

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

September 04, 2012

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, 2012

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:

☒ Form 20-F ☐ 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): ☐

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): ☐

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:

☐ Yes ☒ No

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

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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, 2012

HIGHLIGHTS

Financial

- Sales improved by 4.4 % from US\$722.9 million for the six months ended June 30, 2011 to US\$754.5 million for the six months ended June 30, 2012.
- Gross profit improved by 18.9% from US\$119.1 million for the six months ended June 30, 2011 to US\$141.6 million for the six months ended June 30, 2012.
- Gross margins improved to 18.8% for the six months ended June 30, 2012 from 16.5% for the six months ended June 30, 2011. The improvement in gross margin was primarily due to a higher utilization rate in the first six months of 2012.
- The Company had a net loss attributable to holders of ordinary shares of US\$35.8 million for the six months ended June 30, 2012 compared to a net income of US\$6.5 million for the six months ended June 30, 2011 primarily due to a recovery of certain bad debt in 2011, which reduced the expense.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

We embraced the challenges as well as opportunities of 2012 during the first six months of the year. In tandem with stronger-than-expected growth in the global semiconductor industry during the first six months of 2012, SMIC sustained stable development and achieved double-digit growth for both the first and the second quarters, twice revising its revenue forecasts upwards. For the recently concluded second quarter, the Company achieved record-high quarterly revenue and reverted to a positive bottom-line in terms of operating profit and net profit. Gross profit margin hit double digits as a result of continued improvements, while our capacity utilization climbed to 95.2% for the second quarter of the current year, up from 65.6% for the fourth quarter of the previous year.

The foremost task of the new SMIC management team has been to enhance the Company's profitability by improving its capacity utilization and operating efficiency in various ways, striving to deliver excellent performance in customer service, product mix and defect density, etc. Our outstanding improvement in the second quarter is a fine testament to the effective implementation of this range of measures. In terms of products, strong efforts were devoted to the execution of our product line differentiation strategy, which added value to our products and earned them higher average selling prices. For those products which were competitive and commanded higher profit margins, we leveraged our specific strengths and technological resources to introduce optimized specifications, smaller sizes or lower energy consumption ratios according to customers' requirements. The higher utilization rates at our 8-inch shanghai fab since the beginning of the year are a clear indication of our steady progress in this area. Meanwhile, we have also delivered strong performance in production on advanced processes at our 12-inch fabs, as revenue from the 65/55 nm business for the second quarter increased to account for nearly one-third of our total revenue, and we target continued growth in revenue from our 45/40 nm process for the second half of the year.

During the first quarter of the year, we signed an agreement with IBM providing for cooperation in the development of 28 nm technology. We believe that this collaborative effort will reduce our risk exposure in the development of 28 nm technology and also shorten the development cycle, such that SMIC's leadership in China's wafer foundry industry will be enhanced and its gap with global industry leaders narrowed. In May 2012, we signed a Cooperation Framework Document with independent third parties of Beijing, expressing our mutual intent to establish a joint venture to facilitate the development of new, more advanced production facilities at the existing SMIC Beijing production. We believe that this move will provide a relief to the financial pressure we are subject to in pursuing the development of advanced processes and capacity expansion in Beijing. The joint venture is an integral part of our long-term strategy, while the actual scale of expansion and investment will depend on prevailing market conditions, our level of technological sophistication, and customers' requirements. For now, we remain focused on the acceleration of technological research and development, rather than capacity expansion.

In terms of strengthening corporate governance at the Board level, we have formulated terms of reference and rules of proceedings for the committees under the Board, as well as the roles and responsibilities of the Directors. The new Nomination Committee has started performing its duties, with meetings convened on a regular basis. We are also pleased to welcome Dr. Chen Datong, who has joined the Board as an alternate Director to Professor Lawrence Juen-Yee Lau. His wealth of experience in the semiconductor industry and in investment will surely benefit SMIC's future development.

We have made solid strides towards fundamental improvements, and we will continue with prudence and care to grow our business with strong customer partnerships focusing on customer demand and technology readiness, with a view to serving the best interest of shareholders.

