501)	(160,667)
Intangible assets	(17,853)	(29,973)
Short-term investments	(28,991)	(5,669)
Changes in restricted cash relating to investing activities	(40,735)	(16,739)
Others	7,426	40,618
Net cash used in investing activities	(757,654)	(172,430)
Financing activities:		
Increase in short-term borrowings	340,368	70,523
Decrease in long-term debt	(78,447)	(116,116)
Repayment of promissory notes	(15,000)	(40,000)
Proceeds from issuance of convertible preferred shares	249,396	—
Proceeds from exercise of employee stock options	3,232	1,073
Net cash provided by (used in) financing activities	499,549	(84,520)
Effect of exchange rate changes	399	(776)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(104,896)	63,084
CASH AND CASH EQUIVALENTS, beginning of period	515,808	443,463
CASH AND CASH EQUIVALENTS, end of period	$410,912	$506,547
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$1,678	$2,731
Interest paid	$16,501	$13,645
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING OR FINANCING ACTIVITIES		
Accounts payable for plant and equipment	$(249,521)	$(104,154)
Long-term payable for acquired intangible assets	$(5,138)	$(16,410)
Receivable for sales of manufacturing equipment	$—	$6,731

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2011 and 2010
(unaudited, in US$ thousands, except share date and those specified)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the results of Semiconductor Manufacturing International Corporation and subsidiaries (the "Company"). All inter-company accounts and transactions have been eliminated in consolidation. The interim condensed consolidated financial statements have been prepared using the same accounting policies as those used in the preparation of the annual consolidated financial statements. The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP and applicable rules and regulations of the Securities and Exchange Commission, regarding interim financial reporting and Appendix 16, "Disclosure of financial information," of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto contained in the Company's Annual Report for the year ended December 31, 2010 dated on March 30, 2011. The December 31, 2010 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date, but does not include all other statements and disclosures required by GAAP. In the opinion of management, these interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature necessary to present fairly the Company's results for the interim periods. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates. In addition, the Company's operating results for the six months ended June 30, 2011 may not be indicative of the operating results for the full fiscal year or any other future period.

Certain items from prior period have been reclassified to conform to current year presentation.

2. FAIR VALUE

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and we consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

The Company utilizes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company establishes three levels of inputs that may be used to measure fair value that gives the highest priority to observable inputs and the lowest priority to unobservable inputs as follows:

Level 1	—	Quoted prices in active markets for identical assets or liabilities.
Level 2	—	Inputs other than quoted market prices in active markets that are observable, either directly or indirectly.
Level 3	—	Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

2. FAIR VALUE (Continued)

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company performs a thorough analysis of its assets and liabilities that are subject to fair value measurements and disclosures to determine the appropriate level based on the observability of the inputs used in the valuation techniques. Assets and liabilities carried at fair value are classified in the categories described above based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets/Liabilities measured at fair value on a recurring basis

Assets and liabilities measured on the Company's balance sheet at fair value on a recurring basis subsequent to initial recognition consisted of the following:

	Fair Value Measurements at June 30, 2011 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:				
Forward foreign exchange contracts	$—	$808	$—	$2,668
Derivative assets measured at fair value	$—	$808	$—	$2,668
Liabilities:				
Forward foreign exchange contracts	$—	$577	$—	$(152)
Interest rate swap contracts	—	1,028	—	(603)
Cross-currency interest swap contracts	—	121	—	(121)
Derivative liabilities measured at fair value	$—	$1,726	$—	$(876)

	Fair Value Measurements at December 31, 2010 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:				
Forward foreign exchange contracts	$—	$695	$—	$2,204
Cross-currency interest rate swap contracts	—	—	—	292
Derivative assets measured at fair value	$—	$695	$—	$2,496
Liabilities:				
Forward foreign exchange contracts	$—	$480	$—	$(4,170)
Interest rate swap contracts	—	1,380	—	(958)
Cross-currency interest swap contracts	—	1,292	—	(949)
Commitment to issue shares and warrants relating to litigation settlement	—	—	—	(40,609)
Derivative liabilities measured at fair value	$—	$3,152	$—	$(46,686)

We price our derivative financial instruments, consisting of forward foreign exchange contracts and interest rate swap contracts using level 2 inputs such as exchange rates and interest rates for instruments of comparable durations and profiles. The fair value of the derivative instruments assets was recorded in prepaid expense and other current assets. The fair value of the derivative instruments liabilities was recorded in accrued expenses and other current liabilities.

