SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
April 06, 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 April, 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 2010 ANNUAL RESULTS

SUMMARY

Financial

The Board of Directors of Semiconductor Manufacturing International Corporation ("SMIC" or the "Company") is pleased to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2010.

Highlights include:

Sales increased by 45.3% from US$1,070.4 million for 2009 to US$1,554.8 million for 2010, primarily due to an increase in overall wafer shipment. For the full year 2010, the overall wafer shipments were 1,985,974 units of 8-inch equivalent wafers, up 44.3% year-on-year.

The average selling price1 of the wafers the Company shipped increased by 0.6% from US$778 per wafer to US$783. Excluding DRAM revenue, the percentage of wafer revenues that used 0.13 micron and below process technology increased from 47.5% to 54.5% between these two periods.

This announcement is made pursuant to Rules 13.09(1) and 13.49(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

1 Based on simplified average selling price which is calculated as total revenue divided by total shipments.

The Board of Directors of Semiconductor Manufacturing International Corporation ("SMIC" or the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2010 as follows:

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

This announcement 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, including statements about the outlook for 2011, 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 expressio 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.

BUSINESS REVIEW

SMIC under the direction of new senior management, continued to expand its product portfolio and customer base despite the challenging business environment in 2010. Still, the Company continued to benefit from its strategic position in China — the largest and fastest growing integrated circuits market, and saw a steady growth in the region, in particular, through the implementation of the stimulus package that stirred strong domestic demand. As our business began to grow and improve in 2010, with our utilization rate rebounding to 96.8% in the fourth quarter, we also saw a significant growth in the revenue generated from the more advanced technology nodes of 0.13-micron and below.

Financial Overview

During 2010, we generated US$694.6 million in cash from operations. Capital expenditures in 2010 totaled $728 million, which was mainly allocated to 65-nanometer, 45-nanometer and 32-nanometer research and development and 12-inch advanced technology expansion and development in our Beijing Fab. Looking ahead, we will continue to increase capital expenditures, improve efficiency, foster innovation, and enhance our financial position as we continue for sustained profitability.

Customers and Markets

SMIC serves a global customer base, comprised of leading IDMs, fabless semiconductor companies, and system companies. Leveraging on our strategic position in China, we have seen our Greater China business grow strongly during the year, contributing 39% to the overall revenue for 2010, an increase from 35% in 2009.

Geographically, North American customers, which contributed 55% of the overall revenue, remained as the largest customer base for SMIC in 2010, displaying a strong growth in the advanced nodes. In other regions, Mainland China customers contributed 28% of the total revenue in 2010, followed by Taiwan customers at 11%.

Communication applications, which contributed 49% of our overall revenue, continued to be our strongest sector. Similarly, contribution from consumer applications also grew from 38% of revenue in 2009 to 40% in 2010. Our North American customers, which include leading IDM and fabless IC companies, showed strong demand in communications products, mainly in mobile, networking and WLAN (Wireless Local Area Network) applications. Our Chinese customers, on the other hand, showed strong demand for both consumer and communications products, including digital television (DTV), set-top box (STB), mobile, portable media player (PMP), and PDA applications.

In terms of revenue breakdown by technology node, revenue contribution from business at the 0.13-micron node and below business has grown to 52% in 2010 as compared to 48% in 2009, while revenue from 65nm technology revenue contributed 5% of wafer revenue in 2010. In addition, our 45-nanometer low-power technology development is on schedule, while we have extended our technology offering down to 40nm, plus an extension to include 55-nanometer.

In 2010, we engaged 41 new customers, and the majority of them were Chinese fabless companies, where we experienced the fastest growth. Notably, our China business has been growing steadily not only from a revenue perspective, but also based on the number of new designs using more advanced technology nodes — some pursuing 65-nanometer. This trend also signifies that China is quickly catching up to the rest of the world in terms of its innovation and design capabilities. Promising new players with innovative designs and applications continue to emerge among the Chinese fabless companies, and we are producing a broad range of applications for them, including CMOS image sensor (CIS), Mobile CMMB, HDTV, RFID, wireless and other products. To this end, SMIC remains committed to collaborating with our existing and new customers in China, and further solidifying our position as the leading foundry in the market. At the same time, we will also continue to expand our presence in the global arena.

Research and Development

In 2010, our research and development expenses were $174.9 million, which represented 11.2% of our sales.

The research and development efforts were focused primarily on our logic platform and system-on-chip (SOC) applications. SMIC in 2010 has achieved many significant milestones. Early on in the year, the Company shipped 100,000 8-inch wafers to Galaxycore using CMOS image sensor (CIS) process technology. In May, Synopsys announced the immediate availability of silicon-proven and USB logo-certified DesignWare USB 2.0 nanoPhy intellectual property for 65-nanometer (nm) low-leakage (LL) process technology. In addition, the Company has longstanding partnership with leading fabless companies to include 65nm LL and 40nm LL process technologies. For system-on-chip (SOC) front, ARM and SMIC agreed to collaborate on the development of ARM leading physical IP library platform for 65nm LL and 40nm LL technology process nodes. Our 65nm LL technology successfully moves to volume production, an accumulative wafer shipped has achieved over 10,000 pieces since mass production began in Q3 2009, mostly implemented at our 300mm facility in Beijing.

We employ approximately over 451 research and development engineers, with experience in the semiconductor industry and with advanced degrees from leading universities around the world and in China.

Outlook for 2011

Our overall outlook for 2011 is positive as we see a growing foundry market supporting an overall strengthening of our Company’s foundation.

The Company broke even on both net and operating income levels in 2010, and we target sustainable profitability going forward. Our product mix continues to improve as our 65-nanometer continues to ramp up, and as our customers migrate to more advanced technology nodes that have higher ASP. Our capital expenditure spending in 2011 is being focused on products with higher ASP where our customer demand is, namely in 12-inch production.

The overall foundry market is better, and furthermore the China market looks even stronger. We continue to work hard and to seize opportunities to improve our business in this year of growth.

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, 2008, 2009 and 2010 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, 2006 and 2007 and for the two years then ended 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 U.S. GAAP.