Once again, we express sincere gratitude to all who have offered continued commitment and support to SMIC.

Zhang Wenyi

Chairman of the Board and Executive Director

Shanghai, China
August 30, 2012

Tzu-Yin Chiu

Chief Executive Officer and Executive Director

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, 2012, and would like to express their gratitude to the shareholders and their staff for the support of the Company.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended June 30, 2012 and 2011

(in US\$ thousands, except share and share related data)

(unaudited)

	Six months ended June 30,	
	2012	2011
Sales	\$754,536	\$722,948
Cost of sales	612,977	603,898
Gross profit	141,559	119,050
Operating expenses (income):		
Research and development	110,332	101,074
General and administrative	53,017	10,494
Selling and marketing	14,678	15,878
Other operating income	73	(441)
Total operating expenses, net	178,100	127,005
Loss from operations	(36,541)	(7,955)
Other income (expense):		
Others, net	(12,413)	3,233
Total other income (expense), net	(12,413)	3,233
Loss from continuing operations before income tax and equity investment	(48,954)	(4,722)
Income tax (expense) benefit	12,879	(4,993)
Gain from equity investment	814	2,094
Loss from continuing operations	(35,261)	(7,621)
Income from discontinued operations net of tax effect		14,741
Net income (loss)	(35,261)	7,120
Accretion of interest to noncontrolling interest	(504)	(658)
Net income (loss) attributable to Semiconductor Manufacturing International Corporation	(35,765)	6,462
Net income (loss) attributable to holders of ordinary shares	(35,765)	6,462
Net income (loss)	(35,261)	7,120
Other comprehensive income (loss):		
Foreign currency translation adjustment	(186)	398
Comprehensive income (loss)	(35,447)	7,518
Comprehensive loss attributable to noncontrolling interest	(504)	(658)
Comprehensive income (loss) attributable to Semiconductor Manufacturing International Corporation	\$(35,951)	\$6,860
Earnings (loss) per ordinary share, basic and diluted	\$(0.00)	\$0.00
Shares used in calculating basic and diluted earnings (loss) per ordinary share	28,146,743,241	27,401,260,769

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

CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2012 and December 31, 2011

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

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	290,694	261,615
Restricted cash	224,137	136,907
Accounts receivable, net of allowances of \$45,738 and \$42,821 at June 30, 2012 and December 31, 2011, respectively	264,115	165,234
Inventories	240,082	207,308
Prepaid expense and other current assets	95,239	93,723
Total current assets	1,114,267	864,787
Prepaid land use rights	76,461	77,231
Plant and equipment, net	2,444,895	2,516,578
Acquired intangible assets, net	234,912	179,279
Other long-term assets	104,301	90,054
TOTAL ASSETS	\$3,974,836	\$3,727,929
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	328,920	280,691
Accrued expenses and other current liabilities	145,988	142,479
Short-term borrowings	480,457	607,427
Current portion of promissory notes	29,375	29,374
Current portion of long-term debt	148,604	191,355
Total current liabilities	1,133,344	1,251,326
Long-term liabilities:		
Promissory notes	14,380	28,560
Long-term debt	480,616	72,361
Government subsidy - deferred portion	123,369	125,335
Other long-term liabilities	5,440	1,333
Total long-term liabilities	623,805	227,589
Total liabilities	1,757,149	1,478,915
Noncontrolling interest	4,704	4,200
Commitments		
Equity:		
Ordinary shares	12,790	10,995
Convertible preferred shares		178
Additional paid-in capital	4,243,032	4,240,529
Accumulated other comprehensive loss	3,659	3,845
Accumulated deficit	(2,046,498)	(2,010,733)
Total equity	2,212,983	2,244,814
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY	\$3,974,836	\$3,727,929
Net current liabilities	\$(19,077)	\$(386,539)
Total assets less current liabilities	\$2,841,492	\$2,476,603

