

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 20-F

April 27, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011  
Commission file number 1-31994**

**Semiconductor Manufacturing International  
Corporation**

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**18 Zhangjiang Road, Pudong New Area, Shanghai, China 201203**

(Address of principal executive offices)

**Mr. Gary Tseng, Chief Financial Officer**

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

Ordinary Shares, par value US\$0.0004

The Stock Exchange of Hong Kong Limited\*

American Depositary Shares

The New York Stock Exchange, Inc.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

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**None**  
**(Title of Class)**  
**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**  
**None**  
**(Title of Class)**

Indicate the number of outstanding shares of each of the issuer's classes of capital or ordinary shares as of the close of the period covered by the annual report.

As of December 31, 2011, there were 27,487,676,065 ordinary shares, par value US\$0.0004 per share, outstanding, of which 1,940,075,200 ordinary shares were held in the form of 38,801,504 ADSs. Each ADS represents 50 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934 (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP       International Financial Reporting Standards as issued      Other   
by the International Accounting Standards Board

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

\* Not for trading, but only in connection with the listing of American Depositary Shares on the New York Stock Exchange, Inc.

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EX-101 LABELS LINKBASE DOCUMENT

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**FORWARD-LOOKING STATEMENTS**

This annual report contains, in addition to historical information, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current assumptions, expectations and projections about future events. We use words like believe, anticipate, intend, estimate, expect, project and similar expressions to identify looking - statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause our 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 cyclical and market conditions in the semiconductor industry;
- intense competition;
- timely wafer acceptance by our customers;
- timely introduction of new technologies;
- our ability to ramp new products into volume, supply and demand for semiconductor foundry services;
- our anticipated capital expenditures for 2012;
- our anticipated investments in research and development, anticipated changes to our liability for unrecognized tax benefits;
- industry overcapacity;
- shortages in equipment, components and raw materials;
- availability of manufacturing capacity; and
- financial stability in end markets.

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

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**ADDITIONAL INFORMATION**

References in this annual report to:

- ADSs are to American Depositary Shares;
- Average selling price of wafers or ASP are to simplified average selling price which is calculated as total revenue divided by total shipments;
- China or the PRC are to the People's Republic of China, excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan;
- Company, SMIC, we, our and us are to Semiconductor Manufacturing International Corporation, a Cayman Islands company;
- Directors are to the members of our board of directors;
- EUR are to Euros;
- Global Offering are to the initial public offering of our ADSs and our ordinary shares, which offering was completed on March 18, 2004;
- Group are to SMIC and all of its subsidiaries.
- HK\$ are to Hong Kong dollars;
- NYSE or New York Stock Exchange are to the New York Stock Exchange, Inc.;
- Rmb or RMB are to Renminbi;
- SEC are to the U.S. Securities and Exchange Commission;
- SEHK, HKSE or Hong Kong Stock Exchange are to The Stock Exchange of Hong Kong Limited;
- U.S. GAAP are to generally accepted accounting principles in the United States; and
- US\$ or USD are to U.S. dollars.

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All references in this annual report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90 nanometer, 65 nanometer and 45 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state 0.25 micron process technology, that also includes 0.22 micron, 0.21 micron, 0.20 micron and 0.19 micron technologies and 0.18 micron process technology also includes 0.17 micron and 0.16 micron technologies.

Unless otherwise indicated, our financial information presented in this annual report has been prepared in accordance with U.S. GAAP.

All references to our ordinary shares in this annual report gives effect to the 10-for-1 share split we effected in the form of a share dividend immediately prior to the completion of the Global Offering. All references to price per ordinary share and price per preference share reflect the share split referenced above.

The Glossary of Technical Terms contained in Annex A of this annual report sets forth the description of certain technical terms and definitions used in this annual report.

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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Consolidated Financial Data**

The selected consolidated financial data presented below as of and for the years ended December 31, 2009, 2010 and 2011 are derived from, and should be read in conjunction with our audited consolidated financial statements, including the related notes, included elsewhere in this annual report. The selected consolidated financial data presented below as of and for the years ended December 31, 2007 and 2008 are derived from our audited consolidated financial statements not included in this annual report.

On March 1, 2011, we sold our majority ownership interest in Semiconductor Manufacturing International (AT) Corporation ( AT ) and deconsolidated the entity. We reported the results of AT as a discontinued operation in the condensed consolidated statements of comprehensive income. Accordingly, the discontinued operations were retrospectively reflected for all the years presented in our consolidated statements of comprehensive income included in this annual report.



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	For the year ended December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands, except for share, ADS, percentages, and operating data)				
<b>Statement of Comprehensive Income:</b>					
Sales	\$ 1,523,502	\$ 1,322,092	\$ 1,037,665	\$ 1,532,449	\$ 1,319,466
Cost of sales <sup>(1)</sup>	1,390,187	1,393,788	1,158,148	1,229,266	1,217,525
Gross profit (loss)	133,315	(71,696)	(120,483)	303,183	101,941
Operating expenses (income):					
Research and development	96,686	105,577	176,420	191,046	191,473
General and administrative	68,775	62,466	215,845	41,387	57,435
Selling and marketing	18,489	20,434	26,209	29,087	32,558
Impairment loss of long-lived assets		106,741	126,635	5,138	17,691
Loss (gain) from sale of plant and equipment and other fixed assets	(28,651)	(2,890)	3,891	97	509
Litigation settlement			269,637		
Other operating income				(16,493)	(7,009)
Total operating expenses, net	155,299	292,328	818,637	250,262	292,657
Income (loss) from operations	(21,984)	(364,024)	(939,120)	52,921	(190,716)
Other income (expenses):					
Interest income	11,506	11,289	2,547	4,086	4,724
Interest expense	(37,936)	(50,733)	(24,587)	(22,563)	(20,583)
Change in the fair value of commitment to issue shares and warrants			(30,101)	(29,815)	
Foreign currency exchange gain	8,039	11,261	7,291	5,101	17,589
Other, net	2,099	6,371	(4,549)	6,534	6,709
Total other income (expense), net	(16,292)	(21,812)	(49,399)	(36,657)	8,439
Income (loss) from continuing operations before income tax and equity investment	(38,276)	(385,836)	(988,519)	16,264	(182,277)
Income tax benefit (expense)	29,720	(26,433)	46,624	4,818	(82,503)
Gain (loss) from equity investment	(4,013)	(444)	(1,782)	285	4,479
Income (loss) from continuing operations	(12,569)	(412,713)	(943,677)	21,367	(260,301)
Income (loss) from discontinued operations net of tax effect	(9,755)	(19,667)	(18,800)	(7,356)	14,741
Net income (loss)	(22,324)	(432,380)	(962,477)	14,011	(245,560)

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	For the year ended December 31,					
	2007	2008	2009	2010	2011	
	(in US\$ thousands, except for share, ADS, percentages, and operating data)					
Accretion of interest to noncontrolling interest		2,856	(7,851)	(1,060)	(1,050)	(1,319)
Loss attributed to noncontrolling interest					140	63
Net income (loss) attributable to Semiconductor Manufacturing International Corporation	(19,468)	(440,231)	(963,537)	13,100	(246,816)	
Deemed dividends on convertible preferred shares						(64,970)
Net income (loss) attributable to holders of ordinary shares	(19,468)	(440,231)	(963,537)	13,100	(311,786)	
Net Income (loss)	(22,324)	(432,380)	(962,477)	14,011	(245,560)	
Other comprehensive income (loss):						
Foreign currency translation adjustment	(94)	(437)	53	(706)	4,938	
Comprehensive income (loss)	(22,418)	(432,817)	(962,424)	13,305	(240,622)	
Comprehensive income (loss) attribute to noncontrolling interest		2,856	(7,851)	(1,060)	(910)	(1,256)
Comprehensive income (loss) attribute to Semiconductor Manufacturing International Corporation	(19,562)	(440,668)	(963,484)	12,395	(241,878)	
Earnings (loss) per ordinary share, basic	\$ (0.00)	\$ (0.02)	\$ (0.04)	\$ 0.00	\$ (0.01)	
Earnings (loss) per ordinary share, diluted	\$ (0.00)	\$ (0.02)	\$ (0.04)	\$ 0.00	\$ (0.01)	
Weighted average shares used in computing basic earnings (loss) per ordinary share <sup>(2)(3)</sup>	18,501,940,488	18,682,544,866	22,359,237,084	24,258,437,559	27,435,853,922	
Weighted average shares used in computing diluted earnings (loss) per	18,501,940,488	18,682,544,866	22,359,237,084	25,416,597,405	27,435,853,922	

ordinary share<sup>(3)</sup>

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	For the year ended December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands, except for share, ADS, percentages, and operating data)				
Earnings (loss) per ADS, basic <sup>(3)</sup>	\$ (0.05)	\$ (1.18)	\$ (2.15)	\$ 0.03	\$ (0.57)
Earnings (loss) per ADS, diluted <sup>(3)</sup>	\$ (0.05)	\$ (1.18)	\$ (2.15)	\$ 0.03	\$ (0.57)
ADS used in calculating basic earnings (loss) per ADS	370,038,810	373,650,897	447,184,742	485,168,751	548,717,078
ADS used in calculating diluted earnings (loss) per ADS	370,038,810	373,650,897	447,184,742	508,331,948	548,717,078
<b>Other Financial Data:</b>					
Gross margin	8.8%	-5.4%	-11.6%	19.8%	7.7%
Operating margin	-1.4%	-27.5%	-90.5%	3.5%	-14.5%
Net margin	-1.5%	-32.7%	-92.8%	0.9%	-18.6%
<b>Operating Data:</b>					
Wafers shipped (in 8 equivalents)					
Total	1,806,535	1,590,778	1,334,261	1,979,851	1,703,615
ASP <sup>(4)</sup>	843	831	778	774	775

- (1) Including share-based 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.
- (3) Each ADS represents 50 ordinary shares.
- (4) Total sales/total wafers shipped.

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	As of December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 469,284	\$ 450,230	\$ 443,463	\$ 515,808	\$ 261,615
Restricted cash		6,255	20,360	161,350	136,907
Accounts receivable, net of allowances	298,388	199,372	204,291	206,623	165,234
Inventories	248,310	171,637	193,705	213,404	207,308
Total current assets	1,075,302	926,858	907,058	1,179,102	864,787
Prepaid land use rights	57,552	74,293	78,112	78,798	77,231
Plant and equipment, net	3,202,958	2,963,386	2,251,614	2,351,863	2,516,578
Total assets	4,708,444	4,270,622	3,524,077	3,902,693	3,727,929
Total current liabilities	930,190	899,773	1,031,523	1,399,345	1,251,326
Total long-term liabilities	730,790	578,689	661,472	294,806	227,589
Total liabilities	1,660,980	1,478,462	1,692,995	1,694,152	1,478,914
Noncontrolling interest	34,944	42,795	34,842	39,004	4,200
Equity:					
Ordinary shares, \$0.0004 par value, 50,000,000,000 shares authorized 18,558,919,712, 22,327,784,827, 22,375,886,604, 27,334,063,747 and 27,487,676,065 shares issued and outstanding at December 31, 2007, 2008, 2009, 2010 and 2011, respectively	7,424	8,931	8,950	10,934	10,995
Additional paid-in capital	3,313,376	3,489,382	3,499,723	3,858,643	4,240,530
Convertible preferred shares, \$0.0004 par value, 5,000,000,000 shares authorized, nil, nil, nil, nil, and 455,545,911 shares issued and outstanding at December 31, 2007, 2008, 2009, 2010 and 2011, respectively					178

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	As of December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands)				
<b>Balance Sheet Data:</b>	<hr/>				
Accumulated other					
comprehensive loss (income)	(2)	(439)	(386)	(1,092)	3,845
Accumulated deficit	(308,279)	(748,509)	(1,712,047)	(1,698,946)	(2,010,733)
Total equity	\$3,012,519	\$2,749,365	\$ 1,796,240	\$ 2,169,537	\$ 2,244,815

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	For the year ended December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands)				
<b>Cash Flow Data:</b>					
Net income (loss)	\$ (22,324)	\$ (432,380)	\$ (962,478)	\$ 14,011	<b>\$(245,560)</b>
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and Amortization	733,348	794,000	781,750	611,410	550,289
Net cash provided by operating activities	672,465	569,782	283,566	694,613	<b>398,352</b>
Purchases of plant and equipment	(717,171)	(669,055)	(217,269)	(491,539)	<b>(950,559)</b>
Net cash used in investing activities	(643,344)	(761,713)	(211,498)	(538,713)	<b>(922,625)</b>
Net cash provided by (used in) financing activities	76,637	173,314	(78,902)	(37,851)	<b>268,855</b>
Net increase (decrease) in cash and cash equivalents	\$ 105,664	\$ (19,054)	\$ (6,767)	\$ 72,346	<b>\$(245,193)</b>

**B. Capitalization and Indebtedness**

Not Applicable

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable

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**D. Risk Factors Related to Our Financial Condition and Business**

***We may not be able to achieve or maintain a level of profitability, primarily due to our high fixed costs and correspondingly high levels of depreciation expenses.***

Our income from operations totaled \$52.9 million in 2010, while loss from operations totaled \$190.7 million in 2011. We may not be able to achieve or maintain profitability on an annual or quarterly basis, primarily because our business is characterized by high fixed costs relating to equipment purchases, which result in correspondingly high levels of depreciation expenses. We will continue to incur high capital expenditures and depreciation expenses as we equip and ramp-up additional fabs and expand our capacity at our existing fabs.

***The cyclical nature of the semiconductor industry and periodic overcapacity make our business and operating results particularly vulnerable to economic downturns, such as the global economic crisis.***

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns characterized by fluctuations in end-user demand, reduced demand for integrated circuits, rapid erosion of average selling prices and production overcapacity. Companies in the semiconductor industry have expanded aggressively during periods of increased demand in order to have the capacity needed to meet such increased demand or expected demand in the future. If actual demand is not sustained or does not increase or declines, or if companies in the industry expand too aggressively in light of the actual increase in demand, the industry will generally experience a period in which industry-wide capacity exceeds demand, as was the case in the first quarter of 2009.

During periods when industry-wide capacity exceeds demand, as was the case in the first quarter of 2009, our operations are subject to more intense competition, and our results of operations are likely to suffer because of the resulting pricing pressure and capacity underutilization. Severe pricing pressure could result in the overall foundry industry becoming less profitable, at least for the duration of the downturn, and could prevent us from achieving or maintaining profitability. We expect that industry cyclicity will continue.

In addition, an erosion of global consumer confidence amidst concerns over declining asset values, inflation, energy costs, geopolitical issues, the availability and cost of credit, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses and sovereign nations could have an adverse effect on our results of operations.

Adverse economic conditions could cause our expenses to vary materially from our expectations. The failure of financial institutions could negatively impact our treasury operations, as the financial condition of such parties may deteriorate rapidly and without notice in times of market volatility and disruption. Other income and expense could vary materially from expectations depending on changes in interest rates, borrowing costs and currency exchange rates. Economic downturns may also lead to restructuring actions and associated expenses.



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If we cannot take appropriate or effective actions in a timely manner during the current and any future economic downturns, such as reducing our costs to sufficiently offset declines in demand for our services, our business and operating results may be adversely affected. A prolonged period of economic decline could have a material adverse effect on our results of operations. Economic uncertainty also makes it difficult for us to make accurate forecasts of revenue, gross margin and expenses.

Furthermore, a slowdown in the growth in demand for, or the continued reduction in selling prices of, devices that use semiconductors may decrease the demand for our services and reduce our profit margins.

### ***The loan agreements entered into by members of the Group contain certain restrictions that limit our flexibility in operating our business.***

The terms of certain of the existing loan agreements entered into by members of the Group contain, and certain future indebtedness of the Group would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on the Group, including restrictions on the ability of members of the Group to, among other things:

- pay dividends;
- pay shareholder loans; and
- consolidate, merge, sell or otherwise dispose of any of our assets under certain conditions.

In addition, certain loan agreements of the Group contain, and any future loan agreements may contain, cross-default clauses whereby a default under one of the loan agreements may constitute an event of default under the other loan agreements. We may also be required to satisfy and maintain specified financial ratios and other financial covenants. The Group's ability to meet such financial ratios and other covenants can be affected by events beyond our control, and we cannot assure you that we will meet these ratios and comply with such covenants in the future. A breach of any of these covenants would result in a default under the existing loan agreements of the Group, which may allow the lenders to declare all amounts outstanding thereunder to be due and payable after the lapse of the relevant grace period and terminate all commitments to extend further credit, any of which could result in an event of default under the Terms and Conditions of the loan agreement.

### ***The impact of deteriorating economic conditions on our customers and suppliers could adversely affect our business.***

Customer financial difficulties have resulted, and could result in the future, in increases in bad debt write-offs and additions to reserves in our receivables portfolio. In particular, our exposure to certain financially troubled customers could have an adverse effect on our results of operations. In addition, we depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. Our business may be disrupted if we are unable to obtain these raw materials from our suppliers and our suppliers from their suppliers due to the insolvency of key suppliers who may be unable to obtain credit.