	For the year ended December 31,				
	2006	2007	2008	2009	2010
	(in US$ thousands, except for per share and per ADS data)				
Income Statement Data:					
Sales	$1,465,323	$1,549,765	$1,353,711	$1,070,387	$1,554,788
Cost of sales(1)	1,338,155	1,397,038	1,412,851	1,184,589	1,244,714
Gross profit (loss)	127,168	152,727	(59,140)	(114,202)	310,074
Operating expenses (income):					
Research and development	94,171	97,034	102,240	160,754	174,900
General and administrative	47,365	74,490	67,036	218,688	43,762
Selling and marketing	18,231	18,716	20,661	26,566	29,498
Litigation settlement	—	—	—	269,637	—
Amortization of acquired intangible assets	24,393	27,071	32,191	35,064	27,168
Impairment loss of long-lived assets	—	—	106,741	138,295	8,442
Gain (loss) from sale of plant and equipment and other fixed assets	(43,122)	(28,651)	(2,877)	3,832	(658)
Other operating income	—	—	—	—	(16,493)
Total operating expenses, net	141,038	188,659	325,992	852,836	266,619
Income (loss) from operations	(13,870)	(35,932)	(385,132)	(967,038)	43,454
Other expenses:					
Interest income	14,916	12,349	11,542	2,591	4,127
Interest expense	(50,926)	(37,936)	(50,767)	(24,699)	(22,655)
Change in the fair value of commitment to issue shares and warrants	—	—	—	(30,101)	(29,815)
Foreign currency exchange gain (loss)	(21,912)	11,250	11,425	7,302	5,025
Others, net	1,821	2,238	7,429	4,626	8,772
Total other expense, net	(56,101)	(12,100)	(20,371)	(40,281)	(34,547)
Income (Loss) before income tax	(69,971)	(48,032)	(405,503)	(1,007,319)	8,907
Income tax benefit (expense)	24,928	29,720	(26,433)	46,624	4,818
Gain (Loss) from equity investment	(4,201)	(4,013)	(444)	(1,782)	285
Net income (loss) before cumulative effect of a change in accounting principle	(49,244)	(22,324)	(432,380)	(962,478)	14,011
Cumulative effect of a change in accounting principle	5,154	—	—	—	—
Net income (loss)	(44,090)	(22,324)	(432,380)	(962,478)	14,011
Accretion of interest to noncontrolling interest	(19)	2,856	(7,851)	(1,060)	(1,050)
Loss attributable to non-controlling interest	—	—	—	—	140
Income (loss) attributable to holders of ordinary shares	(44,109)	(19,468)	(440,231)	(963,537)	13,100
Earnings (loss) per share, basic	$(0.00)	$(0.00)	$(0.02)	$(0.04)	$0.00

Earnings (loss) per share, diluted	$(0.00)	$(0.00)	$(0.02)	$(0.04)	$0.00
Shares used in calculating basic earnings (loss) per share(2)	18,334,498,923	18,501,940,489	18,682,544,866	22,359,237,084	24,258,437,559
Shares used in calculating diluted earnings (loss) per share(2)	18,334,498,923	18,501,940,489	18,682,544,866	22,359,237,084	25,416,597,405

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

(2) Anti-dilutive preference shares, options and warrants were excluded from the weighted average ordinary shares outstanding for the diluted per share calculation.

	As of December 31,				
	2006	2007	2008	2009	2010
	(in US$ thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$363,620	$469,284	$450,230	$443,463	$515,808
Restricted cash	—	—	6,255	20,360	161,350
Short-term investments	57,951	7,638	19,928	—	2,454
Accounts receivable, net of allowances	252,185	298,388	199,372	204,290	206,623
Inventories	275,179	248,310	171,637	193,705	213,404
Total current assets	1,049,666	1,075,302	926,858	907,058	1,179,102
Prepaid land use rights	38,323	57,552	74,293	78,112	78,798
Plant and equipment, net	3,244,401	3,202,958	2,963,386	2,251,614	2,351,863
Total assets	4,541,292	4,708,444	4,270,622	3,524,077	3,902,693
Total current liabilities	677,362	930,190	899,773	1,031,523	1,399,345
Total long-term liabilities	817,710	730,790	578,689	661,472	294,806
Total liabilities	1,495,072	1,660,980	1,478,462	1,692,995	1,694,152
Non-controlling interest	38,800	34,944	42,795	34,842	39,004
Total equity	$3,007,420	$3,012,519	$2,749,365	$1,796,240	$2,169,537

	For the year ended December 31,				
	2006	2007	2008	2009	2010
	(in US$ thousands, except percentages and operating data)				
Cash Flow Data:					
Net income (loss)	$(49,224)	$(22,324)	$(432,380)	$(962,478)	$14,011
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	919,616	706,277	761,809	748,185	584,242
Net cash provided by operating activities	769,649	672,465	569,782	283,566	694,613
Purchases of plant and equipment	(882,580)	(717,171)	(669,055)	(217,269)	(491,539)
Net cash used in investing activities	(917,369)	(643,344)	(761,713)	(211,498)	(583,713)
Net cash provided by (used in) financing activities	(74,440)	76,637	173,314	(78,902)	(37,851)
Net increase (decrease) in cash and cash equivalents	(222,177)	105,664	(19,054)	(6,767)	72,346
Other Financial Data:					
Gross margin	8.7%	9.9%	–4.4%	–10.7%	19.9%
Operating margin	–0.9%	–2.3%	–28.5%	–90.3%	2.8%
Net margin	–3.0%	–1.3%	–32.5%	–90.0%	0.9%
Operating Data:					
Wafers shipped (in units):					
Total(1)	1,614,888	1,849,957	1,611,208	1,376,663	1,985,974

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

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Sales

Sales increased by 45.3% from US$1,070.4 million for 2009 to US$1,554.8 million for 2010, primarily due to an increase in overall wafer shipment. For the full year 2010, the overall wafer shipments were 1,985,974 units of 8-inch equivalent wafers, up 44.3% year-on-year.

The average selling price[1] of the wafers the Company shipped increased by 0.6% from US$778 per wafer to US$783. Excluding DRAM revenue, the percentage of wafer revenues that used 0.13 micron and below process technology increased from 47.5% to 54.5% between these two periods.

1 Based on simplified average selling price which is calculated as total revenue divided by total shipments.

Cost of sales and gross profit (loss)

Cost of sales increase by 5.1% from US$1,184.6 million for 2009 to US$1,244.7 million for 2010. Out of the total cost of sales for 2010, US$497.6 million was attributable to depreciation of plant and equipment and another $2.8 million was attributable to share-based compensation costs. Out of the total cost of sales for 2009, US$575.1 million was attributable to depreciation of plant and equipment and another $23.5 million was attributable to amortization of deferred costs and share-based compensation costs.

The Company had a gross profit of US$310.1 million for 2010 compared to a gross loss of US$114.2 million in 2009. Gross margins were 19.9% in 2010 compared to –10.7% in 2009. The increase in gross margins was due to market recovery from 2009 global recession and $75.5 million decrease in depreciation expense.

Operating income (expenses) and income (loss) from operations

Operating expenses decreased by 68.7% from US$852.8 million for 2009 to US$266.6 million for 2010 primarily due to charges related to settlement of litigation, bad debt provision and plant and equipment impairment loss in 2009.

Research and development expenses increased by 8.8% from US$160.8 million for 2009 to US$174.9 million for 2010, due to an increase in expenses associated with 65nm and 45nm technology development.

General and administrative expenses decreased by 80.0% to US$43.8 million for 2010 from US$218.7 million for 2009, primarily due to an increase in bad-debt provision in 2009.

Selling and marketing expenses increased by 11.1% from US$26.6 million for 2009 to US$29.5 million for 2010, due to an increase in sales and marketing activities.

The amortization of acquired intangible assets decreased from US$35.1 million for 2009 to US$27.2 million for 2010.

As a result, the Company’s income from operations was US$43.5 million in 2010 compared to loss from operations of US$967.0 million in 2009. Operating margin was 1.4% and (90.3)%, for 2010 and 2009 respectively.