2. FAIR VALUE (Continued)

The Company did not have any assets measured at fair value on a nonrecurring basis as of June 30, 2011 and December 31, 2010.

3. DISCONTINUED OPERATIONS

On March 1, 2011, the Company sold its majority ownership interest in Semiconductor Manufacturing International (AT) Corporation ("AT") and deconsolidated the entity. As a result, all previously issued preferred securities by AT were cancelled. The Company retained a 10% interest in AT and will account for such investment under the cost method in future periods as it no longer has a controlling financial interest nor significant influence over AT. The Company reported the results of the AT as a discontinued operations in the condensed consolidated statement of operations. No cash or other consideration was received by the Company in conjunction with the disposition.

The Company recorded a gain of $17,103 on the deconsolidation of AT equal to the difference between (i) the sum of (a) the fair value of the retained noncontrolling investments in AT, and (b) the carrying amount of the aforementioned noncontrolling interest in AT, and (ii) the carrying amount of AT's assets and liabilities. Income from discontinued operations of $14,741 represents both the results of operations of AT for the period from January 1, 2011 to the date it was deconsolidated and the gain on deconsolidation of AT.

4. REVENUE RECOGNITION

The Company manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Company also sells certain semiconductor standard products to customers. Revenue is recognized when persuasive evidence of an arrangement exists, service has been performed, the fee is fixed or determinable and collectability is reasonably assured. Sales to customers are recognized upon shipment and title transfer, if all other criteria have been met. The Company also provides certain services, such as mask making, testing and probing. Revenue is recognized when the services are completed or upon shipment of semiconductor products, if all other criteria have been met.

Customers have the right of return within one year pursuant to warranty and sales return provisions. The Company typically performs tests of its products prior to shipment to identify yield rate per wafer. Occasionally, product tests performed after shipment identify yields below the level agreed with the customer. In those circumstances, the customer arrangement may provide for a reduction to the price paid by the customer or for the costs to return products and to ship replacement products to the customer. The Company estimates the amount of sales returns and the cost of replacement products based on the historical trend of returns and warranty replacements relative to sales as well as a consideration of any current information regarding specific known product defects that may exceed historical trends.

The Company provides management services to certain government-owned foundries. Service revenue is recognized when persuasive evidence of an arrangement exists, service has been performed, the fee is fixed or determinable, and collectability is reasonably assured.

5. SHARE-BASED COMPENSATION

The Company grants stock options to its employees and certain non-employees. The Company's total actual sharebased compensation expense for the six months ended June 30, 2011 and 2010 are $4,154 and $6,386, respectively.

The fair value of each option grant and restricted share granted is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions used for grants during the applicable period.

	Six months ended June 30,	
	2011	2010
Average risk-free rate of return	1.27%	1.63%
Expected term	4 years	1–4 years
Volatility rate	70.32%	61.09%
Expected dividend yield	0%	0%

Share-based compensation plans

The Company's employee stock option plans (the "Plans") allow the Company to offer a variety of incentive awards to employees, consultants or external service advisors of the Company.

In 2004, the Company adopted the 2004 Stock Option Plan ("2004 Option Plan") whereby the Company grants stock options to attract, retain and motivate employees, directors and service providers. As of June 30, 2011, options to purchase 1,111,910,598 ordinary shares were outstanding. As of June 30, 2011, options to purchase 159,001,753 ordinary shares were available for future grants.

In 2001, the Company adopted the 2001 Stock Option Plan ("2001 Option Plan"). As of June 30, 2011, options to purchase 174,916,376 ordinary shares were outstanding. As of June 30, 2011, options to purchase 478,913,959 ordinary shares were available for future grant. However, following the IPO, the Company no longer issues stock options under the 2001 Option Plan.