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***Demand instability for foundry services may result in a lower rate of return on investments than previously anticipated and our business and operating results may be adversely affected.***

Prior to the onset of the global economic crisis, the demand for foundry services by IDMs, fabless semiconductor companies and systems companies had been increasing. We made significant investments in anticipation of the continuation of this trend. A reversal of this trend will likely result in a lower rate of return on our investments than anticipated. Our business trended downward throughout 2011. However, demand in the first quarter of 2012 is strong and continues to strengthen. For example, some IDMs may change their strategy and target greater internal production, and consequently may reduce their outsourcing of wafer fabrication. During an industry downturn, these IDMs may allocate a smaller portion of their fabricating needs to foundry service providers and perform a greater amount of foundry services for system companies and fabless semiconductor companies in order to maintain their equipment's utilization rates. As a result, our business and operating results have been and may continue to be adversely affected.

***Our results of operations may fluctuate from year to year, making it difficult to predict our future performance which may be below our expectations or those of the public market analysts and investors in these periods.***

Our sales, expenses, and results of operations may fluctuate significantly from year to year due to a number of factors, many of which are outside our control. Our business and operations are subject to a number of factors, including:

- our customers' sales outlook, purchasing patterns and inventory adjustments based on general economic conditions or other factors;
- the loss of one or more key customers or the significant reduction or postponement of orders from such customers;
- timing of new technology development and the qualification of this technology by our customers;
- timing of our expansion and development of our facilities;
- our ability to obtain equipment and raw materials; and
- our ability to obtain financing in a timely manner.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on year-to-year comparisons to predict our future performance. Unfavorable changes in any of the above factors may adversely affect our business and operating results. In addition, our operating results may be below the expectations of public market analysts and investors in some future periods.

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***If we are unable to maintain high capacity utilization, optimize the technology and product mix of our services or improve our yields, our margins may substantially decline, thereby adversely affecting our operating results.***

Our ability to achieve and maintain profitability depends, in part, on our ability to:

- maintain high capacity utilization, which is the actual number of wafers we produce in relation to our capacity;
- optimize our technology and product mix, which is the relative number of wafers fabricated utilizing higher margin technologies as compared to commodity and lower margin technologies; and
- continuously maintain and improve our yield, which is the percentage of usable fabricated devices on a wafer.

Our capacity utilization affects our operating results because a large percentage of our costs are fixed. In general, more advanced technologies sell for higher prices and higher margins. Therefore, our technology and product mix has a direct impact upon our average selling prices and overall margins. Our yields directly affect our ability to attract and retain customers, as well as the price of our services. If we are unable to maintain high capacity utilization, optimize the technology and product mix of our wafer production and continuously improve our yields, our margins may substantially decline, thereby adversely affecting our operating results.

***Our continuing expansion may present significant challenges to our management and administrative systems and resources, and as a result, we may experience difficulties managing our growth, which may adversely affect our business and operating results.***

Since our inception in 2000, we have grown rapidly. Our wafer shipments and sales grew from zero in 2000 to 1,703,615 wafers and US\$1.32 billion in 2011, respectively. During this period, we commenced commercial production at two 8-inch fabs (which includes our Shanghai mega fab and Tianjin fab) and one 12-inch mega fab in Beijing, and the range of process technologies we offered grew significantly. We have also undertaken management contracts to manage the operations of wafer manufacturing facilities in Wuhan, China. In addition, we are equipping our new 8-inch fab in Shenzhen. At December 31, 2000, we had 122 employees; and at December 31, 2011, we had 9,452 employees. We expect our headcount to increase with future increases in both orders and production capacity. Our participation in a joint venture with Toppan Printing Co., Ltd. in Shanghai and others, and the management of wafer manufacturing facilities in Wuhan, China and others, have presented, and continue to present, significant challenges for our management and administrative systems and resources. If we fail to develop and maintain management and administrative systems and resources sufficient to keep pace with our planned growth, we may experience difficulties managing our growth and our business and operating results could be adversely affected.

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***If we lose one or more of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, our operations could become disrupted and the growth of our business could be delayed or restricted.***

Our success depends on the continued service of our key management team members, and in particular, Zhang Wenyi, Chairman of our board of director and Executive Director as well as Tzu-Yin Chiu, Chief Executive Officer and Executive Director. We do not carry key person insurance on any of our personnel. If we lose the services of any of our key executive officers, it could be very difficult to find, relocate and integrate adequate replacement personnel into our operations, which could seriously harm our operations and the growth of our business.

We will require an increased number of experienced executives, engineers and other skilled employees in the future to implement our growth plans. There is intense competition for the services of these personnel in the semiconductor industry. In addition, we expect demand for skilled and experienced personnel in China to increase in the future as new wafer fabrication facilities and other similar high technology businesses are established there. If we are unable to retain our existing personnel or attract, assimilate and retain new experienced personnel in the future, our operations could become disrupted and the growth of our business could be delayed or restricted.

***Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future sales, adjust our production costs and efficiently allocate our capacity on a timely basis and could therefore have an adverse effect on our business and operating results.***

Our customers generally do not place purchase orders far in advance of the required shipping dates. In addition, due to the cyclical nature of the semiconductor industry, our customers' purchase orders have varied significantly from period to period. As a result, we do not typically operate with any significant backlog, which makes it difficult for us to forecast our sales in future periods. Also, since our cost of sales and operating expenses has high fixed cost components, including depreciation and employee costs, we may be unable to adjust our cost structure in a timely manner to compensate for shortfalls in sales. Our current and anticipated customers may not place orders with us in accordance with our expectations or at all. As a result, it may be difficult to plan our capacity, which requires significant lead time to ramp-up and cannot be altered easily. If our capacity does not match our customer demand, we will either be burdened with expensive and unutilized overcapacity or unable to support our customers' requirements, both of which could have an adverse effect on our business and results of operations.

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***Our sales cycles can be long, which could adversely affect our operating results and cause our income stream to be unpredictable.***

Our sales cycles, which measure the time between our first contact with a customer and the first shipment of product orders to the customer, vary substantially and can last as long as one year or more, particularly for new technologies. Sales cycles to IDM customers typically take relatively longer since they usually require our engineers to become familiar with the customer's proprietary technology before production can commence. In addition, even after we make the initial product shipments, it may take the customer several more months to reach full production of that product using our foundry services. As a result of these long sales cycles, we may be required to invest substantial time and incur significant expenses in advance of the receipt of any product order and related revenue. Orders ultimately received may not be in accordance with our expectations with respect to product, volume, price or other terms, any of which could adversely affect our operating results and cause our income stream to be unpredictable.

***We must consistently anticipate trends in technology development in order to maintain or increase our business and operating margins.***

The semiconductor industry is developing rapidly and the related technologies are constantly evolving. If we are unable to anticipate the trends in technology development and rapidly develop and implement new and innovative technologies that our customers require, we may not be able to produce sufficiently advanced products at competitive prices. As the life cycle for a process technology matures, the average selling price falls. Accordingly, unless we continually upgrade our capability to manufacture new products that our customers design, our customers may use the services of our competitors instead of ours and the average selling prices of our wafers may fall, which could adversely affect our business and operating margins.

***Our sales are dependent upon a small number of customers and any decrease in sales to any of them could adversely affect our results of operations.***

We have been dependent on a small number of customers for a substantial portion of our business. For the year ended December 31, 2011, our five largest customers accounted for 49.3% of our total sales. We expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our sales. Sales generated from these customers, individually or in the aggregate, may not reach or exceed our expectations or historical levels in any future period. Our sales could be significantly reduced if any of these customers cancels or reduces its orders, significantly changes its product delivery schedule, or demands lower prices, which could have an adverse effect on our results of operations.

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***Since our operating cash flows may not be sufficient to cover our planned capital expenditures, we will require additional external financing, which may not be available on acceptable terms, or at all. Any failure to raise adequate funds in a timely manner could adversely affect our business and operating results.***

In 2011, our capital expenditures totaled approximately US\$765 million and we currently expect our capital expenditures in 2012 to total approximately US\$430 million, subject to adjustment based on market conditions. These capital expenditures will be used primarily to expand our operations at our 12-inch fab in Shanghai. In addition, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, customer requirements or interest rates. Future acquisitions, mergers, strategic investments, or other developments also may require additional financing. The amount of capital required to meet our growth and development targets is difficult to predict in the highly cyclical and rapidly changing semiconductor industry.

Our operating cash flows may not be sufficient to meet our capital expenditure requirements in 2012. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing. Our ability to obtain external financing is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities of semiconductor companies;
- our future stock price; and
- our future credit rating.

External financing may not be available in a timely manner, on acceptable terms, or at all. Since our capacity expansion is a key component of our overall business strategy, any failure to raise adequate funds could adversely affect our business and operating results.

***The construction and equipping of new fabs and the expansion of existing fabs are subject to certain risks that could result in delays or cost overruns, which could require us to expend additional capital and adversely affect our business and operating results.***

We plan to continue to expand our business through the development of new and existing fabs. There are a number of events that could delay these expansion projects or increase the costs of building and equipping these or future fabs in accordance with our plans. Such potential events include, but are not limited to:

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- shortages and late delivery of building materials and facility equipment;
- delays in the delivery, installation, commissioning and qualification of our manufacturing equipment;
- seasonal factors, such as a long and intensive wet season that limits construction;
- labor disputes;
- design or construction changes with respect to building spaces or equipment layout;
- delays in securing the necessary governmental approvals and land use rights; and
- technological, capacity and other changes to our plans for new fabs necessitated by changes in market conditions.

As a result, our projections relating to capacity, process technology capabilities or technology developments may significantly differ from actual capacity, process technology capabilities or technology developments.

Delays in the construction and equipping or expansion of any of our fabs could result in the loss or delayed receipt of earnings, an increase in financing costs or the failure to meet profit and earnings projections, any of which could adversely affect our business and operating results.

***If we cannot compete successfully in our industry, particularly in China, our results of operations and financial condition will be adversely affected.***

The worldwide semiconductor foundry industry is highly competitive. We compete with other foundries, such as Taiwan Semiconductor Manufacturing Company Ltd., or TSMC, United Microelectronics Corporation, or UMC, and GlobalFoundries, as well as the foundry services offered by some IDMs, such as Samsung Electronics. We also compete with smaller semiconductor foundries in China, Korea, Malaysia and other countries. Some of our competitors have greater access to capital and substantially higher capacity, longer or more established relationships with their customers, superior research and development capability, and greater marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

Some of our competitors have established operations in mainland China in order to compete for the growing domestic market in China. TSMC has commenced commercial production at its fab in China, and UMC has established a relationship with a fab in commercial production in China. In these cases, we understand that the ability of these fabs to manufacture wafers using certain more advanced technologies is subject to restrictions by the respective home jurisdiction of TSMC and UMC; however, such restrictions could be reduced or lifted at any time, which may lead to increased competition in China with such competitors and adversely affect our business and operating results.

Our ability to compete successfully depends to some extent upon factors outside of our control, including import and export controls, foreign exchange controls, exchange rate fluctuations, interest rate fluctuations and political developments. If we cannot compete successfully in our industry or are unable to maintain our position as a leading foundry in China, our results of operations and financial condition will be adversely affected.

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***We may be unable to obtain in a timely manner and at a reasonable cost the equipment necessary for our business and therefore may be unable to achieve our expansion plans or meet our customers orders, which could negatively impact our competitiveness, financial condition and results of operations.***

The semiconductor industry is capital-intensive and requires investment in advanced equipment that is available from a limited number of manufacturers. The market for equipment used in semiconductor foundries is characterized, from time to time, by significant demand, limited supply and long delivery cycles. Our business plan depends upon our ability to obtain our required equipment in a timely manner and at acceptable prices. During times of significant demand for the types of equipment we use, lead times for delivery can be as long as one year. Shortages of equipment could result in an increase in equipment prices and longer delivery times. If we are unable to obtain equipment in a timely manner and at a reasonable cost, we may be unable to achieve our expansion plans or meet our customers orders, which could negatively impact our competitiveness, financial condition, and results of operations.

***We expect to have an ongoing need to obtain licenses for the proprietary technology of others, which subjects us to the payment of license fees and potential delays in the development and marketing of our products.***

While we continue to develop and pursue patent protection for our own technologies, we expect to continue to rely on third party license arrangements to enable us to manufacture certain advanced wafers. As of December 31, 2011, we had been granted 2,315 patents worldwide, of which, 59 were in Taiwan, 195 were in the U.S., and 2,061 were in China. In comparison, we believe our competitors and other industry participants have been issued numerous more patents concerning wafer fabrication in multiple jurisdictions. Our limited patent portfolio may in the future adversely affect our ability to obtain licenses to the proprietary technology of others on favorable license terms due to our inability to offer cross-licensing arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. They might also render our services less competitive. If for any reason we are unable to license necessary technology on acceptable terms, it may become necessary for us to develop alternative technology internally, which could be costly and delay the marketing and delivery of key products and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all, in which case our customers may purchase wafers from our competitors.



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***We may be subject to claims of intellectual property rights infringement owing to the nature of our industry, our limited patent portfolio and limitations of the indemnification provisions in our technology license agreements. These claims could adversely affect our business and operating results.***

There is frequent intellectual property litigation in our industry, involving patents, copyrights, trade secrets, mask works and other intellectual property subject matters. In some cases, a company can avoid or settle litigation on favorable terms because it possesses patents that can be asserted against the plaintiff. The limited size of our current patent portfolio is unlikely to place us in such a favorable bargaining position. Moreover, some of our technology license agreements with our major technology partners do not provide for us to be indemnified in the event that the processes we license pursuant to such agreements infringe third party intellectual property rights. We could be sued for infringing one or more patents as to which we will be unable to obtain a license and unable to design around. As a result, we would be prohibited from manufacturing or selling the products which are dependent upon such technology, which could have a material adverse effect on our business. We may litigate the issues of whether these patents are valid or infringed, but in the event of a loss we could be required to pay substantial monetary damages and be enjoined from further production or sale of such products.

***If our relationships with our technology partners deteriorate or we are unable to enter into new technology alliances, we may not be able to continue providing our customers with leading edge process technology, which could adversely affect our competitive position and operating results.***

Enhancing our process technologies is critical to our ability to provide high quality services for our customers. We intend to continue to advance our process technologies through internal research and development efforts and technology alliances with other companies. Although we have an internal research and development team focused on developing new process technologies, we need to leverage our technology partners to advance our portfolio of process technologies to lower development risk and development cycle. We currently have joint technology development arrangements and technology sharing arrangements with several companies and research institutes. If we are unable to continue our technology alliances with these entities, maintain on mutually beneficial terms any of our other joint development arrangements, research and development alliances and other similar agreements or enter into new technology alliances with other leading developers of semiconductor technology, we may not be able to continue providing our customers with leading edge process technology, which could adversely affect our competitive position and operating results.

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***Global or regional economic, political and social conditions could adversely affect our business and operating results.***

External factors such as potential terrorist attacks, acts of war, financial crises, the global economic crisis, or geopolitical and social turmoil in those parts of the world that serve as markets for our products could significantly adversely affect our business and operating results in ways that cannot presently be predicted. These uncertainties could make it difficult for our customers and us to accurately plan future business activities. More generally, these geopolitical, social and economic conditions could result in increased volatility in worldwide financial markets and economies that could adversely impact our sales. We are not insured for losses and interruptions caused by terrorist acts or acts of war. Therefore, any of these events or circumstances could adversely affect our business and operating results.

***The recurrence of an outbreak of the H1N1 strain of flu (Swine Flu), the H5N1 strain of flu (Avian Flu), Severe Acute Respiratory Syndrome (SARS), or an outbreak of any other similar epidemic could, directly or indirectly, adversely affect our operating results.***

Past outbreaks of the H1N1 virus, commonly known as swine flu, in North America and Europe caused governments to take measures to prevent spread of the virus. In addition, there have been reports of swine flu cases in Asia. The spread of epidemics could negatively affect the economy. For example, past occurrences of epidemics such as SARS have caused different degrees of damage to the national and local economies in China. If any of our employees are identified as a possible source of spreading the H1N1 virus, the Avian Flu or any other similar epidemic, we may be required to quarantine employees that are suspected of being infected, as well as others that have come into contact with those employees. We may also be required to disinfect our affected premises, which could cause a temporary suspension of our manufacturing capacity, thus adversely affecting our operations. A recurrence of an outbreak of the H1N1 virus or a recurrence of an outbreak of SARS, Avian Flu or other similar epidemic could restrict the level of economic activities generally and/or slow down or disrupt our business activities which could in turn adversely affect our results of operations.

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***Exchange rate fluctuations could increase our costs, which could adversely affect our operating results and the value of our ADSs.***

Our financial statements are prepared in U.S. dollars. Our sales are generally denominated in U.S. dollars and our operating expenses and capital expenditures are generally denominated in U.S. dollars, Japanese Yen, Euros and Renminbi. Although we enter into foreign currency forward exchange contracts, we are still affected by fluctuations in exchange rates between the U.S. dollar and each of the Japanese Yen, the Euros and the Renminbi. Any significant fluctuations among these currencies may lead to an increase in our costs, which could adversely affect our operating results. See -Risks Related to Conducting Operations in China Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results for a discussion of risks relating to the Renminbi.