Other income (expenses)

Other expenses decreased from US$40.3 million in 2009 to US$34.5 million in 2010. Total foreign exchange gain, combining the operating and non-operating activities, was US$5.0 million in 2010 as compared to US$7.3 million in 2009.

Net income (loss)

Due to the factors described above, the Company recorded a net income of US$14.0 million in 2010 compared to a net loss of US$962.5 million in 2009.

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 in 2010, 2009 and 2008 amounted to US$1.1 million, US$115.8 million, and US$1.3 million, respectively. The Company reviews, analyzes and adjusts bad debt provisions on a monthly basis.

Debt Arrangements

Set forth in the table below are the aggregate amounts, as of December 31, 2010, of the Company's future cash payment obligations under the Company's existing contractual arrangements on a consolidated basis:

	Payments due by period Less than				
Contractual obligations	Total	1 year	1–2 years	3–5 years	After 5 years
	(consolidated, in US$ thousands)				
Short-term borrowings	$372,055	$372,055	$—	$—	$—
Secured long-term loans	512,055	333,459	178,596	—	—
Purchase obligations(1)	641,076	641,076	—	—	—
Other long-term obligations(2)	90,717	34,390	28,560	27,767	—
Total contractual obligations	$1,615,903	$1,380,980	$207,156	$27,767	$—

(1) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.

(2) Includes the settlement with TSMC for an aggregate of $200 million payable in installments over five years and the other long-term liabilities relating to certain license agreements.

As of December 31, 2010, the Company's outstanding long-term liabilities primarily consisted of US$512.0 million in secured bank loans, which are repayable in installments which commenced in June 2006, with the last payment in December 2012.

2006 Loan Facility (SMIC Shanghai). In June 2006, Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai") entered into a USD denominated long-term facility arrangement for US$600.0 million with a consortium of international and PRC banks. The principal amount is repayable beginning December 2006 in ten semi-annual installments. The interest rate is variable and determined as LIBOR +1.00%. In August 2010, the facility was fully repaid.

2009 USD & RMB Loan Facility. In June 2009, SMIC Shanghai entered into the Shanghai USD & RMB loan, a two-year loan facility in the principal amount of US$80 million and RMB200 million, respectively, with The Export-Import Bank of China. This facility is secured by the manufacturing equipment located in SMIC Shanghai's 12-inch fab. This two-year loan facility will be used to finance future expansion and general corporate requirement for SMIC Shanghai's 12-inch fab. As of December 31, 2010, SMIC Shanghai had drawn down US$80 million and RMB200 million (US$29.4 million), respectively, on this loan facility. The principal amount is repayable in June 2011. In 2010, the interest rate on the loan ranged from 2.00% to 4.86%. The interest expense incurred in 2010 and 2009 was US$3.6 million and US$1.3 million, respectively, of which US$1.1 million and US$0.1 million were capitalized as additions to assets under construction in 2010 and 2009, respectively.

The total outstanding balance of the facilities is collateralized by certain equipment with an original cost of US$366 million as of December 31, 2010.

2005 Loan Facility (SMIC Beijing). 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. This facility is secured by the manufacturing equipment located in the SMIC Beijing 12-inch fabs. The Company has guaranteed SMIC Beijing's obligations under this facility. As of December 31, 2010, SMIC Beijing had repaid US$309.9 million. On June 26, 2009, SMIC Beijing amended the syndicated loan agreement to defer the commencement of the three remaining semi-annual payments to December 28, 2011. The amendment includes a provision for mandatory early repayment of a portion of the outstanding balance if SMIC Beijing's financial performance exceeds certain pre-determined benchmarks. The amendment has been accounted for as a modification as the terms of the amended instrument are not substantially different from the original terms. The interest rate on this loan facility in 2010 ranged from 2.64% to 2.95%. The interest expense incurred in 2010, 2009 and 2008 was US$8.4 million, US$10.2 million and US$25.6 million, of which US$2.8 million, US$0.5 million and US$1.6 million were capitalized as additions to assets under construction in 2010, 2009 and 2008, respectively.

The total outstanding balance of the SMIC Beijing USD syndicate loan is collateralized by certain plant and equipment with an original cost of US$1,314 million as of December 31, 2010.

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

1. [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

2. (Total liability – borrowings from shareholders, including principal and interest)/Total assets > 60% (when SMIC Beijing's capacity is less than 20,000 12-inch wafers per month); and (Total liability –borrowings from shareholders, including principal and interest)/Total assets > 50% (when SMIC Beijing's capacity exceeds 20,000 12-inch wafers per month).

SMIC Beijing has complied with these covenants as of December 31, 2010.

2005 EUR Loan Facility. On December 15, 2005, the Company entered into a EUR denominated long-term loan facility agreement in the aggregate principal amount of EUR 85 million (equivalent to approximately US$105 million) with ABN Amro Bank N.V. Commerz Bank N.V., Shanghai Branch. The drawdown period of the facility ends on the earlier of (i) thirty six 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. SMIC Tianjin had drawn down in 2006 and SMIC Shanghai had drawn down in 2007 and 2008.

As of December 31, 2010, SMIC Tianjin had drawn down EUR15.1 million, the interest rate on the loan ranged from 0.97% to 2.19%. The interest expenses incurred in 2010, 2009 and 2008 were US$0.04 million, US$0.2 million and US$0.6 million of which nil, US$0.03 million and US$0.1 million were capitalized as additions to assets under construction in 2010, 2009 and 2008, respectively. As of December 31, 2010, the borrowing of SMIC Tianjin was fully repaid.

As of December 31, 2010, SMIC Shanghai had drawn down EUR56.9 million and repaid an aggregated amount of EUR37.7 million. As of December 31, 2010, the remaining balance is EUR19.2 million, the equivalent of US$25.4 million. In 2010, the interest rate on the loan ranged from 0.99% to 2.58%. The interest expenses incurred in 2010, 2009 and 2008 were US$0.6 million, US$1.1 million and US$2.1 million, of which US$0.2 million, US$0.03 million and US$0.7 million were capitalized as additions to assets under construction in 2010, 2009 and 2008, respectively.

The total outstanding balance of the facility is collateralized by certain of SMIC Shanghai's equipment at the original cost of US$115 million as of December 31, 2010.

2006 Loan Facility (SMIC Tianjin). In May 2006, Semiconductor Manufacturing International (Tianjin) Corporation ("SMIC Tianjin") entered into a loan facility in the aggregate principal amount of US$300.0 million from a consortium of Chinese banks. This facility is secured by the manufacturing equipment located in our Tianjin fab, except for the manufacturing equipment purchased using the EUR denominated loan. The Company has guaranteed SMIC Tianjin's obligations under this facility. As of December 31, 2010, SMIC Tianjin had drawn down US$259 million from the facility. The principal amount is repayable starting from February 2010 in six semi-annual installments. As of December 31, 2010. SMIC Tianjin had early repaid US$172.7 million. In 2010, the interest rate on the loan ranged from 1.69% to 2.00%. The interest expenses incurred for the years ended December 31, 2010, 2009 and 2008 were US$2.3 million, US$8.0 million and US$9.1 million, of which nil, US$1.55 million and US$1.8 million were capitalized as additions to assets under construction in 2010, 2009 and 2008, respectively.