A summary of the stock option activity and additional information regarding options outstanding as of June 30, 2011 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at January 1, 2011	1,317,679,526	$0.11		
Granted	149,132,801	$0.08		
Vested	(62,640,812)	$0.05		
Cancelled or forfeited	(117,344,541)	$0.11		
Outstanding at June 30, 2011	1,286,826,974	$0.10	6.75 years	$10,157
Vested or expected to vest at June 30, 2011	1,077,424,873	$0.11	6.30 years	$8,830
Exercisable at June 30, 2011	515,884,156	$0.12	4.70 years	$3,957

During the six months ended June 30, 2011 and 2010, the total intrinsic value of the options exercised was $2,987 and $1,336, respectively.

The weighted average grant-date fair value of options granted for the six months ended June 30, 2011 and 2010 was $0.05 and $0.05, respectively.

5. SHARE-BASED COMPENSATION (Continued)

Restricted share units

In January 2004, the Company adopted the 2004 Equity Incentive Plan ("2004 EIP") whereby the Company provided additional incentives to the Company's employees, directors and external consultants through the issuance of restricted shares, restricted share units and stock appreciation rights to the participants at the discretion of the Board of Directors. As of June 30, 2011, 101,900,078 restricted share units were outstanding and 14,313,744 ordinary shares were available for future grant through the issuance of restricted shares, restricted share units and stock appreciation rights. The restricted share units vest over a requisite service period of four years and expire 10 years from the date of grant.

A summary of the restricted share unit activities is as follows:

	Number of share units	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at January 1, 2011	144,382,562	$0.10		
Granted	21,349,030	$0.08		
Exercised	(58,607,164)	$0.10		
Cancelled or forfeited	(5,224,350)	$0.09		
Outstanding at June 30, 2011	101,900,078	$0.09	8.82 years	$9,401
Vested or expected to vest at June 30, 2011	78,085,089	$0.09	8.74 years	$7,181

Pursuant to the 2004 EIP, the Company granted 21,349,030 restricted share units during the six months ended June 30, 2011 and the fair value of the restricted share units at the date of grant was $0.08 which is expensed over the vesting period. As a result, the Company has recorded compensation expense of $1,344 during the six months ended June 30, 2011.

Unrecognized compensation cost related to non-vested share-based compensation

As of June 30, 2011, there was $16,354 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2001 Stock Option Plan, 2004 Stock Option Plan and 2004 EIP. The cost is expected to be recognized over a weighted-average period of 1.45 years.

6. RESTRICTED CASH

As of June 30, 2011, restricted cash consisted of $171,154 of bank time deposits pledged against letters of credit and short-term borrowings, and $13,654 government subsidies for the reimbursement of research and development expenses to be incurred in certain government sponsored projects. As of December 31, 2010, restricted cash consisted of $128,818 of bank time deposits pledged against letters of credit and short-term borrowings, and $32,532 government subsidies for the reimbursement of research and development expenses to be incurred in certain government sponsored projects.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has derivative instruments with following notional amounts:

	June 30, 2011	December 31, 2010
Forward foreign exchange contracts	$273,683	$92,860
Interest rate swap contracts	72,000	76,000
Cross-currency interest rate swap contracts	8,162	11,280
	$353,845	$180,140

The Company purchases foreign-currency forward exchange contracts with contract terms expiring within one year to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated purchase activities, principally the Renminbi, the Japanese Yen and the Euro. The foreign-currency forward exchange contracts do not qualify for hedge accounting in accordance with ASC 815. Notional amounts are stated in the US dollar equivalents at spot exchange rates at the respective dates.