Fluctuations in the exchange rate of the Hong Kong dollar against the U.S. dollar will affect the U.S. dollar value of the ADSs, since our ordinary shares are listed and traded on the Hong Kong Stock Exchange and the price of such shares are denominated in Hong Kong dollars. While the Hong Kong government has continued to pursue a pegged exchange rate policy, with the Hong Kong dollar trading in the range of HK\$7.7634 to HK\$7.8086 per US\$1.00 for 2011, we cannot assure you that such policy will be maintained. Exchange rate fluctuations also will affect the amount of U.S. dollars received upon the payment of any cash dividends or other distributions paid in Hong Kong dollars and the Hong Kong dollar proceeds received from any sales of ordinary shares. Therefore, such fluctuations could also adversely affect the value of our ADSs.

***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud and, because of the inherent limitation of internal control over financial reporting, material misstatements due to error or fraud may not be prevented or detected on a timely basis.***

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring public companies to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to the effectiveness of our internal controls over financial reporting. Our management has concluded that our internal controls over our financial reporting were effectively maintained as of December 31, 2011. In addition, because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. As a result, if we fail to maintain effective internal controls over financial reporting or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, investors could lose confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our securities.

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***We have twice settled pending litigation with TSMC at a substantial cost to us, and, if we materially breach our 2009 settlement agreement with TSMC (or certain related documents), we could be required to pay substantial liquidated damages in addition to the money damages or other remedies TSMC may be entitled to in connection with such material breach.***

TSMC has brought legal claims against us and our personnel on several occasions since 2002. On January 31, 2005, we entered into a settlement agreement with TSMC and agreed to pay them \$175 million in installments over a period of six years ( the 2005 Settlement Agreement ).

On August 25, 2006, TSMC filed a new lawsuit against us and certain of our subsidiaries in the Superior Court of the State of California for alleged breach of the 2005 Settlement Agreement, alleged breach of promissory notes and alleged trade secret misappropriation by us. We filed counterclaims against TSMC in the same court in September 2006 and also filed suit against TSMC in Beijing in November 2006. We settled these 2006 lawsuits with TSMC ( the Settled Actions ) on November 9, 2009 with a settlement agreement ( the 2009 Settlement Agreement ) which replaced the 2005 Settlement Agreement.

Under the terms of the 2009 Settlement Agreement, our obligation to make the remaining payments of approximately US\$40 million under the 2005 Settlement Agreement was terminated, but we agreed to pay TSMC an aggregate of US\$200 million over a period of four years and committed, subject to certain terms and conditions, to issue TSMC 1,789,493,218 of our shares and one or more warrants exercisable within three years of issuance to subscribe for an aggregate of 695,914,030 of our shares, subject to adjustment, at a purchase price of HK\$1.30 per share, subject to adjustment. See Item 10 Additional Information Material Contracts--Other Contracts for a more detailed description of the share and warrant issuance agreement entered into by us and TSMC in connection with the 2009 Settlement Agreement and the warrant agreement entered into between us and TSMC in connection with the 2009 Settlement Agreement. The 1,789,493,218 common shares and the warrant to purchase 695,914,030 common shares, subject to adjustment, were issued on July 5, 2010. In addition, the 2009 Settlement Agreement terminated that certain patent cross-license agreement that was entered into in connection with the 2005 Settlement Agreement under which we had previously cross-licensed patent portfolios with TSMC ( the 2005 Patent Cross-License ).

Under the 2009 Settlement Agreement, each party released the other party from all claims arising out of or related to claims and counterclaims that were or could have been brought in the Settled Actions, but this release does not apply to claims of breach of the 2009 Settlement Agreement. In addition, each party covenanted not to sue the other for misappropriation or infringement of intellectual property rights, but this covenant not to sue did not extend to claims for breach of the 2009 Settlement Agreement or claims for patent or trademark infringement.

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Further, the 2009 Settlement Agreement provides that if we materially breach the 2009 Settlement Agreement (or certain related documents) and fail to cure that breach within 30 days after notice from TSMC, that we will pay TSMC liquidated damages, in addition to any damages arising from such breach, in the amount of US\$44 million plus a royalty equal to 5% of our gross revenues derived from foundry services in respect of our 90nm and larger manufacturing processes during the period commencing on the date of the breach and ending on the date that is 20 years from the date of the 2009 Settlement Agreement.

There can be no assurance that TSMC will not sue us again in the future. For example, TSMC is not prohibited under the 2009 Settlement Agreement from bringing infringement claims against us which could not have been brought in the Settled Actions. Further, we are subject to several obligations under the 2009 Settlement Agreement, including obligations to protect the confidentiality of certain information, and TSMC could, in the future, allege a breach by us of the 2009 Settlement Agreement. If TSMC were successful in a claim of material breach by us of our obligations under the 2009 Settlement Agreement (or certain related documents), we have agreed to pay substantial liquidated damages as described above.

TSMC is a competitor of ours and has substantially greater resources than we do to investigate and pursue legal actions. If TSMC successfully brings additional legal actions against us, we could be subject to significant penalties which could include monetary payments and/or injunctive relief such as requirements to discontinue sales of products.

The occurrence of any of these events could have a material adverse effect on our business and operating results and, in any event, the cost of litigation could be substantial.

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***The audit report included in this annual report are prepared by auditors who are not fully inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the US Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the US Public Company Accounting Oversight Board (United States) ( the PCAOB ), is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the People's Republic of China and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditors are not currently inspected fully by the PCAOB. Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct full inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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**E. Risks Related to Manufacturing**

***Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and other disruptions, which could significantly increase our costs and delay product shipments to our customers.***

Our manufacturing processes are highly complex, require advanced and costly equipment, demand a high degree of precision and may have to be modified to improve yields and product performance. Dust and other impurities, difficulties in the fabrication process or defects with respect to the equipment or facilities used can lower yields, because quality control problems interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. As a result, we may experience production difficulties, which could significantly increase our costs and delay product shipments to our customers.

***We may have difficulty in ramping up production, which could cause delays in product deliveries and loss of customers and otherwise adversely affect our business and operating results.***

As is common in the semiconductor industry, we may experience difficulty in ramping up production at new or existing facilities, such as our Beijing mega-fab in which we expect to add a significant amount of new equipment. This could be due to a variety of factors, including hiring and training new personnel, implementing new fabrication processes, recalibrating and re-qualifying existing processes and the inability to achieve required yield levels.

In the future, we may face construction delays or interruptions, infrastructure failure, or delays in upgrading or expanding existing facilities or changing our process technologies, which may adversely affect our ability to ramp up production in accordance with our plans. Our failure to ramp up our production on a timely basis could cause delays in product deliveries, which may result in the loss of customers and sales. It could also prevent us from recouping our investments in a timely manner or at all, and otherwise adversely affect our business and operating results.

***We have formed joint ventures that, if not successful, may adversely impact our business and operating results.***

In July 2004, we announced an agreement with Toppan Printing Co., Ltd., to establish Toppan SMIC Electronics (Shanghai) Co., Ltd., a joint venture in Shanghai, to manufacture color filters and micro-lenses for CMOS image sensors. In May 2005, we announced an agreement with United Test and Assembly Center Ltd. to establish Semiconductor Manufacturing International (AT) Corporation, a joint venture in Chengdu to provide assembly and testing services for memory and logic devices. On March 1, 2011, we deconsolidated AT and reduced our majority ownership interest to 10%. As a result, all previously issued preferred securities were cancelled. We will account for our 10% interest in AT under the cost method as we no longer have a controlling financial interest nor significant influence in AT. No cash or other consideration was received by us in conjunction with disposition.

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The results of the joint ventures are reflected in our operating results to the extent of our ownership interest, and gains of the joint ventures could impact our operating results. For example, as a result of our ownership of Toppan SMIC Electronics (Shanghai) Co., Ltd., we recorded a gain of US\$4.5 million in 2011. Integration of assets and operations being contributed by each partner will involve complex activities that must be completed in a short period of time. The joint ventures are likely to continue to face numerous challenges in commencing their operations and operating successfully. The business of the joint ventures will be subject to operational risks that would normally arise for these types of businesses pertaining to manufacturing, sales, service, marketing, and corporate functions. Competition in the CMOS image sensor market and semiconductor assembly and testing industry will involve challenges from well-established companies with substantial resources and significant market share.

If the joint ventures are not successful or less successful than we anticipate, we may incur higher costs for performing assembly and testing services through our current partners or for manufacturing color filters and micro-lenses, which typically require mature technologies and thus command a lower wafer price and generate lower margins, at our existing fabs. Either result may adversely affect our business and operating results.

***If we are unable to obtain raw materials and spare parts in a timely manner, our production schedules could be delayed and our costs could increase.***

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. To maintain operations, we must obtain from our suppliers sufficient quantities of quality raw materials and spare equipment parts at acceptable prices and in a timely manner. The most important raw material used in our production is silicon in the form of raw wafers. We currently purchase approximately 71.2% of our overall raw wafer requirements from our top three raw wafer suppliers. In addition, a portion of our gas and chemical requirements currently must be sourced from outside China. We may not be able to obtain adequate supplies of raw materials and spare parts in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials and necessary spare parts is substantially reduced or if there are significant increases in their prices, we may incur additional costs to acquire sufficient quantities of these parts and materials to maintain our production schedules and commitments to customers.



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***Our production may be interrupted, limited or delayed if we cannot maintain sufficient sources of fresh water and electricity, which could adversely affect our business and operating results.***

The semiconductor fabrication process requires extensive amounts of fresh water and a stable source of electricity. As our production capabilities increase and our business grows, our requirements for these resources will grow substantially. While we have not, to date, experienced any instances of the lack of sufficient supplies of water or material disruptions in the electricity supply to any of our fabs, we may not have access to sufficient supplies of water and electricity to accommodate our planned growth. Droughts, pipeline interruptions, power interruptions, electricity shortages or government intervention, particularly in the form of rationing, are factors that could restrict our access to these utilities in the areas in which our fabs are located. In particular, our fab in Tianjin and our Beijing mega-fab are located in areas that are susceptible to severe water shortages during the summer months. If there is an insufficient supply of fresh water or electricity to satisfy our requirements, we may need to limit or delay our production, which could adversely affect our business and operating results. In addition, a power outage, even of very limited duration, could result in a loss of wafers in production and deterioration in yield.

***Our operations may be delayed or interrupted due to natural disasters which could adversely affect our business and operating results.***

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes in addition to requiring extensive amounts of fresh water and a stable source of electricity. The occurrence of natural disasters such as the March 2011 earthquake in Japan may disrupt this required access to goods and services provided by our suppliers as well as access to fresh water and electricity. Even though our business and operating results were not materially adversely impacted by the March 2011 earthquake in Japan, as a result of such risk, our production could be limited or delayed due to the disruption of access to required supplies, in addition to possible damage caused to our manufacturing equipment and related infrastructure, which could adversely affect our business and operating results.

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***We are subject to the risk of damage due to fires or explosions because the materials we use in our manufacturing processes are highly flammable. Such damage could temporarily reduce our manufacturing capacity, thereby adversely affecting our business and operating results.***

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from explosions and fires. While we have not, to date, experienced any explosion or fire due to the nature of our raw materials, the risk of explosion and fire associated with these materials cannot be completely eliminated. Although we maintain comprehensive fire insurance and insurance for the loss of property and the loss of profit resulting from business interruption, our insurance coverage may not be sufficient to cover all of our potential losses due to an explosion or fire. If any of our fabs were to be damaged or cease operations as a result of an explosion or fire, it could temporarily reduce our manufacturing capacity, which could adversely affect our business and operating results.

***Our Beijing mega-fab is located in an area that is susceptible to seasonal dust storms, which could create impurities in the production process at these facilities and require us to take additional measures or spend additional capital to further insulate these fabs from dust, thereby adversely affecting our business and operating results.***

The location of our Beijing mega-fab makes it susceptible to seasonal dust storms, which could cause dust particles to enter the buildings and affect the production process. Although we are constructing precautionary filtration systems, these may not adequately insulate the Beijing mega-fab against dust contamination. If dust were to affect production in the Beijing mega-fab, we could experience quality control problems, losses of products in process and delays in shipping products to our customers. In addition, we may have to spend additional capital to further insulate the Beijing mega-fab from dust if our current precautionary measures are insufficient. The occurrence of any of these events could adversely affect our business and operating results.

***Our operations may be delayed or interrupted and our business could suffer as a result of steps we may be required to take in order to comply with environmental regulations.***

We are subject to a variety of Chinese environmental regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in our production processes. Any failure or any claim that we have failed to comply with these regulations could cause delays in our production and capacity expansion and affect our company's public image, either of which could harm our business. In addition, any failure to comply with these regulations could subject us to substantial fines or other liabilities or require us to suspend or adversely modify our operations.

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**Risks Related to Conducting Operations in China**

***Our business is subject to extensive government regulation and benefits from certain government incentives, and changes in these regulations or incentives could adversely affect our business and operating results.***

The Chinese government has broad discretion and authority to regulate the technology industry in China. China's government has also implemented policies from time to time to regulate economic expansion in China. The economy of China has been transitioning from a planned economy to a market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies. New regulations or the readjustment of previously implemented regulations could require us to change our business plan, increase our costs or limit our ability to sell products and conduct activities in China, which could adversely affect our business and operating results.

In addition, the Chinese government and provincial and local governments have provided, and continue to provide, various incentives to domestic companies in the semiconductor industry, including our company, in order to encourage the development of the industry. Such incentives include tax rebates, reduced tax rates, favorable lending policies, and other measures. Any of these incentives could be reduced or eliminated by governmental authorities at any time. For example, in the past, the Chinese government announced that by April 1, 2005, the preferential value-added tax policies, which previously entitled certain qualified companies to receive a refund of the amount exceeding 3% of the actual value-added tax burden relating to self-made integrated circuit product sales, would be eliminated. While we have not previously benefited materially from such preferential value-added tax policies, any reduction or elimination of other incentives currently provided to us could adversely affect our business and operating results.

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***Because our business model depends on growth in the electronics manufacturing supply chain in China, any slowdown in this growth could adversely affect our business and operating results.***

Our business is dependent upon the economy and the business environment in China. In particular, our growth strategy is based upon the assumption that demand in China for devices that use semiconductors will continue to grow. Therefore, any slowdown in the growth of consumer demand in China for products that use semiconductors, such as computers, mobile phones or other consumer electronics, could have a serious adverse effect on our business. In addition, our business plan assumes that an increasing number of non- Chinese IDMs, fabless semiconductor companies and systems companies will establish operations in China. Any decline in the rate of migration to China of semiconductor design companies or companies that require semiconductors as components for their products could adversely affect our business and operating results.

***Limits placed on exports into China could substantially harm our business and operating results.***

The growth of our business will depend on the ability of our suppliers to export, and our ability to import, equipment, materials, spare parts, process know-how and other technologies and hardware into China. Any restrictions placed on the import and export of these products and technologies could adversely impact our growth and substantially harm our business. In particular, the United States requires our suppliers and us to obtain licenses to export certain products, equipment, materials, spare parts and technologies from that country. If we or our suppliers are unable to obtain export licenses in a timely manner, our business and operating results could be adversely affected.

In July 1996, thirty-three countries ratified the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, or the Wassenaar Arrangement, which established a worldwide arrangement to restrict the transfer of conventional arms and dual-use goods and technologies. Under the terms of the Wassenaar Arrangement, the participating countries, including the United States, have restricted exports to China of technology, equipment, materials and spare parts that potentially may be used for military purposes in addition to their commercial applications. To the extent that technology, equipment, materials or spare parts used in our manufacturing processes are or become subject to the restrictions of the Wassenaar Arrangement, our ability to procure these products and technology could be impaired, which could adversely affect our business and operating results. There could also be a change in the export license regulatory regime in the countries from which we purchase our equipment, materials and spare parts that could delay our ability to obtain export licenses for the equipment, materials, spare parts and technology we require to conduct our business.

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***Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results.***

The value of the Renminbi is subject to changes in China's governmental policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, or the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The Renminbi to U.S. dollar exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation. On July 21, 2005, the PBOC announced an adjustment of the exchange rate of the U.S. dollar to Renminbi from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. The central parity rate of the U.S. Dollar to Renminbi was set at 6.3009 on December 31, 2011 versus 6.6227 on December 31, 2010 by PBOC. The cumulative appreciation of the Renminbi against the U.S. dollar in 2011 was approximately 5%. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As a result, the exchange rate may become volatile and the Renminbi may be temporarily devalued again against the U.S. dollar or other currencies, or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation in the value of the Renminbi against the U.S. dollar, any of which could have an adverse affect on our business and operating results.

In the past, financial markets in many Asian countries have experienced severe volatility and, as a result, some Asian currencies have experienced significant devaluation from time to time. The devaluation of some Asian currencies may have the effect of rendering exports from China more expensive and less competitive and therefore place pressure on China's government to devalue the Renminbi. An appreciation in the value of the Renminbi could have a similar effect. Any devaluation of the Renminbi could result in an increase in volatility of Asian currency and capital markets. Future volatility of Asian financial markets could have an adverse impact on our ability to expand our product sales into Asian markets outside of China.

We receive a portion of our sales in Renminbi, which is currently not a freely convertible currency. For the year ended December 31, 2011, approximately 23.5% of our sales were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these sales into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we may not be able to meet our foreign currency payment obligations.