The total outstanding balance of the facility is collateralized by certain plant and equipment with an original cost of US$627 million as of December 31, 2010.

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

- [Net profit + depreciation + amortization + financial expenses – (increase of accounts receivable and advanced payments + increase of inventory – increase in accounts payable and advanced receipts)]/financial expenses < 1; and
- The ratio of total debt to total assets is more than 60% during the ramp up period of SMIC Tianjin and more than 40% after the facility is at full capacity.

SMIC Tianjin has complied with these covenants as of December 31, 2010.

Short-term Credit Agreements. As of December 31, 2010, the Company had twenty short-term credit agreements that provided total credit facilities up to US$582.8 million on a revolving credit basis. As of December 31, 2010, the Company had drawn down US$372.0 million under these credit agreements and US$210.8 million is available for future borrowings. The outstanding borrowings under the credit agreements are unsecured, except for the amount of US$13 million, which is secured by term deposits. The interest expense incurred in 2010 was US$12.0 million. The interest rate on the loans ranged from 1.11% to 5.84% in 2010.

Capitalized Interest

Interest incurred on funds used to construct plant and equipment during the active construction period is capitalized, net of government subsidies received. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interest of US$7.2 million, US$5.1 million and US$10.7 million in 2010, 2009, and 2008, respectively, net of government subsidies, has been added to the cost of the underlying assets during the year and is amortized over the respective useful life of the assets. In 2010, 2009, and 2008, the Company recorded amortization expenses relating to the capitalized interest of US$6.9 million, US$8.4 million, and US$6.9 million, respectively.

Commitments

As of December 31, 2010, the Company had commitments of US$83.0 million for facilities construction obligations in Chengdu, Beijing, Tianjin, Shanghai, and Shenzhen. The Company had commitments of US$558.1 million to purchase machinery and equipment for Beijing, Tianjin, Shanghai and Shenzhen fabs.

Debt to Equity Ratio

As of December 31, 2010, the Company's debt to equity ratio was approximately 41% calculated based on the sum of the short-term borrowings, current portion of long-term debt and long-term debt divided by total 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 twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated activities. These forward exchange contracts are principally denominated in Rmb, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with FASB Accounting Standards Codification ("ASC") 815, "Derivatives and Hedging" ("ASC 815").

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 the exchange rate for the Euro.

To minimize the currency risk, the Company entered into cross currency swap contracts with a contract term fully matching the repayment schedule of part of this Euro long-term loan to protect against the adverse effect of exchange rate fluctuations arising from foreign-currency denominated loans. The cross currency swap contracts do not qualify for hedge accounting in accordance with ASC 815.

For the portion of the Euro long-term loan that is not covered by cross currency swap contracts, we have separately entered into foreign exchange forward contracts to minimize the currency risk. These foreign exchange forward contracts do not qualify for hedge accounting in accordance with ASC 815.

Outstanding Foreign Exchange Contracts
As of December 31, 2010, the Company had outstanding foreign currency forward exchange contracts with notional amounts of US$92.9 million. As of December 31, 2010, the fair value of foreign currency forward exchange contracts was approximately US$0.2 million, which is recorded in other current assets. The foreign currency exchange contracts will mature during 2011.

The Company had US$9 million of foreign currency exchange contracts outstanding as of December 31, 2009, all of which matured in 2010.

The Company had US$220.7 million of foreign currency exchange contracts outstanding as of December 31, 2008, all of which matured in 2009.

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

	As of December 31, 2010 (in US$ thousands)		As of December 31, 2009 (in US$ thousands)		As of December 31, 2008 (in US$ thousands)	
	2010	Fair Value	2009	Fair Value	2008	Fair Value
Forward Exchange Agreement						
(Receive Eur/Pay US$)						
Contract Amount	10,175	(90)	21,265	(390)	31,144	(440.8)
(Receive Rmb/Pay US$)						
Contract Amount	82,685	305	(12,236)	(39)	189,543	(3,069.5)
Total Contract Amount	92,860	215	9,029	(429)	220,687	(3,510.3)

Outstanding Cross Currency Swap Contracts
As of December 31, 2010, the Company had outstanding cross currency swap contracts with notional amounts of US$11.3 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2010, the fair value of cross currency swap contracts was approximately a liability of US$1.3 million, which is recorded in accrued expenses and other current liabilities. The cross currency swap contracts will mature in 2012.

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, 2010. 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. The interest rates on the Company's EUR-denominated loan is linked to the EURIBOR. 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	
	2011	2012
	(Forecast) (in US$ thousands, except percentages)	
US$ denominated		
Average balance	310,181	103,738
Average interest rate	2.04%	2.26%
EUR denominated		
Average balance	15,388	3,245
Average interest rate	1.61%	1.96%
Weighted average forward interest rate	2.01%	2.25%

CONSOLIDATED STATEMENTS OF OPERATIONS

(In US dollars, except share data)

		Year ended December 31,		
	NOTES	2010	2009	2008
Sales	24	$1,554,788,587	$1,070,387,103	$1,353,711,299
Cost of sales		1,244,714,305	1,184,589,553	1,412,851,079
Gross profit (loss)		310,074,282	(114,202,450)	(59,139,780)
Operating expenses (income):				
Research and development		174,900,381	160,753,629	102,239,779
General and administrative	22	43,762,351	218,688,042	67,036,672
Selling and marketing		29,498,495	26,565,692	20,661,254
Amortization of acquired intangible assets		27,167,870	35,064,589	32,191,440
Impairment loss of long-lived assets	11	8,442,050	138,294,783	106,740,667
Loss (gain) from sale of plant and equipment and other fixed assets	10	(658,535)	3,832,310	(2,877,175)
Litigation settlement	27	—	269,637,431	—
Other operating income	2(o)	(16,493,049)	—	—
Total operating expenses, net		266,619,563	852,836,476	325,992,637
Income (loss) from operations	31	43,454,719	(967,038,926)	(385,132,417)
Other income (expense):				
Interest income		4,127,252	2,591,284	11,542,339
Interest expense		(22,655,830)	(24,699,336)	(50,766,958)
Change in the fair value of commitment to issue shares and warrants	27	(29,815,453)	(30,100,793)	—
Foreign currency exchange gain		5,024,930	7,302,121	11,425,279
Others, net		8,771,701	4,626,008	7,428,721
Total other expense, net		(34,547,400)	(40,280,716)	(20,370,619)
Income (loss) before income tax		8,907,319	(1,007,319,642)	(405,503,036)
Income tax benefit (expense)	18	4,818,497	46,624,242	(26,432,993)
Gain (loss) from equity investment	13	284,830	(1,782,142)	(444,211)
Net income (loss)		14,010,646	(962,477,542)	(432,380,240)
Accretion of interest to noncontrolling interest		(1,050,000)	(1,059,663)	(7,850,880)
Loss attributable to noncontrolling interest		139,751	—	—
Income (loss) attributable to Semiconductor Manufacturing International Corporation		13,100,397	(963,537,205)	(440,231,120)
Earnings (loss) per share, basic	21	$0.00	$(0.04)	$(0.02)
Earnings (loss) per share, diluted	21	$0.00	$(0.04)	$(0.02)
Shares used in calculating basic earnings (loss) per share	21	24,258,437,559	22,359,237,084	18,682,544,866
Shares used in calculating diluted earnings (loss) per share	21	25,416,597,405	22,359,237,084	18,682,544,866