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

For the six months ended June 30, 2012 and 2011

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

	Ordinary Shares		Convertible Preferred Shares		Additional Paid-in capital	Accumulated Other comprehensive Income(loss)	Accumulated deficit
	Share	Amount	Shares	Amount			
Balance at January 1, 2011	27,334,063,747	\$10,934		\$	\$3,858,643	\$(1,092)	\$(1,698,947)
Exercise of stock options	120,931,576	48			3,184		
Issuance of convertible preferred shares			360,589,053	144	249,252		
Issuance of warrants					364		
Share-based compensation					4,154		
Net income attributable to Semiconductor Manufacturing International Corporation							6,462
Foreign currency translation adjustments						398	
Balance at June 30, 2011	27,454,995,323	\$10,982	360,589,053	\$144	\$4,115,597	\$(694)	\$(1,692,485)
Balance at January 1, 2012	27,487,676,065	\$10,995	445,545,911	\$178	\$4,240,529	\$3,845	\$(2,010,733)
Exercise of stock options	32,527,565	13			419		
Share-based compensation					3,688		
Conversion of preferred shares	4,455,459,110	1,782	(445,545,911)	(178)	(1,604)		
Net loss attributable to Semiconductor Manufacturing International Corporation							(35,765)
Foreign currency translation adjustments						(186)	
Balance at June 30, 2012	31,975,662,740	\$12,790		\$	\$4,243,032	\$3,659	\$(2,046,498)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2012 and 2011

(in US\$ thousands)
(unaudited)

	Six months ended June 30,	
	2012	2011
Operating activities		
Net income (loss)	\$(35,261)	\$7,120
Depreciation and amortization	282,888	264,429
Loss from equity investment	(814)	(2,094)
Gain on deconsolidation of a subsidiary		(17,103)
Changes in working capital and others	(101,579)	(99,542)
Net cash provided by operating activities	145,234	152,810
Investing activities:		
Purchase of property, plant and equipment	(198,150)	(677,501)
Purchase of intangible assets	(45,194)	(17,853)
Increase in short-term investments	(4,090)	(1,759)
Advance payment in connection with a proposed joint venture		(27,232)
Changes in restricted cash relating to investing activities	(84,663)	(40,735)
Others		7,426
Net cash used in investing activities	(332,097)	(757,654)
Financing activities:		
Increase (decrease) in short-term borrowings	(126,969)	340,368
Increase (decrease) in long-term debt	365,505	(78,447)
Repayment of promissory notes	(15,000)	(15,000)
Proceeds from issuance of convertible preferred shares		249,396
Proceeds from exercise of employee stock options	432	3,232
Bank charge for loan facility arrangement	(7,992)	
Net cash provided by financing activities	215,976	499,549
Effect of exchange rate changes	(34)	399
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,079	(104,896)
CASH AND CASH EQUIVALENTS, beginning of period	261,615	515,808
CASH AND CASH EQUIVALENTS, end of period	\$290,694	\$410,912
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$476	\$1,678
Interest paid	\$25,838	\$16,501
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING OR FINANCING ACTIVITIES		
Amount included in accounts payable for plant and equipment	\$(116,544)	\$(249,521)
Amount included in liabilities for acquired intangible assets	\$(60,222)	\$(47,781)

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, 2012 and 2011

(unaudited, in US\$ thousands, except share data 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, applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting, and the disclosure requirement 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, 2011 dated on March 29, 2012. The December 31, 2011 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, 2012 may not be indicative of the operating results for the full fiscal year or any other future period.

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.

2. FAIR VALUE (Continued)

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 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, 2012 Using				Total Gains (Losses) for the six months ended June 30, 2012
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Forward foreign exchange contracts	\$	\$79	\$	\$1,328
Derivative assets measured at fair value	\$	\$79	\$	\$1,328
Liabilities:				
Forward foreign exchange contracts	\$	\$(728)	\$	\$(677)
Interest rate swap contracts		(156)		(302)
Cross-currency interest swap contracts				(548)
Derivative liabilities measured at fair value	\$	\$(884)	\$	\$(1,527)

2. FAIR VALUE (Continued)**Assets/Liabilities measured at fair value on a recurring basis (Continued)**

	Fair Value Measurements at December 31, 2011 Using			Total Gains (Losses) for the six months ended June 30, 2011
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Forward foreign exchange contracts	\$	\$938	\$	\$3,259
Derivative assets measured at fair value	\$	\$938	\$	\$3,259
Liabilities:				
Forward foreign exchange contracts	\$	\$(815)	\$	\$(2,181)
Interest rate swap contracts		(405)		(586)
Cross-currency interest swap contracts		(463)		(303)
Derivative liabilities measured at fair value	\$	\$(1,683)	\$	\$(3,070)

The Company prices its 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.