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***China's entry into the World Trade Organization has resulted in lower Chinese tariff levels, which benefit our competitors from outside China and could adversely affect our business and operating results.***

As a result of joining the World Trade Organization, or WTO, China reduced its average rate of import tariffs to 9.8% in 2003 and has maintained this rate through 2011. China may further reduce its average rate of import tariffs in 2012 and the import tariff for some information technology-related products has been reduced to zero. As a consequence, we expect stronger competition in China from our foreign competitors, particularly in terms of product pricing, which could adversely affect our business and operating results.

***China's legal system embodies uncertainties that could adversely affect our business and operating results.***

Since 1979, many new laws and regulations covering general economic matters have been promulgated in China. Despite this activity to develop the legal system, China's system of laws is not yet complete. Even where adequate laws exist in China, enforcement of existing laws or contracts based on such laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

Our activities in China will be subject to administrative review and approval by various national and local agencies of China's government. See Item 4.B-Information on the Company-Business Overview-Regulation. Because of the changes occurring in China's legal and regulatory structure, we may not be able to secure the requisite governmental approval for our activities. Failure to obtain the requisite governmental approval for any of our activities could adversely affect our business and operating results.

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***Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our Chinese operating subsidiaries, which could restrict our ability to act in response to changing market conditions and reallocate funds from one Chinese subsidiary to another in a timely manner.***

We are a Cayman Islands holding company and substantially all of our operations are conducted through our Chinese operating subsidiaries, Semiconductor Manufacturing International (Shanghai) Corporation, or SMIC Shanghai, Semiconductor Manufacturing International (Beijing) Corporation, or SMIC Beijing, and Semiconductor Manufacturing International (Tianjin) Corporation, or SMIC Tianjin. The ability of these subsidiaries to distribute dividends and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. In particular, under Chinese law, these operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as reserve funds, unless such reserves have reached at least 50% of their respective registered capital. In addition, the profit available for distribution from our Chinese operating subsidiaries is determined in accordance with generally accepted accounting principles in China. This calculation may differ from the one performed in accordance with U.S. GAAP. As a result, we may not have sufficient distributions from our Chinese subsidiaries to enable necessary profit distributions to us or any distributions to our shareholders in the future.

Distributions by our Chinese subsidiaries to us may be subject to governmental approval and taxation. Any transfer of funds from us to our Chinese subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of Chinese governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. In addition, it is not permitted under Chinese law for our Chinese subsidiaries to directly lend money to one another. Therefore, it is difficult to change our capital expenditure plans once the relevant funds have been remitted from us to our Chinese subsidiaries. These limitations on the free flow of funds between us and our Chinese subsidiaries could restrict our ability to act in response to changing market conditions and reallocate funds from one Chinese subsidiary to another in a timely manner.

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**Risks Related to Ownership of Our Shares and ADSs**

***Future sales of securities by us or our shareholders may decrease the value of your investment.***

Future sales by us or our existing shareholders of substantial amounts of our ordinary shares or ADSs in the public markets could adversely affect market prices prevailing from time to time.

We cannot predict the effect, if any, of any such future sales or of the perception that any such future sales will occur, on the market price for our ordinary shares or ADSs.

***Holders of our ADSs will not have the same voting rights as the holders of our shares and may not receive voting materials in time to be able to exercise their right to vote.***

Holders of our ADSs may not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs have appointed the depository or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. You may not receive voting materials in time to instruct the depository to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

***You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depository will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.



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***The laws of the Cayman Islands and China may not provide our shareholders with benefits provided to shareholders of corporations incorporated in the United States.***

Our corporate affairs are governed by our memorandum and articles of association, and by the Companies Law, as revised from time to time, and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands and from English common law, the decisions of whose courts are of persuasive authority but are not binding on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands have a less developed body of securities laws as compared to the United States. Therefore, our public shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

***It may be difficult for you to enforce any judgment obtained in the United States against our company, which may limit the remedies otherwise available to our shareholders.***

Substantially all of our assets are located outside the United States. Almost all of our current operations are conducted in China. Moreover, a number of our directors and officers are nationals or residents of countries other than the United States. All or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. In addition, there is uncertainty as to whether the courts of the Cayman Islands or China would recognize or enforce judgments of U.S. courts obtained against us or such persons predicated upon the civil liability provisions of the securities law of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands or China, respectively, against us or such persons predicated upon the securities laws of the United States or any state thereof. See Item 4.B Information on the Company Business Overview Enforceability of Civil Liabilities.

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**Item 4. Information on the Company**

**A. History and Development of the Company**

We were established as an exempted company under the laws of the Cayman Islands on April 3, 2000. Our legal name is Semiconductor Manufacturing International Corporation. Our principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203; telephone number: (86) 21-3861-0000. Our registered office is located at PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands. Since our Global Offering, we have been listed on the New York Stock Exchange under the symbol SMI and the Stock Exchange of Hong Kong under the stock code 0981.HK

In August 2000, we started construction of the first fabrication facility (fab) in our Shanghai mega-fab, which commenced pilot production in September 2001 and commercial production in January 2002. The second fab in our Shanghai mega-fab was completed in two stages, commencing commercial production in January 2002 (for aluminum interconnects) and January 2003 (for copper interconnects). The third fab in our Shanghai mega-fab also commenced commercial production in January 2003. All of the fabs comprising our Shanghai mega-fab are located in the Zhangjiang High-Tech Park. In January 2004, we completed the acquisition of an 8-inch wafer fab located in the Xiqing Economic Development Area in Tianjin, China, which commenced mass production in May 2004. We started construction of our Beijing mega-fab, consisting of two 12-inch fabs, in the Beijing Economic and Technological Development Area in December 2002. The Beijing mega-fab commenced commercial production in March 2005, and is mainland China's first 12-inch fab. In January 2008, we announced our plan to start a new IC production project in Shenzhen with support from the Shenzhen municipal government. The project broke ground in the first half of 2008 and is still under construction.

We entered into an agreement with Toppan Printing Co., Ltd. to establish Toppan SMIC Electronics (Shanghai) Co., Ltd., which manufactures color filters and micro-lenses for CMOS image sensors. We also established a joint venture with United Test and Assembly Center Ltd. to provide assembly and testing services in Chengdu, China, focusing on memory and logic devices (which we substantially exited in 2011). We also entered into agreements to manage the operations of wafer manufacturing facilities in Chengdu and Wuhan, China. The Chengdu fab agreement was subsequently terminated in 2010. We maintain customer service and marketing offices in Japan, Europe, Taiwan, and the United States, as well as a representative office in Hong Kong.

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The foundry industry requires a significant amount of capital expenditures in order to construct, equip, and ramp up fabs. We incurred capital expenditures of US\$190 million, US\$728 million, and US\$765 million in 2009, 2010 and 2011, respectively, for these purposes. We anticipate that in 2012, we will incur approximately US\$430 million in capital expenditures, subject to adjustment based on market conditions, principally to expand our operations at our 12" fab in Shanghai. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing.

As of December 31, 2011, our fabs had an aggregate capacity of 193,290 8-inch wafer equivalents per month for wafer fabrication calculated on a 30-days basis. We anticipate an increase in aggregate capacity by the end of 2012.

For additional information, see Item 5.A Operating and Financial Review and Prospects - Operating Results--Factors that Impact Our Results of Operations Substantial Capital Expenditures and Item 5.A Operating and Financial Review and Prospects - Operating Results--Factors that Impact Our Results of Operations Capacity Expansion.

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**B. Business Overview**

We are one of the leading semiconductor foundries in the world. We operate three 8-inch wafer fabrication facilities in our Shanghai mega-fab located in the Zhangjiang High-Tech Park in Shanghai, China, an 8-inch wafer fab in Tianjin, China and a 12-inch wafer fab in our Beijing mega-fab located in the Beijing Economic and Technological Development Area in Beijing, China. As of December 31, 2011, these fabs had an aggregate capacity of 193, 290 8-inch wafer equivalents per month for wafer fabrication which positions us as the leading foundry in China. In addition, we have a 12-inch fab in Shanghai currently engaged primarily in research and development activities, and an 8-inch fab under construction in Shenzhen. We have also entered into agreements to manage the operations of wafer manufacturing facilities in Wuhan, China.

We currently provide semiconductor fabrication services using 0.35 micron down to 40 nanometer process technology for the following devices:

- logic technologies, including standard logic, mixed-signal, RF and high voltage circuits;
- memory technologies, including SRAM, Flash, EEPROM and Mask ROM; and
- specialty technologies, including LCOS, CIS, MEMS, TSV and IPD.

In addition to wafer fabrication, our service offerings include a comprehensive portfolio of intellectual property consisting of libraries and circuit design blocks, design support, mask-making, wafer probing, gold/solder bumping and redistribution layer manufacturing. We also work with our partners to provide assembly and testing services.

We have a global and diversified customer base that includes some of the world's leading IDMs and fabless semiconductor companies.

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**Our Industry**

***The Semiconductor Industry***

Since the invention of the first semiconductor transistor in 1947, integrated circuits have become critical components in an increasingly broad range of electronics applications, including personal computers, wired and wireless communications equipment, televisions, consumer electronics and automotive and industrial control applications. Advancements in semiconductor design techniques and process technologies have allowed for the mass production of increasingly smaller and more powerful semiconductor devices at lower costs. This has resulted in the availability and proliferation of more complex integrated circuits with higher functionality. These integrated circuits may now each contain up to millions of transistors.

The key raw material for a semiconductor foundry is a raw wafer, which is a circular silicon plate. Raw wafers are available in different diameters (e.g., 5-inch, 6-inch, 8-inch or 12-inch) to meet the capabilities of different equipment. A fab capable of manufacturing integrated circuits on an 8-inch raw wafer is commonly described as an 8-inch fab. A raw wafer with a larger diameter has a greater surface area and consequently yields a greater number of integrated circuit dies.

Process technologies are the set of specifications and parameters implemented for manufacturing the circuitry on integrated circuits. The transistor circuitry on an integrated circuit typically follows lines that are less than one micron wide (1/1,000,000 of a meter). The line-widths of the circuitry, or the minimum physical dimensions of the transistor gate of integrated circuits in production, is used as a general rule for classifying generations of process technology of integrated circuits. Progress in the advancement of the integrated circuit has been driven by the scaling, or downsizing, of its components, primarily the transistors. By systematically shrinking the size of the transistors, the number of allowable transistors per die increases, and thus the number of dies on a given wafer, has also increased. Our current process technology ranges from 0.35 micron to 40-nanometer.

***Importance of Integrated Circuits for China's Domestic Market and China's Emergence as a Global Electronics Manufacturing Center***

China has emerged as a global manufacturing center for electronic products that are sold both within China and abroad. In recent years, numerous international companies have established facilities in China for the manufacture of a variety of electronic products, including household appliances, computers, mobile phones, telecommunications equipment, digital consumer products and products with industrial applications. An increasing number of electronic systems manufacturers are relocating production facilities from the United States, Taiwan, and Southeast Asia to China. China is establishing itself as a favorable manufacturing location due to its well educated labor force, significantly lower costs of operations, large domestic market for semiconductors and cultural similarities and geographical proximity to Japan, Hong Kong, Taiwan, Singapore and Korea, among other factors. Such production growth represents additional potential demand for semiconductors manufactured in China.

Table of Contents**Increasing Importance of the Semiconductor Foundry Industry**

As the cost of establishing new fabrication capacity has continued to rise, foundries have progressed from simply providing manufacturing capacity to becoming key strategic partners offering research and development capabilities and manufacturing process technologies. There have historically been a limited number of semiconductor foundries in the industry due to the high barriers to entry, which include significant capital commitments, scarcity of qualified engineers and advanced intellectual property and technology requirements. Many IDMs have begun outsourcing their fabrication requirements for complex and high performance semiconductor devices to foundries in order to supplement their own internal capacities and become more cost competitive. In addition, fabless semiconductor companies have shifted from relying on the excess fabrication capacity of IDMs to utilizing independent foundries to meet the majority of their wafer production needs.

**Our Fabs**

The table below sets forth a summary of our current fabs:

	Shanghai Mega-Fab	Beijing Mega-Fab	Tianjin
Number and Type of fab	3 x 8-inch fabs 1 x 12-inch fab	2 x 12-inch fabs	1 x 8-inch fab
Pilot production commencement	September 2001 September 2010	July 2004	February 2004
Commercial production commencement	January 2002 July 2011	March 2005	May 2004
Wafer size	8-inch 12-inch	12-inch	8-inch
Production clean room size	34,610 m <sup>2</sup>	23,876 m <sup>2</sup>	8,463 m <sup>2</sup>

In addition to our Shanghai mega-fab, we have an additional fab at our Shanghai site. A portion of one facility in Shanghai is being leased to Toppan SMIC Electronics (Shanghai) Co., Ltd., which is a joint venture we entered into with Toppan Printing Co., Ltd. and manufactures color filters and micro-lenses for CMOS image sensors. Most of the administrative and management functions of our fabs in different locations are centralized at our corporate headquarters in the Zhangjiang High-Tech Park in the Pudong New Area of Shanghai.

Additionally, we have one 8-inch fab under construction in Shenzhen. The expansion plan for this project will be adjusted based on overall market conditions.

**Management of Fabs**

We also have undertaken agreements relating to wafer manufacturing facilities in Wuhan, China. Under these agreements, we do not own any equity interest but will manage the operations of the facilities.

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**Our Products and Services**

***Wafer Fabrication Services***

We currently provide semiconductor fabrication services using 0.35 micron down to 40 nanometer technology for the following devices:

- logic technologies, including standard logic, mixed-signal, RF and high voltage circuits;
- memory technologies, including SRAM, Flash, EEPROM and Mask ROM;
- specialty technologies, including LCoS, CIS, MEMS, TSV, and IPD.

These semiconductors are used in various computing, communications, consumer and industrial applications, such as computers, mobile telephones, digital televisions, digital cameras, DVD players, entertainment devices, other consumer electronics devices and automotive and industrial applications.

***Our Technologies***

We manufacture the following types of semiconductors:

- *Logic Semiconductors.* Logic semiconductors process digital data to control the operation of electronic systems. The largest segment of the logic market, standard logic devices, includes microprocessors, microcontrollers, DSPs and graphic chips. Logic semiconductors are used in communications devices, computers and consumer products, with the most advanced logic semiconductors dedicated primarily to computing applications.
- *Mixed-Signal and RF.* Analog/digital semiconductors combine analog and digital devices on a single semiconductor to process both analog signals and digital data. We make 0.35 micron to 40 nanometer mixed-signal and RF semiconductors using the CMOS process. The primary uses of mixed-signal semiconductors are in hard disk drives, wireless communications equipment and network communications equipment, while RF semiconductors are primarily used in communications devices, such as cell phones.
- *High Voltage.* High voltage semiconductors are semiconductor devices that can drive high voltage electricity to systems that require voltage of between five volts to 700 volts. Our high voltage technologies provide solutions for display driver integrated circuits, power supplies, power management, telecommunications, automotive electronics and industrial controls.
- *Memory Semiconductors.* Memory semiconductors, which are used in electronic systems to store data and program instructions, are generally classified as either volatile memory, which lose their data content when power supplies are switched off, or non-volatile memory, which retain their data content without the need for a constant power supply. Examples of volatile memory include SRAM and examples of non-volatile memory include electrically erasable programmable read-only memory, or EEPROM, NAND Flash and OTP. Memory semiconductors are used in communications devices, computers and many consumer products.

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*Specialty Semiconductors.*

- *LCoS.* LCoS microdisplays are tiny, high resolution, low power displays designed for high definition televisions, projectors and other products that use or rely on displays. Compared with other display technologies, such as liquid crystal and plasma, LCoS displays have higher resolution and higher fill factor, resulting in superior images, colors and performance. LCoS process technology represents an enhancement of mixed-signal CMOS process technology with the addition of a highly reflective mirror layer.
- *CIS.* CIS devices are sensors that are used in a wide range of camera-related systems, such as digital cameras, digital video cameras, handset cameras, personal computer cameras and surveillance cameras, which integrate image-capturing. CIS is rapidly becoming a cost-effective and low power replacement for competing charged-coupled devices, or CCDs. Since CIS devices are fabricated with CMOS technology, they are easier to produce and more cost-effective than CCDs. By combining camera functions on a chip, from the capture of photos to the output of digital bits, CMOS image sensors reduce the parts required for a digital camera system, which in turn enhances reliability, facilitates miniaturization, and enables on-chip programming. Our CIS process is based on our CIS array technology.
- *MEMS and TSV.* Micro Electrical and Mechanical System, or MEMS technology is used to make micro sensor and actuator of small size, high performance and energy saving, and is widely used in smart mobile phone, novel smart notebook and emerging Net of Things. We are making advanced CMOS compatible and embedded MEMS devices, such as motion sensor, pressure sensor, temperature and humidity sensor, and oscillator. TSV is the core of 2.5D and 3D technology for shrinking form factor, lowering power consumption and increasing speed and band width. We are currently focusing on 2.5D technology including interposer and TSV in chip, and will start true 3D technology development on 28nm advanced technology node.
- *IPD.* Integrated Passive Devices are used to fit multiple passive devices on silicon, which can reduce the number of passive components on a circuit board and lower system cost.



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We are one of the leading foundries in the world in terms of the process technologies that we are capable of using in the manufacturing of semiconductors.