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

CONSOLIDATED BALANCE SHEETS

(In US dollars, except share data)

	December 31,			
	NOTES	2010	2009	2008
ASSETS				
Current assets:				
Cash and cash equivalents		$515,808,332	$443,462,514	$450,229,569
Restricted cash	5	161,350,257	20,360,185	6,254,813
Short-term investments	4	2,453,951	—	19,928,289
Accounts receivable, net of allowances of $49,373,296, $96,144,543 and $5,680,658 at December 31, 2010, 2009 and 2008, respectively	7, 22	206,622,841	204,290,545	199,371,694
Inventories	8	213,404,499	193,705,195	171,636,868
Prepaid expense and other current assets		75,824,180	28,881,866	56,299,086
Receivable for sale of equipment and other fixed assets		—	—	23,137,764
Assets held for sale	9	—	8,184,462	—
Current portion of deferred tax assets	18	3,638,427	8,173,216	—
Total current assets		1,179,102,487	907,057,983	926,858,083
Prepaid land use rights		78,798,287	78,111,788	74,293,284
Plant and equipment, net	10	2,351,862,787	2,251,614,217	2,963,385,840
Acquired intangible assets, net	12	173,820,851	182,694,105	200,059,106
Deferred cost, net	27	—	—	47,091,516
Equity investment	13	9,843,558	9,848,148	11,352,186
Other long-term assets		215,178	391,741	1,895,337
Deferred tax assets	18	109,050,066	94,358,635	45,686,470
TOTAL ASSETS		$3,902,693,214	$3,524,076,617	$4,270,621,822

	December 31,			
	NOTES	2010	2009	2008
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	14	$515,577,285	$228,882,804	$185,918,539
Short-term borrowings	16	372,055,279	286,864,063	201,257,773
Current portion of long-term debt	16	333,458,941	205,784,080	360,628,789
Accrued expenses and other current liabilities		146,986,675	111,086,990	122,173,803
Current portion of promissory notes	15	29,374,461	78,608,288	29,242,001
Commitment to issue shares and warrants relating to litigation settlement	27	—	120,237,773	—
Income tax payable		1,892,691	58,573	552,006
Total current liabilities		1,399,345,332	1,031,522,571	899,772,911
Long-term liabilities:				
Non-current portion of promissory notes	15	56,327,268	83,324,641	23,589,958
Long-term debt	16	178,596,008	550,653,099	536,518,281
Long-term payables relating to license agreements	17	—	4,779,562	18,169,006
Other long-term liabilities	26	58,788,806	21,679,690	—
Deferred tax liabilities	18	1,094,257	1,035,164	411,877
Total long-term liabilities		294,806,339	661,472,156	578,689,122
Total liabilities		1,694,151,671	1,692,994,727	1,478,462,033
Non-controlling interest	19	39,004,168	34,841,507	42,795,288
Commitments	23			
Equity:				
Ordinary shares, $0.0004 par value, 50,000,000,000 shares authorized, 27,334,063,747, 22,375,886,604, and 22,327,784,827 shares issued and outstanding at December 31, 2010, 2009 and 2008, respectively		10,933,625	8,950,355	8,931,114
Additional paid-in capital		3,858,642,606	3,499,723,153	3,489,382,267
Accumulated other comprehensive loss		(1,092,291)	(386,163)	(439,123)
Accumulated deficit		(1,698,946,565)	(1,712,046,962)	(748,509,757)
Total equity		2,169,537,375	1,796,240,383	2,749,364,501
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY		$3,902,693,214	$3,524,076,617	$4,270,621,822
Net current (liabilities) assets		$(220,242,845)	$(124,464,588)	$27,085,172
Total assets less current liabilities		$2,503,347,882	$2,492,554,046	$3,370,848,911

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

CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME (LOSS)

(In US dollars, except share data)

	Ordinary Share	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	
Balance at January 1, 2008	18,558,919,712	$7,423,568	$3,313,375,972	$(1,881)	$(308,278,637)	$3,
Exercise of stock options	69,770,815	27,908	768,361	—	—	
Issuance of ordinary shares	3,699,094,300	1,479,638	163,620,362	—	—	
Share-based compensation	—	—	11,617,572	—	—	
Net loss	—	—	—	—	(440,231,120)	(
Foreign currency translation adjustments	—	—	—	(437,242)	—	
Balance at December 31, 2008	22,327,784,827	$8,931,114	$3,489,382,267	$(439,123)	$(748,509,757)	$2,
Exercise of stock options	48,101,777	19,241	195,785	—	—	
Share-based compensation	—	—	10,145,101	—	—	
Net loss	—	—	—	—	(963,537,205)	(
Foreign currency translation adjustments	—	—	—	52,960	—	
Balance at December 31, 2009	22,375,886,604	$8,950,355	$3,499,723,153	$(386,163)	$(1,712,046,962)	$1,
Exercise of stock options	140,645,464	56,258	2,161,420	—	—	
Issuance of ordinary shares relating to litigation settlement	1,789,493,218	715,797	137,050,128	—	—	
Issuance of warrant relating to litigation settlement	—	—	13,002,275	—	—	
Issuance of ordinary shares	3,028,038,461	1,211,215	197,910,997	—	—	
Share-based compensation	—	—	8,794,633	—	—	
Net income	—	—	—	—	13,100,397	
Foreign currency translation adjustments	—	—	—	(706,128)	—	
Balance at December 31, 2010	27,334,063,747	$10,933,625	$3,858,642,606	$(1,092,291)	$(1,698,946,565)	$2,

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In US dollars)