The Company did not have any assets measured at fair value on a nonrecurring basis as of June 30, 2012 and December 31, 2011.

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 operation in the condensed consolidated statements of comprehensive income. 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 standard semiconductor 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.

5. SHARE-BASED COMPENSATION

The Company grants stock options to its employees and certain non-employees. The Company's total actual share-based compensation expense for the six months ended June 30, 2012 and 2011 are \$3,688 and \$4,154, 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. The value of an option varies with different variables of certain subjective assumption.

	Six months ended June 30,	
	2012	2011
Average risk-free rate of return	0.78%	1.27%
Expected term	5 years	4 years
Volatility rate	65.91%	70.32%
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, 2012, options to purchase 1,273,212,223 ordinary shares were outstanding. As of June 30, 2012, options to purchase 1,103,851,191 ordinary shares were available for future grants.

As of June 30, 2012, the Company also has options to purchase 109,425,208 ordinary shares outstanding under the 2001 Stock Plan. The Company has not issued stock options under this plan after its initial public offering.

5. SHARE-BASED COMPENSATION (Continued)**Share-based compensation plans (Continued)**

A summary of the stock option activity and additional information regarding options outstanding as of June 30, 2012 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at January 1, 2012	1,230,938,429	\$0.10		
Granted	258,052,706	\$0.04		
Exercised	(18,374,700)	\$0.02		
Cancelled or forfeited	(87,979,004)	\$0.10		
Outstanding at June 30, 2012	1,382,637,431	\$0.08	6.97 years	\$492
Vested or expected to vest at June 30, 2012	994,379,327	\$0.10	6.23 years	\$329
Exercisable at June 30, 2012	472,772,373	\$0.12	4.55 years	\$216

During the six months ended June 30, 2012 and 2011, the total intrinsic value of the options exercised was \$456 and \$2,987, respectively.

The weighted average grant-date fair value of options granted for the six months ended June 30, 2012 and 2011 was \$0.02 and \$0.05, respectively.

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, 2012, 146,832,129 restricted share units were outstanding and 496,202,711 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 fair value
Outstanding at January 1, 2012	101,564,432	\$0.07		
Granted	62,670,000	\$0.04		
Exercised	(14,152,865)	\$0.09		
Cancelled or forfeited	(3,249,438)	\$0.08		
Outstanding at June 30, 2012	146,832,129	\$0.06	9.22 years	\$8,871
Vested or expected to vest at June 30, 2012	96,926,565	\$0.06	9.24 years	\$5,786

Pursuant to the 2004 EIP, the Company granted 62,670,000 restricted share units during the six months ended June 30, 2012 and the fair value of the restricted share units at the date of grant was \$0.04 which is expensed over the vesting period. As a result, the Company has recorded a compensation expense of \$1,250 during the six months ended June 30, 2012.

5. SHARE-BASED COMPENSATION (Continued)**Unrecognized compensation cost related to non-vested share-based compensation**

As of June 30, 2012, there was \$16,025 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 1.50 years.