Fab	Month and year of commencement of commercial production of initial fab	Process technology (in microns)			
		2008	2009	2010	2011
Wafer fabrication:					
Shanghai Mega-fab (8 )	January 2002	0.35/0.25/ 0.18/0.15/ 0.13/0.11/0.09	0.35/0.25/ 0.18/0.15/ 0.13/0.11	0.35/0.25/ 0.18/0.15/ 0.13/0.11	0.35/0.25/ 0.18/0.15/ 0.13/0.11
Shanghai fab (12 )	July 2011		0.11/0.09	0.11/0.09/0.045	0.11/0.09/0.045
Beijing Mega-fab (12 )	March 2005	0.13/0.11/0.10/0.09	0.18/0.13/0.09/0.065	0.18/0.13/0.09/0.065	0.18/0.13/0.09/0.065
Tianjin fab (8 )	May 2004	0.35/0.25/ 0.18/0.15	0.35/0.25/ 0.18/0.15	0.35/0.25/ 0.18/0.15	0.35/0.25/ 0.18/0.15

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The following table sets forth a percentage breakdown of wafer sales by process technology for the years ended December 31, 2009, 2010, and 2011 and each of the quarters in the year ended December 31, 2011:

Process Technologies	For the year ended December 31,		For the three months ended				For the year ended
	2009 (based on sales in US\$)	2010	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	December 31, 2011
0.045 micron	0%	0%	0%	0%	0.03%	0.25%	0.06%
0.065 micron	1.01%	5.45%	13.27%	20.65%	19.90%	21.02%	18.50%
0.09 micron	15.51%	17.48%	12.33%	7.66%	9.99%	9.22%	9.85%
0.13 micron	33.27%	32.92%	24.07%	22.84%	20.84%	22.29%	22.59%
0.15 micron	2.18%	1.72%	1.33%	2.50%	2.02%	1.35%	1.81%
0.18 micron	27.98%	25.87%	31.58%	31.52%	35.43%	35.88%	33.42%
0.25 micron	0.46%	0.47%	0.37%	0.41%	0.44%	0.35%	0.39%
0.35 micron	19.59%	16.09%	17.05%	14.42%	11.35%	9.64%	13.38%
Total	100.00%	100.00 %	100.00%	100.00%	100.00%	100.00%	100.00%

**Manufacturing Capacity**

We currently manufacture 8-inch silicon wafers based on proprietary designs provided by our customers or third party designers. Since commencing commercial production, we have the largest 8-inch wafer fabrication capacity among semiconductor foundries in China. We have the most advanced process technology among foundries in China. In January 2003, we commenced commercial production using 0.13 micron copper interconnects process technology. We are currently one of the few fabs in China to offer 0.13 micron copper interconnects process technology and both 90 nanometer and 65 nanometer wafer fabrication process technology.

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The following table sets forth the historical capacity of our wafer fabrication and copper interconnects fabs as December 31, 2011:

Fab	2009	2010	2011
<b>Wafer Fabrication:</b>			
Wafer fabrication capacity as of year-end <sup>(1)</sup> :			
Shanghai mega-fab	85,000	86,000	90,000
Beijing mega-fab	42,750	52,425	65,540
Tianjin fab	34,300	33,300	37,750
Total monthly wafer fabrication capacity as of year-end <sup>(1)</sup>	162,050 <sup>(2)</sup>	171,725 <sup>(2)</sup>	193,290 <sup>(2)</sup>
Wafer fabrication capacity utilization	75%	96.1%	68.9%

All output and capacity data is provided as 8-inch wafers or 8-inch wafer equivalents per month.

- (1) Conversion of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25.
- (2) Mega fab structure includes copper interconnects in the total monthly capacity.

As of December 31, 2011, our aggregate wafer fabrication capacity was 193,290 8-inch wafer equivalents per month for wafer fabrication.

A key factor influencing our profit margins is our capacity utilization. Because a high percentage of our cost of sales is of a fixed nature, operations at or near full capacity have a significantly positive effect on output and profitability, our wafer fabs had an average annual utilization rate of 75% in 2009, 96.1% in 2010, and 68.9% in 2011. Factors affecting utilization rates are the overall industry conditions, the level of customer orders, the complexity of the wafers and of the mix of wafers produced, mechanical failures and other operational disruptions such as the expansion of capacity or the relocation of equipment, and our ability to manage the production facilities and product flows efficiently. Before 2008, we had manufactured DRAM to fill our production lines when the volume demand of other products does not fully utilize our available capacity. As a result, our utilization rate has historically remained high.

We determine the capacity of a fab based on the capacity ratings given by manufacturers of the equipment used in the fab, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to setup for production runs and approximately one to two days of scheduled annual maintenance, and expected product mix. Because these factors include subjective elements, our measurement of capacity utilization rates may not be comparable to those of our competitors. All of our fabs currently operate 24 hours per day, seven days per week, except during periods of annual maintenance. Employees in our fabs work shifts of 12 hours each day on a two-days-on, two-days-off basis.

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***Capacity Expansion Plans***

We intend to maintain our strategy of expanding capacity and improving our process technology to meet both the capacity requirements and the technological needs of our customers. Our capital expenditures in 2010 were approximately US\$728 million and our capital expenditures in 2011 were approximately US\$765 million. We currently expect that our capital expenditures in 2012 will be approximately US\$430 million, subject to adjustment based on market conditions, which we plan to fund primarily through our operating cash flows. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing. We plan to use this capital primarily to expand our operations at our fab in Shanghai. In addition, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, or customer requirements. We will monitor the global economy, the semiconductor industry, the demands of our customers, and our cash flow from operations to adjust our capital expenditure plans.

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**Our Integrated Solutions**

In addition to wafer fabrication, we provide our customers with a range of complementary services, from circuit design support and mask-making to wafer level probing and testing. This range of services is supported by our network of partners that assist in providing design, probing, final testing, packaging, assembly and distribution services.

The diagram below sets forth our service model and our key points of interaction with our customers:

- (1) A portion of this work is outsourced to our service partners.
- (2) A portion of these services are outsourced to our service partners.

***Design Support Services***

Our design support services include providing our customers with access to the fundamental technology files and intellectual property libraries that facilitate customers' own integrated circuit design. We also offer design reference flows and access to our design center alliance, as well as layout services. In addition, we collaborate with industry leaders in electronic design automation, library and intellectual property services to create a worldwide network of expertise, resources and services that are available to implement and produce a customer's designs.

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***Libraries***

As part of the necessary building blocks for our customers' semiconductor designs, we offer libraries of compatible designs for portions of semiconductors, such as standard cells, I/O and selected memory blocks, in addition to technology files. We have a dedicated team of engineers who work with our research and development department to develop, license or acquire from third parties selected key libraries early on in the development of new process technologies so that our customers can quickly design sophisticated integrated circuits that utilize the new process technologies. We also have arrangements with other providers of libraries to provide our customers with access to a broad library portfolio for their designs. In particular, we offer a portfolio of ASIC library and design kits for a wide range of tested and verified circuit applications and design-flow implementation. These include standard cell, I/O and memory compilers in from 0.35 micron down to 40 nanometer process technologies. They have been developed primarily through our third party alliances, as well as by our internal research and development team, to facilitate easy design reuse and fast integration into the overall design system. We are currently developing additional libraries. Our library partners include ARM, Synopsys, Inc., VeriSilicon, and Virage Logic.

***Intellectual Property***

Together with the intellectual property developed by our internal design team, our alliances with intellectual property providers enable us to offer foundational designs ranging from 0.35 micron to 55 nanometer and relating to mixed-signal, embedded memory, high-speed interface, digital peripheral device controllers, and embedded processors, among others. We use our own and third party design expertise to realize the functions of these various types of intellectual property. Our intellectual property partners include ARM, MIPS, Virage, Synopsys, and Verisilicon.

***Design Reference Flows***

Customers implementing designs on our processes can utilize our design reference flows. These flows have been created using design tools developed by our electronic design automation partners, including Cadence Design Systems, Inc., Magma Design Automation, Inc., Mentor Graphics Corporation, and Synopsys, Inc. They include training guides and sample test cases to provide a step-by-step explanation on how the hierarchical design flow works.

***Design Center Alliance***

If a customer requires assistance in designing its semiconductors, we are able to recommend design partners from among our extensive design services network. This network consists of design companies that we have successfully worked with in the past. In addition, we are also able to offer our own internal design team members to help our clients to complete their designs.

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***Mask-making Services***

Many of our foundry customers utilize our mask-making services.

While most of our mask-making services are for customers that also utilize our wafer fabrication services as part of our overall foundry service, we also produce masks for other domestic and overseas fabs as a separate revenue-generating service. Our mask shop also cooperates with our research and development department to develop new technologies and designs.

Our mask-making facility, which is located in Shanghai, includes a 3,750 square meters clean room with up to class I specifications. At present, our mask shop offers both five-inch by five-inch, and six-inch by six-inch reticles. Our facility is capable of producing binary masks, optical proximity correction masks and phase shift masks. Our mask facility also offers mask repair services.

We also offer a multi-project wafer service that allows the cost of manufacturing one mask set to be shared among several customers. See [Item 4 Customers and Markets](#) for more details regarding this service.

Intellectual property protection is a key focus of our mask-making services. See [Intellectual Property](#) for more details regarding the intellectual property protection measures we have instituted in our mask facility.

***Wafer Probing, Assembly and Testing Services***

We have our own probing facilities in Shanghai and Beijing that provide test program development, probe card fabrication, wafer probing, failure analysis, and failure testing. We also outsource these services to our partners for those customers that request them.

Our probing facility in Shanghai occupies a clean room space of 3,000 square meters, and our probing facility in Beijing occupies a clean room space of 1,400 square meters. Both facilities are rated at class 1,000 cleanliness and are equipped with advanced testers, probers and laser repair machines for logic, memory, and mixed-signal products. The probing facility in Beijing supports testing of Beijing's 12-inch wafers and Tianjin's 8-inch wafers. We have testing equipment for memory, logic and mixed signal applications, including some equipment that has been consigned to our Shanghai facility by our customers. This consigned testing equipment has been specially designed and built by our customers in order to probe their particular products at our facility.

We have established a network of partners that provide additional probing services, as well as assembly and testing services, for our customers that request these additional services. We have relationships with assembly and testing partners, including Amkor Assembly & Test (Shanghai) Co., Ltd. and ST Assembly Test Services Ltd., which have helped to enhance the range of services that we are able to offer our customers.

Table of Contents**Customers and Markets**

Our customers include IDMs, fabless semiconductor companies and systems companies. The following table sets forth the breakdown of our sales by customer type for 2009, 2010 and 2011:

Customer Type	For the year ended December 31, 2009		2010		2011	
	Sales (in US\$ thousands, except percentages)	Percentage	Sales	Percentage	Sales	Percentage
Fabless semiconductor companies	693,150	66.80%	1,110,935	72.49%	1,081,345	81.95%
Integrated device manufacturers	173,459	16.72%	248,782	16.23%	175,922	13.33%
Systems companies and others	171,056	16.48%	172,732	11.28%	62,199	4.72%
Total	1,037,665	100.00%	1,532,449	100.00%	1,319,466	100.00%

We categorize our sales geographically based on the headquarter of customer operations and is not related to shipment destination. The following table sets forth the geographical distribution of our sales and percentage of sales for 2009, 2010 and 2011:

Region	For the year ended December 31, 2009		2010		2011	
	Sales (in US\$ thousands, except percentages)	Percentage	Sales	Percentage	Sales	Percentage
United States	629,330	60.64%	847,852	55.33%	726,011	55.02%
Europe	20,814	2.01%	39,168	2.56%	35,256	2.67%
Asia Pacific (excluding Japan and Taiwan, China) <sup>(1)</sup>	20,335	1.96%	32,011	2.09%	21,244	1.61%
Taiwan	144,292	13.91%	167,154	10.90%	105,788	8.02%
Japan	9,685	0.93%	3,188	0.21%	356	0.03%
China	213,209	20.55%	443,076	28.91%	430,811	32.65%
Total	1,037,665	100.00%	1,532,449	100.00%	1,319,466	100.00%



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We have a global and diversified customer base that includes IDMs, fabless semiconductor companies and systems companies. Although we are not dependent on any single customer, a significant portion of our sales is attributable to a relatively small number of our customers. For the year ended December 31, 2011, our five largest customers accounted for 49.3% of our total sales. Our sales could be significantly reduced if any of these customers cancels or reduces its orders, significantly changes its product delivery schedule or demands lower prices.

The following table sets forth a breakdown of our sales by application type for 2009, 2010 and 2011:

Application Type <sup>(1)</sup>	For the year ended December 31, 2009		2010		2011	
	Sales (in US\$ thousands, except percentages)	Percentage	Sales	Percentage	Sales	Percentage
Computing	53,724	5.18%	51,651	3.37%	45,355	3.44%
Communications	531,705	51.24%	755,951	49.33%	553,493	41.95%
Consumer	376,966	36.33%	607,600	39.65%	595,313	45.12%
Others	75,270	7.25%	117,247	7.65%	125,305	9.49%
Total	1,037,665	100.00%	1,532,449	100.00%	1,319,466	100.00%

- (1) Computing consists of integrated circuits such as hard disk drive controllers, DVD-ROM/CD-ROM driver integrated circuits, graphic processors and other components that are commonly used in personal digital assistants and desktop and notebook computers and peripherals. Communications consists of integrated circuits used in digital subscriber lines, digital signal processors, wireless LAN, LAN controllers, LCD drivers, handset components and caller ID devices. Consumer consists of integrated circuits used for DVD players, game consoles, digital cameras, smart cards and toys.

The following table sets forth a breakdown of our sales by service type for 2009, 2010 and 2011:

Service Type	For the year ended December 31, 2009		2010		2011	
	Sales (in US\$ thousands, except percentages)	Percentage	Sales	Percentage	Sales	Percentage
Fabrication of memory wafers	34,038	3.28%	17,338	1.13%	3	0.0%
Fabrication of logic wafers <sup>(1)</sup>	936,187	90.22%	1,416,250	92.42%	1,219,442	92.42%
Other <sup>(2)</sup>	67,440	6.50%	98,861	6.45%	100,021	7.58%
Total	1,037,665	100.00%	1,532,449	100.00%	1,319,466	100.00%

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- (1) Includes copper interconnects and memory devices whose manufacturing process is similar to that for a logic device.
- (2) Includes mask-making and probing, etc.

We have customer service and marketing offices located in California, Milan, Shanghai, and Tokyo and a representative office in Hong Kong. Our Shanghai office serves China and other non-Japan Asian markets, our California office serves the North American market, and our Milan and Tokyo offices serve the European and Japanese markets, respectively. We also sell some products through sales agents in selected markets.

We also provide our customers with the ability to share costs through our multi-project wafer processing shuttle service. This service allows customers to share costs with other customers by processing multiple designs on a single mask set.

We provide our customers with 24-hour online access to necessary information to conduct business with us. From our technical capabilities to a customer's order status, we provide an online solution for our customers. From wafer fabrication, wafer sorting and assembly to final testing and shipping, our data center electronically transfers data, work-in-progress tracking, yield/cycle-time reports, and quality/engineering data to customers.

Our sales cycle, meaning the time between our first contact with a customer in relation to a particular product and our first shipment of that product to the customer, typically lasts between three months to one year, depending on the type of process and product technology involved in the product we are requested to fabricate. Because of the fast-changing technology and functionality in integrated circuit design, foundry customers generally do not place purchase orders far in advance to fabricate a particular type of product. However, we engage in discussions with customers commencing in advance of the placement of purchase orders regarding customers' expected fabrication requirements. See Item 3.D--Risk Factors Risks Related to Our Financial Condition and Business Our sales cycles can be long, which could adversely affect our operating results and cause our income stream to be unpredictable.

See Item 5.A Operating and Financial Review and Prospects Operating Results Sales for a description of the seasonality of our business.

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**Research and Development**

Our research and development activities are principally directed toward the development and implementation of more advanced and lower cost process technology. We spent US\$176.4 million in 2009, US\$191.0 million in 2010 and US\$191.5 million in 2011 on research and development expenses, which represented 17.0%, 12.5% and 14.5% respectively, of our sales in those respective years. Our research and development costs are partially offset by related government subsidies and include non-recurring engineering costs associated with the ramp-up of a new wafer facility.

In 2011, our research and development efforts were focused primarily on advanced logic and system-on-chip, or SOC process technologies. In 2011, we achieved many significant milestones. In the area of advanced logic process technologies, 55-nanometer (nm) low-leakage (LL) process technology, a half node derivative from the existing 65nm LL, was released for volume manufacturing early in the year, 45nm and 40nm (LL) passed qualification in partnership with major customers both domestic and abroad and started risk production in the fourth quarter, the development of 28nm process technologies is underway and on schedule with respect to the planned roadmap, and pathfinding on 22/20nm process technology started in the fourth quarter. The 55nm LL and 40nm LL process technologies are complemented with silicon-based SPICE models, PDK, DRC and silicon-validated IP for supporting mixed-signal and RF product design of customers. In the memory process technologies, 0.13um e-EEPROM process technology for bankcard/insurance card and 90nm eFlash for high-end smartcard have been successfully set up and are under product-based testing, and 90nm ETOX NOR Flash was brought into production. In the CMOS image sensor process technology area, 1.75um pixel device was successfully developed and qualified, and ready for 2 mega and 3 mega pixel applications. On the process technology for power management (PMIC), a major program to support the 10/30/35 volt platform was successfully developed, qualified and is now supporting volume production of multiple products. Lastly, the program on CMOS based MEMS (CMEMS), Integrated Passive Devices (IPD) and Through Silicon Via (TSV) had achieved major milestones and will be placed into field for initial production at specific time points in 2012. During 2011, we achieved more than 1,000 patent filings as a result of our research and development activities.