	Year ended December 31,		
	2010	2009	2008
Operating activities:			
Net income (loss)	$14,010,646	$(962,477,542)	$(432,380,240)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred taxes	(10,097,549)	(56,222,094)	11,035,809
(Gain) loss from sale of plant and equipment and other fixed assets	(658,535)	3,832,310	(2,877,175)
Depreciation	584,241,805	748,185,169	761,808,822
Non-cash interest expense on promissory notes and long-term payables relating to license agreements	4,038,189	3,844,324	6,915,567
Amortization of acquired intangible assets	27,167,870	35,064,589	32,191,440
Share-based compensation	8,794,633	10,145,101	11,617,572
(Gain) loss from equity investment	(284,830)	1,782,142	444,211
Impairment loss of long-lived assets	8,442,050	138,294,783	106,740,667
Litigation settlement (non-cash portion)	—	239,637,431	—
Change in the fair value of commitment to issue shares and warrants	29,815,453	30,100,793	—
Allowance for doubtful accounts	1,076,767	111,584,756	1,188,568
Other non-cash expense	711,469	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(2,402,228)	(95,382,736)	97,827,390
Inventories	(19,699,304)	(22,068,328)	76,672,897
Prepaid expense and other current assets	(46,335,851)	28,920,815	(23,968,264)
Prepaid land use right	(686,498)	—	—
Accounts payable	34,205,945	35,788,601	(76,827,049)
Accrued expenses and other current liabilities	53,406,989	11,349,772	(7,487)
Other long-term liabilities	37,109,116	21,679,690	—
Income tax payable	1,834,118	(493,433)	(600,624)
Changes in restricted cash relating to operating activities	(30,077,566)	—	—
Net cash provided by operating activities	694,612,689	283,566,143	569,782,104
Investing activities:			
Purchase of plant and equipment	(491,538,600)	(217,269,234)	(669,054,599)
Proceeds from government subsidy to purchase plant and equipment	26,876,268	54,125,325	4,181,922
Proceeds received from sale of assets held for sale	7,810,382	1,482,716	563,008
Proceeds from sale of plant and equipment	6,375,042	3,715,641	2,319,597
Purchase of intangible assets	(21,681,441)	(59,096,987)	(79,277,586)
Purchase of short-term investments	(25,812,871)	(49,974,860)	(291,007,766)
Sale of short-term investments	23,400,000	69,903,150	278,717,347
Change in restricted cash relating to investing activities	(110,912,506)	(14,105,371)	(6,254,813)
Purchase of equity investment	—	(278,103)	(1,900,000)
Net cash received upon purchase of a subsidiary	1,770,603	—	—
Net cash used in investing activities	(583,713,123)	(211,497,723)	(761,712,890)

	Year ended December 31,		
	2010	2009	2008
Financing activities:			
Proceeds from short-term borrowings	716,676,446	726,897,421	422,575,386
Repayment of short-term borrowings	(631,485,230)	(641,291,131)	(328,317,613)
Repayment of promissory notes	(80,000,000)	(15,000,000)	(30,000,000)
Proceeds from long-term debt	10,000,000	100,945,569	285,929,954
Repayment of long-term debt	(254,382,231)	(241,655,460)	(345,770,415)
Proceeds from exercise of employee stock options	2,217,678	215,026	796,269
Proceeds from issuance of ordinary shares	199,122,212	—	168,100,000
Redemption of noncontrolling interest	—	(9,013,444)	—
Net cash (used in) provided by financing activities	(37,851,125)	(78,902,019)	173,313,581
Effect of exchange rate changes	(702,623)	66,544	(437,239)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	72,345,818	(6,767,055)	(19,054,444)
CASH AND CASH EQUIVALENTS, beginning of year	443,462,514	450,229,569	469,284,013
CASH AND CASH EQUIVALENTS, end of year	$515,808,332	443,462,514	$450,229,569
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	$3,444,934	9,636,901	$15,997,808
Interest paid	$33,686,823	37,934,992	$54,423,059
SUPPLEMENTAL DISCLOSURES OF NON-CASH, INVESTING AND FINANCING ACTIVITIES			
Accounts payable for plant and equipment	$(342,373,019)	(105,618,026)	$(99,592,362)
Long-term payable for acquired intangible assets	$(5,015,672)	$(28,966,666)	$(70,100,000)
Receivable for sales of manufacturing equipment	$—	$23,137,764	$17,231,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General

Semiconductor Manufacturing International Corporation was incorporated under the laws of the Cayman Islands on April 3, 2000. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report. The Company is an investment holding company. Semiconductor Manufacturing International Corporation and its subsidiaries (hereinafter collectively referred to as the “Company” or “SMIC”) are mainly engaged in the computer-aided design, manufacturing, packaging, testing and trading of integrated circuits and other semiconductor services, as well as manufacturing and designing semiconductor masks. The principal subsidiaries and their activities are set out in Appendix 1.

2. Summary of Significant Accounting Policies

(a) Basis of presentation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company, its majority owned subsidiaries and its consolidated affiliate. All inter-company transactions and balances have been eliminated upon consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses in the financial statements. Significant accounting estimates reflected in the Company’s financial statements include contingent liabilities, valuation allowance for deferred tax assets, allowance for doubtful accounts, inventory valuation, non-marketable equity investment valuation, useful lives of plant and equipment and acquired intangible assets, impairment of long-lived assets, accrued expenses, contingencies and assumptions related to the valuation of share-based compensation and related forfeiture rates. The Company believes that the accounting estimates employed are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates, actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased.

(e) Restricted Cash

Restricted cash consists of bank deposits pledged against short-term credit facilities and unused government subsidies for fab construction and certain research and development projects.

2. Summary of Significant Accounting Policies (continued)

(f) Investments

Short-term investments primarily consist of trading securities, which are recorded at fair value with unrealized gains and losses included in earnings.

Equity investments are recorded in long-term assets and accounted for under the equity method when the Company has the ability to exercise significant influence, but not control, over the investee or under the cost method when the investment does not qualify for the equity method. Equity investments only include non- marketable investments.

(g) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable and receivable for sale of manufacturing equipment. The Company places its cash and cash equivalents with reputable financial institutions.

The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts based upon estimates, factors surrounding the credit risk of specific customers and other information.

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

Allowances for accounts receivable	2010	2009	2008
Balance, beginning of year	$96,144,543	$5,680,658	$4,492,090
Provision recorded during the year	1,076,767	94,704,790	1,301,556
Write-offs in the year	(19,348,014)	(4,240,905)	(112,988)
Recovered in the year	(28,500,000)	—	—
Balance, end of year	$49,373,296	$96,144,543	$5,680,658

As more fully described in Note 22, the Company collected $28,500,000 from a managed government-owned foundry during the year ended December 31, 2010 for which a specific allowance had been previously provided.

Allowances for receivable for sale of Equipment and other fixed assets	2010	2009	2008
Balance, beginning of year	$21,120,871	$—	$—
Provision recorded during the year	—	21,120,871	—
Write-offs in the year	(17,176,667)	—	—
Recovered in the year	—	—	—
Balance, end of year	$3,944,204	$21,120,871	$—

2. Summary of Significant Accounting Policies (continued)

(h) Inventories

Inventories are stated at the lower of cost (weighted average) or market. Cost comprises direct materials, direct labor costs and those overheads that were incurred in bringing the inventories to their present location and condition.

(i) Prepaid land use rights

Prepaid land use rights, which are all located in the PRC, are recorded at cost and are charged to income ratably over the term of the agreements which range from 50 to 70 years.

(j) Plant and equipment, net

Plant and equipment are carried at cost less accumulated depreciation and are depreciated on a straight-line basis over the following estimated useful lives:

Buildings	25 years
Facility machinery and equipment	10 years
Manufacturing machinery and equipment	5–7 years
Furniture and office equipment	3–5 years
Transportation equipment	5 years

The Company constructs certain of its plant and equipment. In addition to costs under the construction contracts, external costs directly related to the construction of such facilities, including duties and tariffs, equipment installation and shipping costs, are capitalized. Interest incurred during the active construction period is capitalized, net of government subsidies received. Depreciation is recorded at the time assets are ready for their intended use.