6. RESTRICTED CASH

As of June 30, 2012, restricted cash consisted of \$130,934 of bank time deposits pledged against letters of credit and short-term borrowings, and \$93,203 of government subsidies for the reimbursement of research and development expenses to be incurred in certain government sponsored projects. As of December 31, 2011, restricted cash consisted of \$46,272 of bank time deposits pledged against letters of credit and short-term borrowings, and \$90,635 of 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, 2012	December 31, 2011
Forward foreign exchange contracts	\$147,107	\$165,646
Interest rate swap contracts	24,000	48,000
Cross-currency interest rate swap contracts		3,670
	\$171,107	\$217,316

The Company purchases foreign-currency forward exchange contracts with contract terms expiring within one year to protect against the potential adverse effect of exchange rate fluctuations between the USD and other 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, 2012		
Japanese Yen	399,130	\$5,009
Renminbi	902,537	142,098
		\$147,107
As of December 31, 2011		
Euro	3,600	\$4,653
Renminbi	1,013,048	160,993
		\$165,646

7. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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 USD. 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 interest income or interest expense. As of June 30, 2012, the Company had no outstanding cross-currency interest rate swap contracts. As of December 31, 2011, the outstanding cross-currency interest rate swap contracts were as follows:

Settlement currency	Notional amount	US dollar equivalents
As of June 30, 2012		
Euro		\$
As of December 31, 2011		
Euro	2,839	\$3,670
		\$3,670

The Company entered into various interest rate 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, 2012 and December 31, 2011, the Company had outstanding interest rate swap contracts with notional amounts of \$24,000 and \$48,000, respectively.

The net fair values of each derivative instrument, by category, are as follows:

	June 30, 2012	December 31, 2011
Forward foreign exchange contracts	\$(649)	\$123
Interest rate swap contracts	(156)	(405)
Cross-currency interest rate swap contracts		(463)
	\$(805)	\$(745)

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, 2012	December 31, 2011
Current	\$225,425	\$134,958
Overdue:		
Within 30 days	34,939	26,468
Between 31 to 60 days	3,477	1,083
Over 60 days	274	2,725
	\$264,115	\$165,234

8. ACCOUNTS RECEIVABLES, NET OF ALLOWANCES *(Continued)*

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

	June 30, 2012	December 31, 2011
Balance, beginning of the period	\$42,821	\$49,373
Provision recorded	2,917	551
Write-offs		(703)
Reversal		(6,400)
Balance, end of the period	\$45,738	\$42,821

9. INVENTORIES

	June 30, 2012	December 31, 2011
Raw materials	\$56,587	\$54,853
Work in progress	113,582	93,472
Finished goods	69,913	58,983
	\$240,082	\$207,308

10. PREPAID EXPENSE AND OTHER CURRENT ASSETS

A breakdown of prepaid expense and other current assets is as follows:

	June 30, 2012	December 31, 2011
Other Receivables	\$27,817	\$30,336
Prepayments	57,592	52,805
Others	9,830	10,582
	\$95,239	\$93,723

11. ACCOUNTS PAYABLE

An aging analysis of the accounts payable is as follows:

	June 30, 2012	December 31, 2011
Current	\$273,846	\$194,434
Overdue:		
Within 30 days	21,204	42,278
Between 31 to 60 days	16,346	16,327
Over 60 days	17,524	27,652
	\$328,920	\$280,691

12. ACCRUED EXPENSE AND OTHER CURRENT LIABILITIES

A breakdown of accrued expense and other current liabilities is as follows:

	June 30, 2012	December 31, 2011
Accrued Expense	\$60,923	\$45,675
Advance Receipts	66,108	68,660
Others	18,957	28,144
	\$145,988	\$142,479

Accrued expense increased by 33% from \$45,675 for the six months ended June 30, 2011 to \$60,923 for the six months ended June 30, 2012 primarily due to the increase of subcontract fee accrual, bonus accrual and warranty accrual.

13. INDEBTEDNESS

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

	Maturity		Interest rate for the six months ended June 30,		June 30,	December 31,
					2012	2011
Shanghai USD loan	2011	2013	4.30%	4.80%	\$68,500	\$26,523
Shanghai new syndicate loan	2012	2015	4.10%	4.24%	152,000	
Beijing USD syndicate loan	2005	2012	2.93%	3.00%	80,104	180,084
Euro loan	2006	2012	2.55%	4.71%		8,271
Beijing USD & RMB loan	2011	2013	6.34%	6.71%	68,616	48,838
Beijing new syndicate loan	2012	2019	6.23%	6.30%	260,000	