We employ approximately over 450 research and development engineers with experience in the semiconductor industry. Most of them have advanced degrees from leading universities in China and around the world. To address our planned research and development activities in 2012 and 2013, the Technology Research & Development business function unit carried out organization building and restructuring in 2011 for improved operational efficiency and the organization is planning a manpower increase of 10% or more in 2012.

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**Intellectual Property**

While we continue to develop and patent our own technologies, we expect to have an ongoing need to obtain licenses for the proprietary technologies of third parties to enable us to manufacture certain advanced wafers for our customers. As of December 31, 2011, we have been granted 2,315 patents, and have more than 5,845, patent applications pending worldwide.

We implement a variety of measures to protect the intellectual property and related interests of our company, customers and technology partners. We require our employees to execute a confidential information and invention assignment agreement relating to non-competition and intellectual property protection issues prior to commencing their employment at our company. Access to customer information is granted to employees strictly on a need-to-know basis both during and after mask tooling.

We have applied for trademarks relating to our corporate logo, English trade name SMIC and Chinese trade name in the United States, China, Hong Kong and Taiwan. We have been granted registration of trademarks for our English trade name in China and Taiwan, and Chinese trade name in Hong Kong, United States and China. There is no assurance that other trademark registrations will be granted.

**Competition**

We compete internationally and domestically in China with dedicated foundry service providers, as well as with semiconductor companies that allocate a portion of their fabrication capacity to foundry operations. While different players in the wafer foundry market may compete on factors such as technical competence, production speed and cycle time, time-to-market, research and development quality, available capacity, yields, customer service and price, we seek to compete on the basis of process technology capabilities, performance, quality and service and not by just lowering the price of our products. The level of competition differs according to the process technology involved.

Our competitors and potential competitors include other pure-play foundries such as TSMC, UMC and GlobalFoundries. TSMC has commenced commercial production at its fab in China, and UMC has established a relationship with a fab in commercial production in China. Another group of potential competitors consists of IDMs that have established their own foundry capabilities include Fujitsu Limited, Samsung Electronics Co., Ltd. and Toshiba. IDMs are primarily dedicated to fabricating integrated circuits for the end products of their respective affiliates. See Item 3.D Risk Factors Risks Related to Our Financial Condition and Business If we cannot compete successfully in our industry, particularly in China, our results of operations and financial condition will be adversely affected.

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**Quality and Reliability**

We have implemented quality assurance measures relating to material quality control, monitoring of our in-line processes and wafer-level reliability control at every stage of our operations from technology development to production. By combining advanced quality assurance procedures and e-commerce technology, we monitor all processes, services and materials in our mask-making, wafer fabrication and probing facilities. These quality assurance measures include inspection of incoming materials, supplier and subcontractor management, manufacturing environmental control and monitoring, in-line defect monitoring, engineering change control, calibration monitoring, chemical analysis and visual inspection. Quality assurance measures also include on-going process and product reliability monitors and failure tracking for early identification of production problems.

We incorporate reliability control in our entire production process and have adopted a system that enables us to track and record wafer-, package- and product-level reliability data throughout the development, qualification and production stages of the relevant process or device. This data enables us to identify problems at an early stage and provide an immediate diagnosis and solution, so as to further reduce our failure rate.

We achieved ISO 9001:2000 certification from the British Standards Institute, or BSI, with zero-defect performance for our Shanghai Mega-Fab in March 2003, Beijing Mega-Fab in April, 2005 and Tianjin Fab in May 2005. The ISO 9001 quality standards were established by the International Standards Organization, an organization formed by delegates from member countries to establish international quality assurance standards for products and manufacturing processes. International Standards Organization certification is required in connection with sales of industrial products in many countries. To further enhance our quality management system, we obtained TS 16949:2002 certification from the BSI in February 2004 for Shanghai Mega-Fab and extended to Beijing and Tianjin in 2005. This is an International Standards Organization quality management certification that relates to automobile applications and primarily measures a device's ability to handle extreme changes in temperature. In January 2005, we obtained TL 9000 Quality Management System certification from BSI. This is a management certification relating to the telecommunications industry and evaluates research and development, production and installation and maintenance of communication product and services.

In September 2008, our S2/Fab 8 passed the BSI ISO 27001:2005 audit with zero defect performance. This BSI ISO 27001 audit is the expansion of the information security management systems certification review, which was an added certification to the original mask shop and design center services and represents a significant achievement for us. ISO 27001 is a widely recognized information security standard in the industry.

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**Raw Materials**

Our fabrication processes uses many raw materials, primarily silicon wafers, chemicals, gases, and various types of precious and other metals. Raw material costs constituted 18%, 21% and 22% of our manufacturing costs in 2009, 2010 and 2011, respectively.

The three largest components of raw material costs raw wafers, chemicals and gases - accounted for approximately 38%, 21% and 10%, respectively, of our raw material costs in 2009, approximately 37%, 22%, and 10%, respectively, of our raw material costs in 2010, and approximately 36%, 23%, and 10%, respectively, of our raw material costs in 2011. Most of our raw materials generally are available from several suppliers, but substantially all of our principal materials requirements must currently be sourced from outside China.

The most important raw material used in our production is silicon in the form of raw wafers. In 2011, we purchased approximately 71.2% of our overall raw wafer requirements from our three major raw wafer suppliers. The prices of our principal raw material are not considered to be volatile.

For 2011, our largest and five largest raw materials suppliers accounted for approximately 11.5% and 36.7%, respectively, of our overall raw materials purchases. For 2010, our largest and five largest raw materials suppliers accounted for approximately 8.01% and 33.52%, respectively, of our overall raw materials purchases. For 2009, our largest and five largest raw materials suppliers accounted for approximately 11.2% and 43.2%, respectively, of our overall raw materials purchases. Having made all reasonable inquiry, we are not aware of any director or shareholder (which to the knowledge of our directors owning more than 5% of our issued share capital) or their respective associates having shareholding interests in any of our five largest suppliers. Most of our materials are imported free of value-added tax and import duties due to concessions granted to our industry in China.

**Electricity and Water**

We use substantial amounts of electricity in our manufacturing process. This electricity is sourced from Pudong Electricity Corporation, Beijing Municipal Electricity Department, Tianjin Municipal Electricity Department and Shenzhen PanGuShi Municipal Electricity Department for our facilities located in Shanghai, Beijing, Tianjin and Shenzhen, respectively. We maintain Uninterrupted Power Supply systems and emergency back-up generators to power life safety and critical equipment and systems for emergencies.

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The semiconductor manufacturing process also uses extensive amounts of fresh water. We source our fresh water for our Shanghai mega-fab from Pudong Vivendi Water Corporation Limited, for our Beijing mega-fab from Beijing Waterworks Group Co. Ltd., for our Tianjin fab from the Tianjin Municipal Water Department and for our Shenzhen facility from Grand Industrial Zone Water Company of Shenzhen. Because Beijing and Tianjin are subject to potential water shortages in the summer, our fabs in Beijing and Tianjin are equipped with back-up reservoirs. We have taken steps to reduce fresh water consumption in our fabs and capture rainwater for use at our Beijing and Tianjin facilities, and our water recycling systems in each of our fabs allow us to recycle up to 70% of the water used during the manufacturing process. The Beijing site is also equipped to use recycled/treated industrial waste water from the Beijing Economic and Technological Development Area for non-critical operations.

**Regulation**

The integrated circuit industry in China is subject to substantial regulation by the Chinese government. This section sets forth a summary of the most significant Chinese regulations that affect our business in China.

***Scope of Regulation***

The *Several Policies to Encourage the Development of Software and Integrated Circuit Industry*, or the Integrated Circuit Policies, promulgated by the State Council of The People's Republic of China on June 24, 2000, together with other ancillary laws and regulations, regulates integrated circuit production enterprises, or ICPEs. The State Council issued the Integrated Circuit Policies in order to encourage the development of the software and integrated circuits industry in China. The Integrated Circuit Policies form the basis for a series of laws and regulations that set out in detail the preferential policies relating to ICPEs. Such laws and regulations include:

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- the *Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Relevant Taxation Policy Encouraging the Further Development of the Software Industry and the Integrated Circuit Industry*, or the *Integrated Circuit Notice*, jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on September 22, 2000, as amended by the *Notice of the Ministry of Finance and the State Administration of Taxation on Approval Procedure Concerning Foreign Invested Enterprises Implementing Enterprise Income Tax Policies of the Software and Integrated Circuit Industry*, or the *Approval Notice*, jointly issued by the Ministry of Finance and the State Administration of Taxation on July 1, 2005;
- the *Notice of the Ministry of Finance, the State Administration of Taxation on Taxation Policies Concerning the Tax Policies for Further Encouraging the Development of the Software and the Integrated Circuit Industry*, or the *Further Development Taxation Notice*, jointly issued by the Ministry of Finance and the State Administration of Taxation on October 10, 2002, as amended by *Notice of the Ministry of Finance, the State Administration of Taxation on Termination of Value-added Tax Refund Policies for Integrated Circuits*, or the *Termination Notice*, jointly issued by the Ministry of Finance and the State Administration of Taxation on October 25, 2004;
- the *Notice of the Ministry of Finance on Taxation Policies Concerning the Import of Self-used Raw Materials and Consumables by Part of Integrated Circuit Production Enterprises*, or the *Raw Materials Taxation Notice*, issued by the Ministry of Finance on August 24, 2002;
- the *Notice on Taxation Policies Concerning the Import of Construction Materials Specially used for Clean Rooms by Part of the Integrated Circuit Production Enterprises*, or the *Construction Materials Taxation Notice*, issued by the Ministry of Finance on September 26, 2002;
- the *Notice by the Ministry of Finance and the State Administration of Taxation on Increasing Tax Refund Rate for Export of Certain Information Technology(IT) Products*, or the *Export Notice*, issued by the Ministry of Finance and the State Administration of Taxation on December 10, 2004;
- the *Measures for the Accreditation of the Integrated Circuit Enterprise Encouraged by the State (For Trial Implementation)*, or the *Accreditation Measures*, jointly issued by the National Development and Reform Commission, the Ministry of Information Industry, the State Administration of Taxation and the General Administration of Customs on October 21, 2005; and
- the *Interim Measures for the Management of the Special Fund for the Research and Development of the Integrated Circuit Industry*, or the *Fund Measures*, jointly issued by the Ministry of Finance, the Ministry of Information Industry and the National Development and Reform Commission on March 23, 2005.



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***Preferential Industrial Policies Relating to ICPEs***

ICPEs which are duly accredited in accordance with relevant laws and regulations may qualify for preferential industrial policies. Under the Integrated Circuit Policies, accreditation of ICPEs is determined by the competent examination and approval authorities responsible for integrated circuit projects after consultation with relevant taxation authorities. Under the Accreditation Measures, an integrated circuit enterprise refers to an independent legal entity duly established in the PRC (except for Hong Kong, Macao, and Taiwan) engaging in the fabrication, package, or testing of integrated circuit chips and the production of mono-crystalline silicon of six inches or above, excluding the integrated circuit design enterprise. The accreditation of ICPEs is included in the accreditation of the integrated circuit enterprises. Such accreditation is determined by the competent authorities consisting of the National Development and Reform Commission, the Ministry of Information Industry (now Ministry of Industry and Information Technology), the State Administration of Taxation and the General Administration of Customs, which jointly designate the China Semiconductor Industrial Association as the accreditation institution. Any enterprise qualified under the requirements set forth in the Accreditation Measures is entitled to apply to the China Semiconductor Association for the Accreditation of the ICPEs. The accreditation of ICPEs is annually reviewed. If the enterprise fails to apply for the annual review in time, it shall be deemed as giving up such accreditation and if the enterprise fails in the annual review, the accreditation will also be canceled.

SMIC Shanghai, SMIC Beijing, and SMIC Tianjin have been accredited as ICPEs and are entitled to the preferential industrial policies described below.

***Encouragement of Domestic Investment in ICPEs***

Pursuant to the *Interim Provisions on Promoting Industrial Structure Adjustment*, or the Interim Provisions, issued by the State Council on December 2, 2005, and the *Catalogue for the Guidance of Industrial Structure Adjustment*, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011, the Chinese government encourages (i) the design and fabrication of large scale integrated circuits with a line width of less than 1.2 micron, (ii) the fabrication of the equipment of large scale integrated circuit and (iii) the fabrication of mixed integrated circuits. Under the Interim Provisions, imported equipment that is used for a qualifying domestic investment project and that falls within such project's approved total investment amount is exempt from custom duties and import-linked value-added tax, except for such equipment listed in the *Catalogue of Import Commodities for Domestic Investment Projects Not Entitled to Tax Exemptions*, as stipulated by the State Council and amended in 2006.

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*Encouragement of Foreign Investment in ICPEs*

Pursuant to the Integrated Circuit Policies and the *Guideline Catalogue of Foreign Investment Industries* promulgated jointly by the State Development and Reform Commission and the Ministry of Commerce on December 24, 2011, the following foreign investment categories are encouraged:

- design of integrated circuits;
- fabrication of large scale integrated circuits with a line width of less than 0.18 micron (including 0.18 micron);
- fabrication of analog and analog digital integrated circuits with a line width of less than 0.8 micron (including 0.8 micron);
- advanced packaging and testing of BGA, PGA, CSP, MCM;
- fabrication of mixed integrated circuits;
- MEMS and compound semiconductor integrated circuits.

Foreign investment in such encouraged projects may enjoy preferential treatment as stipulated by the laws and regulations.

*Preferential Taxation Policies*

Semiconductor Manufacturing International Corporation is a tax-exempted company incorporated in the Cayman Islands.

Prior to January 1, 2008, our subsidiaries incorporated in the PRC were governed by the Income Tax Law of the PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax laws (the *FEIT Laws* ).

The Law of the People's Republic of China on Income Tax ( *EIT Law* ) was promulgated on March 16, 2007, which became effective January 1, 2008. Under the *EIT Law*, domestically-owned enterprises and foreign-invested enterprises ( *FIEs* ) are subject to a uniform tax rate of 25%. The *EIT Law* provides a five-year transition period starting from its effective date for those companies which were established before the promulgation date of the *EIT Law* and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. In accordance with regulations issued by the State Council, the tax rate of such companies may gradually transit to the uniform tax rate within the transition period. For those companies which are enjoying tax holidays, such tax holidays may continue until their expiration in accordance with the regulations issued by the State Council, but where the tax holiday has not yet started because of losses, such tax holiday shall be deemed to commence from the first effective year of the *EIT Law*. As a result, the applicable tax rates during the five-year transitional period are as follows: 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter.

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Pursuant to Caishui Circular [2008] No.1 ( Circular No.1 ) promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately \$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to a preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction for the following five years. Pursuant to Caishui Circular [2009] No.69 ( Circular No. 69 ), the 50% reduction should be based on the statutory tax rate of 25% unless the income tax rate of the Company is reduced by the tax incentives granted by Circular No.39. On January 28, 2011, the State Council of China issued Guofa [2011] No.4 ( Circular No.4 ), the Notice on Certain Policies to Further Encourage the Development of the Software and Integrated Circuit Industries which reinstates the EIT incentives stipulated by Circular No.1 for the software and integrated circular enterprises.

*Preferential Policies Encouraging Research and Development*

The EIT Law and the Implementation Regulations of the EIT Law have provided tax incentives in relation to technologies as a means to encourage advancement and adoption of new technologies. The EIT Law provides an additional 50% deduction of the research and development expenses incurred from the research and development of new technologies, new products, and new techniques on the basis of the actual deductions when relevant enterprise has no intangible asset to be formed and calculated into the current gains and losses. If intangible assets have been formed, they shall be amortized at 150% of the cost of the intangible assets.

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***Legal Framework Concerning the Protection of Intellectual Property Relating to Integrated Circuits***

China has formulated various laws and regulations on intellectual property protection in respect of integrated circuits including:

- the *Patent Law of the People's Republic of China*, adopted at the fourth meeting of the Standing Committee of the Sixth National People's Congress on March 12, 1984, effective April 1, 1985 and amended by the Ninth National People's Congress on August 25, 2000 and third amended by the Eleventh People's Congress on December 27, 2008, effective October 1, 2009;
- the *Paris Convention for the Protection of Industrial Property* of the World Intellectual Property Organization, in which China became a member state as of March 19, 1985;
- the *General Principles of the Civil Law of the People's Republic of China* adopted at the fourth session of the Sixth National People's Congress on April 12, 1986, effective January 1, 1987 and revised at the thirtieth session of the Tenth National People's Congress on October 28, 2007. In this legislation, intellectual property rights were defined in China's basic civil law for the first time as the civil rights of citizens and legal persons;
- the *Copyright Law of the People's Republic of China*, adopted by the 15th meeting of the Seventh National People's Congress Standing Committee on September 7, 1990, effective June 1, 1991, first amended by the Ninth National People's Congress on October 27, 2001 and second amended by the Eleventh National People's Congress on February 26, 2010;
- the *Regulations for the Protection of the Layout Design of Integrated Circuits*, or the Layout Design Regulations, adopted April 2, 2001 at the thirty-sixth session of the executive meeting of the State Council, effective October 1, 2001; and
- the World Intellectual Property Organization's *Washington Treaty on Intellectual Property in Respect of Integrated Circuits*, for which China was among the first signatory states in 1990.