(k) Acquired intangible assets

Acquired intangible assets, which consist primarily of technology, licenses and patents, are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the expected useful lives of the assets of three to ten years.

(l) Impairment of long-lived assets

The Company assesses the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. Factors that the Company considers in deciding when to perform an impairment review include, but are not limited to significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. An impairment analysis is performed at the lowest level of identifiable independent cash flows for an asset or asset group. The Company makes subjective judgments in determining the independent cash flows that can be related to a specific asset group based on our asset usage model and manufacturing capabilities. The Company measures the recoverability of assets that will continue to be used in our operations by comparing the carrying value of the asset group to our estimate of the related total future undiscounted cash flows. If an asset group’s carrying value is not recoverable through the related undiscounted cash flows, the impairment loss is measured by comparing the difference between the asset group’s carrying value and its fair value, based on the best information available, including market prices or discounted cash flow analysis.

2. Summary of Significant Accounting Policies (continued)

(m) 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.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal courses of business, net of discounts and sales- related taxes.

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 at customers 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.

(n) Capitalization of interest

Interest incurred during the active construction period is capitalized, net of government subsidies received. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Government subsidies, capitalized interest and net interest expense are as follows:

	For the year ended December 31		
	2010	2009	2008
Total actual interest expense (non-litigation)	$34,016,123	$41,421,385	$70,735,520
Recorded in the consolidated statements of operations	(22,655,830)	(24,699,336)	(50,766,958)
Gross capitalized interest	11,360,293	16,722,049	19,968,562
Government subsidies	(4,190,735)	(11,617,950)	(9,308,764)
Net capitalized interest	$7,169,558	$5,104,099	$10,659,798

(o) Government subsidies

Government subsidy is recognized when it is earned. The Company received subsidies of $109,079,381, $97,598,972 and $73,600,743 in 2010, 2009 and 2008, respectively. The Company recorded $4,190,735, $11,617,950 and $9,308,764 as a reduction of interest expense, $32,830,375, $31,855,697 and $56,967,187 as a reduction of operating expenses and $26,685,296, $57,257,456 and $4,181,922 as a reduction of the cost of fixed assets or construction in progress in 2010, 2009 and 2008, respectively. The

Company recorded $16,493,049, $nil and $nil as other operating income in 2010, 2009 and 2008, respectively, as such amounts were unrestricted as to use and given the Company's historical and expected future receipt of further subsidies. The Company records amounts received in advance of conditions being met in order to earn the subsidy as deferred liabilities.

2. Summary of Significant Accounting Policies (continued)

(p) Research and development costs

Research and development costs are expensed as incurred and reported net of related government subsidies.

(q) Start-up costs

The Company expenses all costs incurred in connection with start-up activities, including preproduction costs associated with new manufacturing facilities and costs incurred with the formation of the Company such as organization costs. Preproduction costs including the design, formulation and testing of new products or process alternatives are included in research and development expenses. Preproduction costs including facility and employee costs incurred in connection with constructing new manufacturing plants are included in general and administrative expenses.

(r) Foreign currency translation

The United States dollar ("US dollar"), the currency in which a substantial portion of the Company's transactions are denominated, is used as the functional and reporting currency of the Company. Monetary assets and liabilities denominated in currencies other than the US dollar are translated into US dollar at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the US dollar during the year are converted into the US dollar at the applicable rates of exchange prevailing on the transaction dates. Transaction gains and losses are recognized in the statements of operations.

The financial records of certain of the Company's subsidiaries are maintained in local currencies other than the US dollar, such as Japanese Yen, which are their functional currencies. Assets and liabilities are translated at the exchange rates at the balance sheet date. Equity accounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the monthly weighted average exchange rates. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss) in the statements of equity and comprehensive income (loss).

(s) Income taxes

Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

As part of the process of preparing financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. The Company accounts for income taxes using the asset and liability method. Under this method, deferred income taxes are recognized for tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted laws and statutory tax rates applicable for the difference that are expected to affect taxable income. Valuation allowances are provided if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position.

(t) Comprehensive income (loss)

Comprehensive income (loss) includes such items as net loss, foreign currency translation adjustments and unrealized income (loss) on available-for-sales securities. Comprehensive income (loss) is reported in the statements of equity and comprehensive income (loss).

2. Summary of Significant Accounting Policies (continued)

(u) 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.

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company performs a through analysis of the 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.

The Company measures the fair value of financial instruments based on quoted market prices in active markets, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information the Company obtains from third parties is internally validated for reasonableness prior to use in the consolidated financial statements. When observable market prices are not readily available, the Company generally estimates the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary and the Company's evaluation of those factors changes.

Financial instruments include cash and cash equivalents, restricted cash, short-term investments, short-term borrowings, long-term promissory notes, long-term payables relating to license agreements, long-term debt, accounts payables, accounts receivables and receivables for sale of equipments. The carrying values of cash and cash equivalents, restricted cash, short-term investments and short-term borrowings approximate their fair values based on quoted market values or due to their short-term maturities. The carrying values of long-term promissory notes approximate their fair values as the interest rates used to discount the promissory notes did not fluctuate significantly between the date the notes were recorded and December 31, 2010. The Company's other financial instruments that are not recorded at fair value are not significant.

2. Summary of Significant Accounting Policies (continued)

(v) Share-based compensation

The Company grants stock options to its employees and certain non-employees. Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized, net of expected forfeitures, as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

(w) Derivative financial instruments

The Company's primary objective for holding derivative financial instruments is to manage currency and interest rate risks. The Company records derivative instruments as assets or liabilities, measured at fair value. The Company does not offset the carrying amounts of derivatives with the same counterparty. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument.

(x) Recently issued accounting standards

In April 2010, the FASB issued ASU 2010-17, "Revenue Recognition — Milestone Method (Topic 605)". This guidance is to provide on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a study or achieving a specific result from the research or development efforts. Specifically, this guidance amends the affect vendors that provide research or development deliverables in an arrangement in which one or more payments are contingent upon achieving uncertain future events or circumstances. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive should based on: (1) be commensurate with either of the following: (a) the vendor's performance to achieve milestone, (b) the enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor's performance to achieve the milestone; (2) relate solely to past performance; or (3) be reasonable relative to all deliverables and payment terms in the arrangement. In addition, a vendor that is affected by the amendments required to provide all of the following: (1) a description of the overall arrangement; (2) a description of each milestone and related contingent consideration; (3) a determination of whether each milestone is considered substantive; (4) the factors that the entity considered in determining whether the milestone or milestones are substantive; or (5) the amount of consideration recognized during the period for the milestone or milestones. This guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The adoption of ASU 2010-17 will not have a material impact on the Company's consolidated financial position or result of operations.

(y) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing income (loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding (excluding shares subject to repurchase) for the year. Diluted earnings (loss) per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation in income (loss) periods as their effects would be anti-dilutive.