Settlement currency	Notional amount	US dollar equivalents
As of June 30, 2011		
Euro	15,200	$21,848
Renminbi	1,627,610	251,835
		$273,683
As of December 31, 2010		
Euro	7,683	$10,175
Renminbi	546,298	82,685
		$92,860

The Company entered into cross-currency interest rate swap agreements to protect against volatility of future cash flows caused by the changes in both interest rates and exchange rates associated with outstanding long-term debts that are denominated in a currency other than the US dollar. The cross-currency interest rate swap agreement does not qualify for hedge accounting in accordance with ASC 815, however, the gains or losses on the interest rate swap contracts were recognized as either the interest income or interest expense. As of June 30, 2011, the Company had outstanding cross-currency interest rate swap contracts as follows:

Settlement currency	Notional amount	US dollar equivalents
As of June 30, 2011		
Euro	28,390	$41,563
		$41,563
As of December 31, 2010		
Euro	8,517	$11,280
		$11,280

7. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Company entered into various interest rates swap agreements to protect against volatility of future cash flows caused by the changes in interest rates associated with outstanding debt.

As of June 30, 2011 and December 31, 2010, the Company had outstanding interest rate swap contracts with notional amounts of $72,000 and $76,000 for 2011 and 2010, respectively.

The fair values of each derivative instrument are as follows:*

	June 30, 2011	December 31, 2010
Forward foreign exchange contracts	$231	$215
Interest rate swap contracts	(1,028)	(1,380)
Cross-currency interest rate swap contracts	(121)	(1,292)
	$(918)	$(2,457)

8. ACCOUNTS RECEIVABLES, NET OF ALLOWANCES

The Company determines credit terms ranging from 30 to 60 days for each customer on a case-by-case basis, based on its assessment of such customer's financial standing and business potential with the Company.

An aging analysis of accounts receivable, net of allowances for doubtful accounts is as follows:

	June 30, 2011	December 31, 2010
Current	$195,510	$174,379
Overdue:		
Within 30 days	29,195	25,395
Between 31 to 60 days	8,738	3,033
Over 60 days	3,295	3,816
	$236,738	$206,623

The change in the allowances for doubtful accounts is as follows:

	June 30, 2011	December 31, 2010
Balance, beginning of the period	$49,373	$96,145
Provision recorded	544	1,077
Write-offs	(320)	(19,349)
Reversal	(6,403)	(28,500)
Balance, end of the period	$43,194	$49,373

9. INVENTORIES

	June 30, 2011	December 31, 2010
Raw materials	$70,263	$79,038
Work in progress	95,385	86,235
Finished goods	31,228	48,131
	$196,876	$213,404

10. ACCOUNTS PAYABLE

An aging analysis of the accounts payable is as follows:

	June 30, 2011	December 31, 2010
Current	$356,978	$429,831
Overdue:		
Within 30 days	40,703	42,087
Between 31 to 60 days	13,485	8,541
Over 60 days	37,155	35,118
	$448,321	$515,577

11. INDEBTEDNESS

Long-term and short-term debts are as follows:

	Maturity	Interest rate	June 30, 2011	December 31, 2010
Shanghai USD loan	2009–2012	2.40%–4.86%	$80,000	$110,271
Shanghai new USD loan	2011–2013	4.4%	$12,000	—
Beijing USD syndicate loan	2005–2012	2.60%–2.66%	280,064	290,062
EUR loan	2006–2012	2.52%–4.56%	18,394	25,422
Tianjin USD syndicate loan	2007–2012	1.65%–1.71%	43,150	86,300
			433,608	512,055
Less: Current portion of long-term debts			251,486	333,459
Long-term debts			$182,122	$178,596
Short-term debts			$712,423	$372,055

12. PROMISSORY NOTES

In 2009, the Company reached a new settlement with TSMC. Under this agreement, the remaining promissory note of $40,000 under the prior settlement agreement was cancelled. In connection with the new settlement, the Company issued twelve non-interest bearing promissory notes with an aggregate amount of $200,000 as the settlement consideration. The Company has recorded a discount of $3,084 for the imputed interest on the notes and was recorded as a reduction of the face amounts of the promissory notes. The Company repaid $15,000 and $80,000 in 2011 and 2010, respectively. The outstanding promissory notes are as follows:

	June 30, 2011	
Maturity	Face value	Discounted value
2011	15,000	14,791
2012	30,000	28,964
2013	30,000	28,160
Total	$75,000	$71,915
Less: Current portion of promissory notes	$30,000	$29,374
Non-current portion of promissory notes	$45,000	$42,541

13. CONVERTIBLE PREFERRED SHARES

Convertible Preferred Shares and Warrants
On June 3, 2011, the Company issued 1) 360,589,053 convertible preferred shares (the “Preferred Shares”, at par value of US$0.0004 with an issue price of HK$5.39 per share and; 2) 72,117,810 warrants to subscribe up to 72,117,810 Preferred Shares at an exercise price of HK$5.39 per warrant to Country Hill Limited, a wholly-owned subsidiary of China Investment Corporation (“CIC”). The aggregate consideration is approximately $249,396, net of issuance costs of $603.

The main terms of the Preferred Shares are summarized as following:

Voting
The Preferred Shares will entitle the holders thereof to receive notice of, attend and vote at any meeting of members of the Company. Each Preferred Share will confer on its holder such number of voting rights as if the Preferred Share had been converted into ordinary shares.

Dividend entitlements
The Preferred Shares will rank pari passu in respect of entitlement to dividends and other income distribution as ordinary shares.

Ranking
The Preferred Shares will, upon issue, rank (a) pari passu with the claims of holders of (i) any class of preferred share capital of the Company and (ii) other obligations of the Company which rank pari passu with the Preferred Shares or such preferred shares and (b) in priority (including with respect to distribution of proceeds upon any liquidation event up to the amount paid up) to any payment to the holders of ordinary shares of the Company and other obligations of the Company, incurred directly or indirectly by it, which rank, or are expressed to rank, pari passu the claims of the ordinary shares.

Liquidation preference
On a liquidation or similar dissolution events, the assets of the Company available for distribution among the members will be applied first in paying an amount equal to the amount paid up or credited as paid on such shares to the holders of the Preferred Shares and holders of other preference shares of the Company in priority to those of holders of ordinary shares.

13. CONVERTIBLE PREFERRED SHARES (continued)

Convertible Preferred Shares and Warrants (Continued)
Conversion Rights
The holders of the Preferred Shares will have the right at any time to convert their Preferred Shares into fully paid ordinary shares and the Preferred Shares will be mandatorily converted into ordinary shares at the then applicable conversion rate on the day immediately following the expiry of twelve months commencing from the completion of the subscription of the Preferred Shares and warrants.

The initial conversion rate will be ten ordinary shares per Preferred Share, and is subject to adjustment upon the occurrence of certain prescribed events, among other things, capitalisation of profits or reserves, consolidations, sub-divisions and re-classifications of shares, capital distributions, issue of shares or other securities, and the issue of a new class of shares carrying voting rights.

14. INCOME TAXES

The effective tax rate is based on expected income and statutory tax rates. For interim financial reporting, the Company estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the guidance on accounting for income taxes in an interim period. As the year progresses, the Company refines the estimates of the year’s taxable income as new information becomes available. This is a continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate.

15. SEGMENT AND GEOGRAPHIC INFORMATION

The Company is engaged principally in the computer-aided design, manufacturing, packaging, testing and trading of integrated circuits. The Company’s chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results of manufacturing operations when making decisions about allocating resources and assessing performance of the Company. The Company believes it operates in one segment. The following table summarizes the Company’s net revenues generated from different geographic locations:

	Six months ended June 30,	
	2011	2010
Total sales:		
United States	$393,081	$404,147
Europe	21,098	21,130
Asia Pacific*	17,487	22,647
Taiwan	60,957	89,967
Japan	305	2,776
Mainland China	230,020	179,396
	$722,948	$720,063

* Not including Taiwan, Japan, Mainland China

Revenue is attributed to a geographic location based on the location of a customer’s headquarters. Substantially all of the Company’s long-lived assets are located in the PRC.

16. LOSS FROM OPERATIONS

	Six months ended June 30,	
	2011	2010
Loss from operations is arrived at after charging and crediting:		
Depreciation and amortization of property, plant and equipment	$247,890	$314,659
Amortization of prepaid land use righ		