***Protection of the Layout Design of Integrated Circuits***

Under the Layout Design Regulations, layout design of an integrated circuit refers to a three dimensional configuration in an integrated circuit that has two or more components, with at least one of these being an active component, and part or all of the interconnected circuitry or the three-dimensional configuration prepared for the production of integrated circuits.

Chinese natural persons, legal persons or other organizations that create layout designs are entitled to the proprietary rights in the layout designs in accordance with the Layout Design Regulations. Foreign persons or enterprises that create layout designs and have them first put into commercial use in China are entitled to the proprietary rights in the layout designs in accordance with the Layout Design Regulations. Foreign persons or enterprises that create layout designs and that are from a country that has signed agreements with China regarding the protection of layout designs, or is a party to an international treaty concerning the protection of layout designs to which China is also a party, are entitled to the proprietary rights of the layout designs in accordance with the Layout Design Regulations.

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***Proprietary Rights in Layout Design of Integrated Circuits***

Holders of proprietary rights in a layout design are entitled to the following proprietary rights:

- to duplicate the whole protected layout design or any part of the design that is original; and
- to make commercial use of the protected layout design, the integrated circuit containing the layout design, or commodities containing the integrated circuit.

Proprietary rights in layout designs become valid after being registered with the administrative department of the State Council responsible for intellectual property. Unregistered layout designs are not protected by the Layout Design Regulations.

The protection period of the proprietary rights in a layout design is ten years, commencing from the date of the application for registration of the layout design or the date that it is put into commercial use anywhere in the world, whichever is earlier. However, regardless of whether or not a layout design is registered, or whether or not it is put into commercial use, it is not protected after 15 years from the time of its creation.

***Registration of a Layout Design***

The administrative departments of the State Council responsible for intellectual property are responsible for the registration of layout designs and accepting applications for the registration of layout designs. If an application for a layout design registration is not made with the administrative department of the State Council responsible for intellectual property within two years after it has been put into commercial use anywhere in the world, the administrative department of the State Council responsible for intellectual property will not register the application. A holder of proprietary rights in a layout design may transfer the proprietary rights or give permission for other parties to use the layout design.

***Compulsory Licenses for Exploitation of Patents in Respect of Semiconductor Technology***

Under the Patent Law and the Implementing Regulations of the Patent Law, after three years from the date of granting the patent rights, any person or enterprise that has made good faith reasonable proposals to the holder of proprietary rights seeking a license to those rights, but has been unable to obtain such license after an extended period of time, may request the administrative department responsible for patents under the State Council to grant a compulsory license for the relevant patent. However, where a compulsory license involves semiconductor technology, the implementation of a compulsory license is restricted to public and non-commercial uses, or to uses that counteract anti-competitive actions, as determined by judicial or administrative procedures.

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***PRC Tax for Resident Enterprises***

Under China's EIT Law, we may be classified as a resident enterprise of China. This classification could result in unfavorable tax consequences to us and our non-PRC shareholders. The implementing rules of the EIT Law define de facto management bodies as management bodies that exercises substantial and overall management and control over the production and operations, personnel, accounting, and properties of the enterprise. Currently no official interpretation or application of this resident enterprise classification is available, therefore it is unclear how tax authorities will determine tax residency based on the facts of each case.

If the PRC tax authorities determine that our Cayman Islands holding company is a resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. Second, although under the EIT Law and its implementing rules dividends income between qualified resident enterprises is exempted income, it is not clear what is considered a qualified resident enterprise under the EIT Law. Finally, it is possible that future guidance issued with respect to the resident enterprise classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares or ADSs. Similarly, these unfavorable consequences could apply to our other overseas intermediary holding companies if they are classified as a PRC resident enterprises.

Our Chinese subsidiaries are subject to a variety of Chinese environmental laws and regulations promulgated by the central and local governments concerning examination and acceptance of environmental protection measures in construction projects, the use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, control of industrial noise and fire prevention. These laws and regulations set out detailed procedures that must be implemented throughout a project's construction and operation phases.

A key document that must be submitted for the approval of a project's construction is an environmental impact assessment report that is reviewed by the relevant environmental protection authorities. Upon completion of construction, and prior to commencement of operations, an additional examination and acceptance by the relevant environmental authority of such projects is also required. Within one month after receiving approval of the environmental impact assessment report, a semiconductor manufacturer is required to apply to and register with the competent environmental authority the types and quantities of liquid, solid and gaseous wastes it plans to discharge, the manner of discharge or disposal, as well as the level of industrial noise and other related factors. If the above wastes and noise are found by the authorities to have been managed within regulatory levels, renewable discharge registrations for the above wastes and noise are then issued for a specified period of time. SMIC Shanghai, SMIC Beijing and SMIC Tianjin have all received approval with respect to their relevant environmental impact assessment reports and discharge registrations.

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From time to time during the operation of our Chinese subsidiaries, and also prior to renewal of the necessary discharge registrations, the relevant environmental protection authority will monitor and audit the level of environmental protection compliance of these subsidiaries. Discharge of liquid, solid or gaseous waste over permitted levels may result in imposition of fines, imposition of a time period within which rectification must occur or even suspension of operations.

**Enforceability of Civil Liabilities**

We are a Cayman Islands holding company. We are incorporated in the Cayman Islands because of the following benefits associated with being a Cayman Islands corporation:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, the Cayman Islands have a less developed body of securities laws as compared to the United States and provide significantly less protection for investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. Substantially all of our assets are located outside the United States. In addition, most of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of our or such persons' assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon us or such persons or to enforce against them or against us, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

Conyers Dill & Pearman, our counsel as to Cayman Islands law, Slaughter and May, our counsel as to Hong Kong law, and Fangda Partners, our counsel as to Chinese law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands, Hong Kong and China, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or
- be competent to hear original actions brought in each respective jurisdiction, against us or our directors or officers predicated upon the securities laws of the United States or any state thereof.

Conyers Dill & Pearman has further advised us that a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the Courts of the Cayman Islands under the common law doctrine of obligation.

Table of Contents**C. Organizational Structure**

We operate primarily through SMIC Shanghai, SMIC Beijing and SMIC Tianjin in China. The chart below sets forth also our other significant operating subsidiaries or affiliates, including their jurisdictions of incorporation and principal activities as of December 31, 2011:

Name of company	Place and date of incorporation/establishment	Attributable equity interest held	Principal Activity
Better Way Enterprises Limited ( Better Way )	Samoa April 5, 2000	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation ( SMIC Shanghai or SMIS )*#	PRC December 21, 2000	100%	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America June 22, 2001	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation ( SMIC Beijing or SMIB )*#	PRC July 25, 2002	100%	Manufacturing and trading of semiconductor products
SMIC Japan Corporation*	Japan October 8, 2002	100%	Provision of marketing related activities
SMIC Europe S.R.L.	Italy July 3, 2003	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Tianjin) Corporation ( SMIC Tianjin or SMIT )*#	PRC November 3, 2003	100%	Manufacturing and trading of semiconductor products
SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation) *#	PRC September 30, 2003	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Solar Cell) Corporation	Cayman Islands June 30, 2005	100%	Investment holding



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Name of company	Place and date of incorporation/establishment	Attributable equity interest held	Principal Activity
SMIC Energy Technology (Shanghai) Corporation ( Energy Science)*# (This business is being liquidated)	PRC September 9, 2005	100%	Manufacturing and trading of solar cells related semiconductor products
SMIC Development (Chengdu) Corporation*#	PRC December 29, 2005	100%	Construction, operation, management of SMICD s living quarters, schools and supermarket
Magnificent Tower Limited	British Virgin Islands January 5, 2006	100%	Investment holding
Semiconductor Manufacturing International (BVI) Corporation ( SMIC (BVI) )*	British Virgin Islands April 26, 2007	100%	Provision of marketing related activities
SMIC Solar Cell (HK) Company Limited ( SMIC Solar Cell (HK) )*	Hong Kong December 3, 2007	100%	Investment holding
SMIC Shanghai (HK) Company Limited ( SMIC SH (HK) )*	Hong Kong December 3, 2007	100%	Investment holding
SMIC Beijing (HK) Company Limited ( SMIC BJ (HK) )*	Hong Kong December 3, 2007	100%	Investment holding
SMIC Tianjin (HK) Company Limited ( SMIC TJ (HK) )*	Hong Kong December 3, 2007	100%	Investment holding
SMIC Shanghai (Cayman) Corporation ( SMIC SH (Cayman) )*	Cayman Islands November 8, 2007	100%	Investment holding
SMIC Beijing (Cayman) Corporation ( SMIC BJ (Cayman) )*	Cayman Islands November 8, 2007	100%	Investment holding
SMIC Tianjin (Cayman) Corporation ( SMIC TJ (Cayman) )*	Cayman Islands November 8, 2007	100%	Investment holding
SMIC (Wuhan) Development Corporation*#	PRC March 27, 2007	100%	Construction, operation, management of living quarters, schools
Admiral Investment Holdings Limited	British Virgin Islands October 10, 2007	100%	Investment holding

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Name of company	Place and date of incorporation/establishment	Attributable equity interest held	Principal Activity
SMIC Shenzhen (Cayman) Corporation	Cayman Islands January 21, 2008	100%	Investment holding
SMIC Shenzhen (HK) Company Limited	Hong Kong January 29, 2008	100%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands February 13, 2008	100%	Investment Holding
SilTech Semiconductor (Hong Kong) Corporation Limited*	Hong Kong March 20, 2008	100%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation*#	PRC March 20, 2008	100%	Manufacturing and trading of semiconductor products
SilTech Semiconductor (Shanghai) Corporation Limited	PRC March 3, 2009	100%	Manufacturing and trading of semiconductor products
Brite Semiconductor Corporation	Cayman Islands	44.2%	Investment Holding
Brite Semiconductor Corporation Hong Kong Limited	Hong Kong	44.2%	Investment Holding
Brite Semiconductor Corporation	PRC	44.2%	Design House

# Companies registered as wholly-owned foreign enterprises in the People's Republic of China. (PRC), excluding for the purpose of this report, Hong Kong, Macau, and Taiwan.

\* For identification purposes only.

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**D. Property, plant and equipment**

*Equipment*

The quality and level of technology of the equipment used in the semiconductor fabrication process are important because they dictate the limits of the process technology that we use. Advances in process technology cannot be achieved without corresponding advances in equipment technology. The principal pieces of equipment used by us to fabricate semiconductors are scanners, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputterers, CVD equipment, testers and probers. We source substantially all of our equipment from vendors located in the United States, Europe and Japan.

In implementing our capacity expansion and technology advancement plans, we expect to make significant purchases of equipment required for semiconductor fabrication. Some of the equipment is available from a limited number of vendors and/or is manufactured in relatively limited quantities, and in some cases has only recently become commercially available. Our ability to obtain certain kinds of equipment from outside of China may be subject to restrictions. See Risk Factors Risks Related to Conducting Operations in China Limits placed on exports into China could substantially harm our business and operating results.

We maintain our equipment through a combination of in-house maintenance and outside contracting to our equipment vendors. We decide whether to maintain ourselves, or subcontract the maintenance of, a particular piece of equipment based on a variety of factors, including cost, complexity and regularity of the required periodic maintenance and the availability of maintenance personnel in China. Most of our equipment vendors offer maintenance services through technicians based in China.

*Property*

Our corporate headquarters and our mega-fab in Shanghai occupy 367,895 square meters of land, for which we hold valid land use rights certificates. These fabs currently occupy approximately 45% of the total land area for which we hold valid land use rights. We also hold valid land use rights for the 240,140 square meters of land that comprise our Beijing site, approximately 75% of which will be occupied by the Beijing mega-fab. In 2005, we received land use rights certificates for 215,733 square meters of land in Tianjin, which is occupied by the Tianjin fab. We own all of the buildings and equipment for our fabs, except for certain customer-owned tooling provided to our Shanghai operations for test production on a consignment basis from our customers.

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The following table sets forth the location, size and primary use of our real properties and whether such real properties are owned or leased.

Location	Size (Land/Building) (in square meters)	Primary Use	Owned <sup>(1)</sup> or Leased (Land/Building)
Zhangjiang High-Tech Park, Pudong New Area, Shanghai	530,831/164,795	Wafer fabrication	owned/owned
Beijing Economic and Technological Development Area	506,562/143,017	Wafer fabrication	owned/owned
Xiqing Economic Development Area, Tianjin	215,733/61,990	Wafer fabrication	owned/owned
Shenzhen Export Processing Zone, Shenzhen Pingshan New Area, Guangdong	200,060/225,986	Wafer fabrication	owned/owned
Japan	na/55	Marketing activities	na/leased
USA	na/743	Marketing activities	na/leased
Italy	na/280	Marketing activities	na/leased
Hong Kong <sup>(2)</sup>	na/300	Representative Office	na/owned

(1) With respect to land located in China, ownership refers to holding a valid land use rights certificate. All land within municipal zones in China is owned by the Chinese government. Limited liability companies, joint stock companies, foreign-invested enterprises, privately held companies and individual natural persons must pay fees to be granted rights to use land within municipal zones. Legal use of land is evidenced and sanctioned by land use certificates issued by the local municipal administration of land resources. Land use rights granted for industrial purposes are limited to a term of no more than 50 years.

(2) In February 2006, we purchased approximately 300 square meters of property in Hong Kong through our indirect wholly-owned subsidiary, Magnificent Tower Limited, a company incorporated in the British Virgin Islands.

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The construction of our 8-inch fab in Shenzhen began in 2008 in an effort to expand our production capacity. We anticipate the Shenzhen fab, after completion, will increase our monthly capacity by 30,000 to 40,000 wafers depending on product mix. This project will be financed through our operating cash flows as well as through external financing. See Risk Factors Risks Related to Our Financial Condition and Business Since our operating cash flows will not be sufficient to cover our planned capital expenditures, we will require additional external financing, which may not be available on acceptable terms or at all. Any failure to raise adequate funds in a timely manner could adversely affect our business and operating results, and Risk Factors Risks Related to Our Financial Condition and Business The construction and equipping of new fabs and the expansion of existing fabs are subject to certain risks that could result in delays or cost overruns, which could require us to expend additional capital and adversely affect our business and operating results.

Our right to continued use of the land is subject to our continued compliance with the land use agreement that each of our Chinese subsidiaries has executed. The Chinese government has reserved the right to revoke our land use rights for special eminent domain purposes, in which case the government will compensate us. In addition, pursuant to an amendment to its domestic bank loan agreements, SMIC Beijing has pledged a portion of its land use right to the lenders. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources.

For a description concerning our capacity, capacity utilization rate and capacity expansion plans, please see Item 5 Operating and Financial Review and Prospects Factors that Impact our Results of Operations.

## **Risk Management and Insurance**

We have been OHSAS18001 certified since September 2003. Our health and safety management philosophy is based on incident prevention, which is achieved through:

- Mandatory staff and vendor safety training;
- Compliance of equipment and facilities to safety criteria, including the Semiconductor Equipment and Materials International and National Fire Protection Association standards
- A culture of accountability, whereby managers and employees are held responsible for their own and their group's safety performance;
- Regularly scheduled audits; and
- Standard management procedures.

We have established at each fab, an Emergency Response Center (ERC) to respond to emergencies. The ERCs are staffed 24 hours a day and are equipped with safety and security monitoring systems such as closed circuit television, gas monitoring systems, public announcement systems, and fire alarm monitoring systems.

Each department conducts emergency drills on a regular basis in accordance with our emergency response plan to address possible emergency situations that could arise. These emergency scenarios include fires, gas leakages, chemical spills, and power losses.

We maintain insurance with respect to our facilities, equipment, and inventories. The insurance for the fabs and their equipment covers, subject to some limitations, various risks, including industrial accidents and natural disasters, generally up to the respective replacement values and loss due to business interruption. We have not made any significant claims under these insurance policies. Equipment and inventories in transit are also insured.

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**Environmental Matters**

The semiconductor production process generates gaseous chemical wastes, liquid waste, waste water, and other industrial wastes in various stages of the fabrication process. We have installed various types of pollution control equipment for the treatment of gaseous chemical waste and liquid waste and equipment for the recycling of treated water in our fabs. Our operations are subject to regulation and periodic monitoring by the PRC's State Environmental Protection Bureau, as well as local environmental protection authorities, including those under the Shanghai Pudong Municipal Government, the Beijing Municipal Government and the Tianjin Municipal Government, which may in some cases, establish stricter standards than those imposed by the State Environmental Protection Bureau. The Chinese national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations, and authorize the Chinese national and local governments to suspend any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. No such penalties have been imposed on us or any of our subsidiaries for violations of environmental pollution.