3. Fair Value

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 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	$—	$694,795	$—	$2,204,383
Cross-currency interest rate swap contracts	—	—	—	291,694
Derivative assets measured at fair value	$—	$694,795	$—	$2,496,077
Liabilities:				
Forward foreign exchange contracts	$—	$(479,735)	$—	$(4,169,805)
Interest rate swap contracts	—	(1,380,454)	—	(957,678)
Cross-currency interest rate swap contracts	—	(1,292,475)	—	(949,068)
Derivative liabilities measured at fair value	$—	$(3,152,664)	$—	$(6,076,551)

	Fair Value Measurements at December 31, 2009 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	$—	$54,442	$—	$3,961,279
Interest rate swap contracts	—	—	—	104,000
Cross-currency interest swap contracts	—	503,551	—	1,086,822
Derivative assets measured at fair value	$—	$557,993	$—	$5,152,101
Liabilities:				
Forward foreign exchange contracts	$—	$483,421	$—	$(3,835,234)
Interest rate swap contracts	—	529,712	—	(127,336)
Cross-currency interest rate swap contracts	—	388,913	—	(519,099)
Commitment to issue shares and warrants relating to litigation settlement		120,237,773		(30,100,793)
Derivative liabilities measured at fair value	$—	$121,639,819	$—	$(34,582,462)

3. Fair Value (continued)

Assets/Liabilities Measured at Fair Value on a Recurring Basis (continued)

	Fair Value Measurements at December 31, 2008 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	$—	$665,584	$—	$4,350,382
Cross-currency interest rate swap contracts	—	873,040	—	2,324,228
Derivative assets measured at fair value	$—	$1,538,624	$—	$6,674,610
Liabilities:				
Forward foreign exchange contracts	$—	$4,175,889	$—	$(10,809,932)
Cross-currency interest rate swap contracts	—	1,233,129	—	(1,670,195)
Derivative liabilities measured at fair value	$—	$5,409,018	$—	$(12,480,127)

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.

Assets Measured at Fair Value on a Nonrecurring Basis

Fair value of long-lived assets held and used was determined by discounted cash flow technique, which includes the future cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset. Estimates of future cash flows used to test the recoverability of a long-lived asset incorporated the Company's own assumptions about its use of the asset and considered all available evidence. Fair value of long-lived assets held for sale was determined by the price that would be received to sell the asset in an orderly transaction between market participants.

The Company did not have any asset measured at fair value on a nonrecurring basis as of December 31, 2010.

	Fair Value Measurements at December 31, 2009 Using			
Description	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Long-lived assets held and used	$—	$—	$28,424,849	$(5,269,281)
Long-lived assets held for sale	—	—	8,184,462	(22,718,729)
	$—	$—	$36,609,311	$(27,988,010)

3. Fair Value (continued)

Assets Measured at Fair Value on a Nonrecurring Basis (continued)

In 2009, long-lived assets held and used with a carrying amount of $33.7 million were written down to their fair value of $28.4 million, resulting in an impairment charge of $5.3 million. In addition, long-lived assets held for sale with a carrying amount of $30.9 million were written down to their fair value less cost to sell of $8.2 million, resulting in a loss of $22.7 million. All such amounts were included in impairment loss of long-lived assets in the consolidated statements of operations for the year ended December 31, 2009.

	Fair Value Measurements at December 31, 2008 Using			
Description	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Long-lived assets held and used	$—	$—	$916,958,304	$(105,774,000)
	$—	$—	$916,958,304	$(105,774,000)

In 2008, long-lived assets held and used with a carrying amount of approximately $1.0 billion were written down to their fair value of approximately $917.0 million, resulting in an impairment charge of $105.8 million, which was included in impairment loss of long-lived assets in the consolidated statements of operations for the year ended December 31, 2008.

4. Short-term Investments

As of December 31, 2010, 2009 and 2008, the Company has the following short-term investments, respectively:

	Debt instruments maturing in one year			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2010	$2,453,235	$716	$—	$2,453,951
December 31, 2009	$—	$—	$—	$—
December 31, 2008	$19,928,289	$—	$—	$19,928,289

5. Restricted Cash

As of December 31, 2010, restricted cash consisted of $128,818,265 of bank time deposits pledged against letters of credit and short-term borrowings, and $32,531,992 government subsidies for the reimbursement of research and development expenses to be incurred in certain government sponsored projects. As of December 31, 2009 and 2008, the Company held $20,360,185 and $6,254,813 of bank time deposits pledged against letters of credit and short-term borrowings, respectively.

6. Derivative Financial Instruments

The Company has the following notional amount of derivative instruments:

	December 31		
	2010	2009	2008
Forward foreign exchange contracts	$92,859,692	9,028,995	$220,687,295
Interest rate swap contracts	76,000,000	54,000,000	—
Cross-currency interest rate swap contracts	11,279,915	24,699,730	36,731,630
	$180,139,607	$87,728,725	$257,418,925

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 European Euro. The foreign-currency forward exchange contracts do not qualify for hedge accounting. In 2010, 2009 and 2008, the change in fair value of forward contracts was presented in foreign currency exchange gain in the consolidated statements of operations. 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 December 31, 2010		
Euro	7,682,707	$10,174,977
Renminbi	546,297,909	82,684,715
		$92,859,692
As of December 31, 2009		
Euro	14,825,188	$21,265,249
Renminbi	(83,496,523)	(12,236,254)
		$9,028,995
As of December 31, 2008		
Euro	21,979,034	$31,144,291
Renminbi	1,294,294,400	189,543,004
		$220,687,295

In 2010, 2009 and 2008, 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 debt denominated in a currency other than the US dollar. In 2010, 2009 and 2008, gains or losses on the interest rate swap contracts were recognized as interest expense in the consolidated statements of operations. As of December 31, 2010, 2009 and 2008, the Company had outstanding cross-currency interest rate swap contracts as follows:

Settlement currency	Notional amount	US dollar equivalents
As of December 31, 2010		
Euro	8,517,000	$11,279,915
As of December 31, 2009		
Euro	17,219,555	$24,699,730
As of December 31, 2008		
Euro	25,922,110	$36,731,630

6. Derivative Financial Instruments (continued)

In 2010 and 2009, 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. The fair values of each derivative instrument is follows:

	December 31		
	2010	2009	2008
Forward foreign exchange contracts	$215,060	$(428,979)	$(3,510,305)
Interest rate swap contracts	(1,380,454)	(529,712)	—
Cross-currency interest rate swap contracts	(1,292,475)	114,638	(360,089)
	$(2,457,869)	$(844,053)	$(3,870,394)

As of December 31, 2010, 2009 and 2008, the fair value of the derivative instruments was recorded in accrued expenses and other current liabilities.

7. Accounts Receivable, 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:

	2010	2009	2008
Current	$174,378,643	$160,802,634	$108,109,977
Overdue:			
Within 30 days	25,395,378	30,882,525	18,211,498
Between 31 to 60 days	3,033,340	1,641,710	6,073,500
Over 60 days	3,815,480	10,963,676	66,976,719
	$206,622,841	$204,290,545	$199,371,694

8. Inventories

	2010	2009	2008
Raw materials	$79,037,913	$57,279,287	$76,299,347
Work in progress	86,234,857	102,538,543	53,674,794
Finished goods	48,131,729	33,887,365	41,662,727
	$213,404,499		