We believe our pollution control measures are effective and comply with the requirements applicable to the semiconductor industry in China and comparable to other countries. Waste generated from our operations, including acid waste, alkaline waste, flammable waste, toxic waste, oxidizing waste and self-igniting waste, are collected and sorted for proper disposal. Furthermore, we have in many cases implemented waste reduction steps beyond the scope of current regulatory requirements. In addition, we continuously investigate methods to lower our energy consumption, including making existing processes more efficient and reclaiming waste heat.

The ISO 14001 standard is a voluntary standard and part of a comprehensive series of standards for environmental management published by the International Standards Organization. The ISO 14001 standard covers environmental management principles, systems and supporting techniques. SMIC first received ISO 14001 certification in August 2002.

In addition, all fabs currently in operation have been QC 080000 certified to be compliant with the hazardous substances management directives such as RoHS (Restriction of the use of certain Hazardous Substances in electrical and electronic equipment), which bans the use of various chemicals determined to be harmful to humans and the environment. Once the Shenzhen facility is in operation, it too will undergo certification for ISO 14001 and QC 080000 compliance.

**Item 4A. Unresolved Staff Comments**

Not applicable

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**Item 5. Operating and Financial Review and Prospects**

We sold our majority ownership interest in AT and deconsolidated the entity on March 1, 2011. Accordingly, we reported the results of AT as a discontinued operation and retrospectively reflected this for all the years presented in our condensed consolidated statements of comprehensive income included in this annual report and presented throughout this Item 5.

**A. Operating Results Overview**

We were founded in April 2000. In 2000 and 2001, our company was in its development stage and did not have any sales. During this period, we established our management structure, acquired land use rights, constructed, equipped and commenced the ramp-up of production at our 8-inch wafer facilities in Shanghai which are referred to as the Shanghai mega-fab, and began our research and development activities. The first fab in the Shanghai mega-fab and a portion of our second fab, commenced commercial production in January 2002. The remaining portion of our second fab and a third fab commenced commercial production in January 2003. In January 2004, we acquired an 8-inch fab in Tianjin, China, which we refer to as our Fab 7, from MCEL, a wholly owned subsidiary of Motorola. The first fab in the Beijing mega-fab commenced commercial production in March of 2005, the 12-inch fab in Shanghai commenced research and development activities in July, 2007 and commenced commercial production since January, 2008. As of December 31, 2011, we had reached total wafer fabrication capacity of 193,290 8-inch wafer equivalents per month. Our wafers shipped and sales increased from 1,334,261 wafers and US\$1,037.7 million for 2009 to 1,979,851 wafers and US\$1,532.4 million for 2010 and then decreased to 1,703,615 wafers and US\$1,319.5 million for 2011.

We manage our business and measure our results of operations based on a single operating segment. We anticipate increasing our aggregate capacity by the end of 2012 subject to market conditions. As we increase our capacity and corresponding wafer production, we anticipate benefits from economies of scale. When our capacity utilization is high, these economies of scale enable us to reduce our per wafer production cost and improve our margins. On the other hand, when our capacity utilization rate is low, our unused capacity results in higher per wafer production cost and decreased margins.

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**Factors that Impact Our Results of Operations**

***Cyclicality of the Semiconductor Industry***

The semiconductor industry is highly cyclical due mainly to the cyclicality of demand in the markets of the products that use semiconductors. As these markets fluctuate, the semiconductor market also fluctuates. This fluctuation in the semiconductor market is exacerbated by the tendency of semiconductor companies, including foundries, to make capital investments in plant and equipment during periods of high demand since it may require several years to plan, construct and commence operations at a fab. Absent sustained growth in demand, this increase in capacity often leads to overcapacity in the semiconductor market, which in the past has led to a significant underutilization of capacity and a sharp drop in semiconductor prices. The semiconductor industry is generally slow to react to declines in demand due to its capital-intensive nature and the need to make commitments for equipment purchases well in advance of the planned expansion.

***Substantial Capital Expenditures***

The semiconductor foundry industry is characterized by substantial capital expenditures. This is particularly true for our company as we have recently constructed and equipped fabs and are continuing to construct and equip new fabs. In connection with the construction and ramp-up of our capacity since our inception, we incurred capital expenditures of US\$ 190 million, US\$728 million, and US\$765 million in 2009, 2010, and 2011, respectively. We depreciate our manufacturing machinery and equipment on a straight-line basis over an estimated useful life of five to seven years. We recorded depreciation of US\$746.7 million, US\$584.2 million and 518.8 million in 2009, 2010, and 2011, respectively.

The semiconductor industry is also characterized by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, our research and development efforts are essential to our overall success. We spent approximately US\$176.4 million in 2009, US\$191.0 million in 2010 and US\$191.5 million in 2011 on research and development expenses, which represented 17.0%, 12.5% and 14.5%, respectively, of our sales for 2009, 2010, and 2011. Our research and development costs are partially offset by related government subsidies and include non-recurring engineering costs associated with the ramp-up of a new wafer facility.

We currently expect that our capital expenditures in 2012 will be approximately US\$430 million, subject to adjustment based on market conditions, in order to expand our operations and which we plan to fund through our operating cash flows. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing. In addition, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, or customer requirements. We will monitor the global economy, the semiconductor industry, the demands of our customers, and our cash flow from operations and will adjust our capital expenditure plans as necessary.



Table of Contents**Capacity Expansion**

We have expanded, and plan to continue to expand, our capacity through internal growth and acquisitions. An increase in capacity may have a significant effect on our results of operations, both by allowing us to produce and sell more wafers and achieve higher sales, and as a cost component in the form of acquisition costs and depreciation expenses. We anticipate increasing our aggregate capacity by the end of 2012 subject to market conditions.

**Pricing**

We price our foundry services on either a per wafer or a per die basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer, and our capacity utilization. Since a majority of our costs and expenses are fixed or semi-fixed, fluctuations in the average selling prices of semiconductor wafers have historically had a substantial impact on our margins. The average selling price of the wafers we shipped increased by 0.13% from US\$774 per wafer in 2010 to \$775 per wafer in 2011.

The following table sets forth a percentage breakdown of wafer sales by process technology for the years ended December 31, 2009, 2010 and 2011 and each of the quarters in the year ended December 31, 2011:

Process Technologies	For the year ended December 31,		For the three months ended				For the year ended December 31, 2011
	2009	2010	March 31, 2011 (based on sales in US\$)	June 30, 2011	September 30, 2011	December 31, 2011	
0.045 micron	0%	0%	0%	0%	0.03%	0.25%	0.06%
0.065 micron	1.01%	5.45%	13.27%	20.65%	19.90%	21.02%	18.50%
0.09 micron	15.51%	17.48%	12.33%	7.66%	9.99%	9.22%	9.85%
0.13 micron	33.27%	32.92%	24.07%	22.84%	20.84%	22.29%	22.59%
0.15 micron	2.18%	1.72%	1.33%	2.50%	2.02%	1.35%	1.81%
0.18 micron	27.98%	25.87%	31.58%	31.52%	35.43%	35.88%	33.42%
0.25 micron	0.46%	0.47%	0.37%	0.41%	0.44%	0.35%	0.39%
0.35 micron	19.59%	16.09%	17.05%	14.42%	11.35%	9.64%	13.38%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table of Contents**Change in Process Mix and Technology Migration**

Because the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our sales and profitability. The value of a wafer is determined principally by the complexity of the process technology used to fabricate the wafer. In addition, production of devices with higher levels of functionality and greater system-level integration requires more fabrication steps, and these devices generally sell for higher prices.

Prices for wafers of a given level of technology generally decline over the relevant process technology life cycle. As a result, we and our competitors are continuously in the process of developing and acquiring advanced process technologies and migrating our customers to use such technologies to maintain or improve our profit margins. This technology migration requires continuous investment in research and development and technology-related acquisitions, and we expect to continue to spend a substantial amount of capital on upgrading our technologies.

Our initial sales after commencing commercial operations in 2002 consisted mainly of DRAM fabricated and sold on a foundry basis, as well as commodity-type DRAM fabricated using technology licensed from a third party and sold by us to distributors. During the first quarter of 2008, we reached an agreement with our customers to completely exit the commodity DRAM business. The conversion of DRAM capacity into logic production was completed on schedule in the fourth quarter of 2008. As a result, our Beijing 300mm logic capacity has placed us in a better position to serve our global and China customers.

The following table sets forth a breakdown of our sales by service type for 2009, 2010 and 2011:

Service Type	For the year ended December 31, 2009		2010		2011	
	Sales (in US\$ thousands, except percentages)	Percentage	Sales	Percentage	Sales	Percentage
Fabrication of memory wafers	34,038	3.28%	17,338	1.13%	3	0.0%
Fabrication of logic wafers <sup>(1)</sup>	936,187	90.22%	1,416,250	92.42%	1,219,442	92.42%
Other <sup>(2)</sup>	67,440	6.50%	98,872	6.45%	100,021	7.58%
<b>Total</b>	<b>\$1,037,665</b>	<b>100.00%</b>	<b>1,532,460</b>	<b>100.00%</b>	<b>1,319,466</b>	<b>100.00%</b>

(1) Includes copper interconnects and memory devices whose manufacturing process is similar to that for a logic device.

(2) Includes mask-making and probing, etc.

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***Capacity Utilization Rates***

Operations at or near full capacity have a significant positive effect on our profitability because a substantial percentage of our cost of sales is of a fixed nature. In 2009, 2010 and 2011, approximately 49%, 40% and 34% respectively, of our cost of sales consisted of depreciation expenses, which are fixed costs. If we increase our utilization rates, the number of wafers we fabricate will increase, and therefore our average fixed costs per wafer will decrease. Therefore, our capacity utilization rates have a significant effect on our margins. Our utilization rates have varied from period to period due to capacity ramp-ups and fluctuations in customer orders. Our annual capacity utilization rate was 75.0% in 2009, 96.1% in 2010, and 68.9% in 2011. Factors affecting utilization rates are the overall industry conditions, the level of customer orders, the complexity of the wafers and of the mix of wafers produced, mechanical failures and other operational disruptions such as the expansion of capacity or the relocation of equipment, and our ability to manage the production facilities and product flows efficiently.

Our capacity is determined by us based on the capacity ratings for each piece of equipment, as specified by the manufacturers of such equipment, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance, and expected product mix. Because these factors include subjective elements, our measurement of capacity utilization rates may not be comparable to those of our competitors.

***Yield Rates***

Yield per wafer is the ratio of the number of functional dies on that wafer to the maximum number of dies that can be produced on that wafer. A significant portion of our services, particularly our memory semiconductor wafer fabrication services, is priced on a per die basis.

We continuously upgrade the process technologies that we use. At the beginning of each technology migration, the yield utilizing the new technology is generally lower, sometimes substantially lower, than the yield under the then-current technology. This is because it requires time to stabilize, optimize and test a new process technology. We do not ship wafers to a customer until we have achieved that customer's minimum yield requirements. Yield is generally improved through the expertise and cooperation of our research and development personnel, process engineers, and equipment suppliers.

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**Critical Accounting Policies**

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below we have summarized our accounting policies that we believe are both important to the portrayal of our financial results and involve the need to make estimates about the effect of matters that are inherently uncertain. We also have other policies that we consider to be key accounting policies. However, these policies do not meet the definition of critical accounting estimates because they do not generally require us to make estimates or judgments that are difficult or subjective.

Please see Item 8.A Financial Information Consolidated Statements and Other Financial Information Litigation regarding the Accounting Treatment for the 2005 and 2009 Settlement Agreements with TSMC.

***Inventory***

Inventories are stated at the lower of cost or market. Inventory cost is determined using standard cost and an allocation of the cost variances arising in the period of production, which approximates actual costs determined on the average basis. We determine the standard cost of each wafer based on estimates of the materials, labor, and other costs incurred in each process step associated with the manufacture of our products. We allocate labor and overhead costs to each step in the wafer production process based on normal fab capacity, with costs arising from abnormal under-utilization of capacity expensed when incurred. The unit cost of a wafer generally decreases as fixed overhead charges, such as depreciation expense on the facility and semiconductor equipment, are allocated over a larger number of units produced.

We estimate the recoverability for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions. If the market value of a good drops below its carrying value, we record a write-off to cost of sales for the difference between the carrying cost and the market value. During the years ended December 31, 2009, 2010 and 2011, we recorded inventory write downs of US\$26.3 million, US\$19.9 million and US\$26.1 million, respectively, to reflect a decline in the estimated market value of the inventory we held. We carry out an inventory review at each quarter-end.

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***Depreciation and Amortization***

We operate in a capital-intensive business. We periodically review and assess the estimated useful life of our assets based on expected use by us, taking into account effects of obsolescence, demand, and other economic factors. The net book value of our plant and equipment, including prepaid land use rights, at December 31, 2011 was US\$2,593.8 million. Depreciation of manufacturing buildings and related improvements is provided on a straight-line basis over the estimated useful life of 25 years and commences from the date the facility is ready for its intended use. Depreciation of our manufacturing machinery and equipment, as well as our facility, machinery and equipment, is provided on a straight-line basis over the estimated useful life, commencing from the date that the equipment is placed into productive use. A 5 to 7 year useful life is used for manufacturing machinery and equipment while a 10 year useful life is used for facility, machinery and equipment. Amortization of land use rights is over the term of the land use right agreement, which ranges from 50 to 70 years. Amortization of intangible assets is computed using the straight-line method over the expected useful life of the assets ranging from 3 to 10 years. The estimated useful life and dates that the equipment is placed into productive use reflects our estimate of the periods that we intend to derive future economic benefits from the use of our plant and equipment and land use rights.

***Long-lived Assets***

We assess 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 we consider 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. We make 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. We measure 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.

In order to remain technologically competitive in our industry, we have entered into technology transfer and technology license arrangements with third parties in an attempt to advance our process technologies. The payments made for such technology licenses are recorded as an intangible asset or as a deferred cost and amortized on a straight-line basis over the estimated useful life of the asset. We routinely review the remaining estimated useful lives of these intangible assets and deferred costs. We also evaluate these intangible assets and deferred costs for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

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We have continued to construct, acquire, and expand our manufacturing facilities since our inception. We will continue to review impairment factors as described above and, as a result, impairment charges may be necessary in the future as circumstances change.

In 2011 and 2010, we recorded an impairment loss of \$17.7 million and \$8.4 million, respectively, associated with the disposal of fixed assets with outdated technologies, \$3.3 million of which in 2010 was related to the subsidiary that was deconsolidated in 2011.

In 2009, the effect of adverse market conditions and significant changes in our operation strategy lead to our identification and commitment to abandon a group of long-lived assets equipped with outdated technologies and no longer receiving vendor support. As of December 31, 2009, this group of assets ceased to be used. As a result, we recorded an impairment loss of \$102.4 million and a discontinued operation loss of \$2.3 million after writing down the carrying value of these assets to zero, respectively.

**Revenue Recognition**

We manufacture semiconductor wafers for our customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. We also sell 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. We also provide 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. We typically perform tests of our 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. We estimate 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.

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***Share-based Compensation Expense***

Our share-based employee compensation plans are described in more detail under [Share Ownership](#).

We grant stock options to our 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).

The fair value of options and shares issued pursuant to our option plans at the grant date was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected term of the options, the estimated forfeiture rates and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. We estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. We use projected volatility rates based upon our historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect our calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly.

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**Income Tax**

As an exempted company incorporated in the Cayman Islands, we are exempt from Cayman Islands taxation.

Our other subsidiaries are subject to their respective jurisdictions' income tax laws, including Japan, United States, and Europe. Our income tax obligations to date have been minimal.

We account for income taxes using an asset and liability approach for financial accounting and reporting for income tax purposes. Under the asset and liability method, deferred income taxes are recognized for temporary differences, net operating loss carry-forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including past performance, the general outlook of the semiconductor industry, business conditions caused by the global economic downturn, projected future taxable income and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. We conduct this analysis on a quarterly basis. As of December 31, 2011, we have recognized deferred tax assets including \$197.3 million from net operating loss carry forward and \$80.5 million from temporary difference between the tax and book base of certain fixed assets.

We considered positive and negative evidence to determine whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible for tax purpose. Based on the current profit, projected future profitability, and other available evidence, we believed it was more-likely-than-not that SMIC would not realize all the deferred tax assets in future periods. Accordingly, \$284 million of valuation allowances have been provided for our deferred tax assets as of December 31, 2011.

We have no material uncertain tax positions as of December 31, 2011 or unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. We classify interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2011, the amount of interest and penalties related to uncertain tax positions is immaterial. We do not anticipate any significant increases or decreases to our liability for unrecognized tax benefits within the next 12 months.



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**Foreign Currency Fluctuations**

Our sales are generally denominated in U.S. dollars and our operating expenses and capital expenditures are generally denominated in U.S. dollars, Japanese Yen, Euros and Renminbi. Accordingly, we are affected by fluctuations in exchange rates between the U.S. dollar and each of the Japanese Yen, the Euro and the Renminbi. See Item 3.D Risk Factors Risks Related to Conducting Operations in China Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our operating results and Risk Factors - Risks Related to Our Financial Condition and Business Exchange rate fluctuations could increase our costs, which could adversely affect our operating results and the value of our ADSs for a discussion of the effects on our company of fluctuating exchange rates and Item 11 Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Rate Fluctuation Risk for a discussion of our efforts to minimize such risks.

**Recent Accounting Pronouncements**

In May 2011, the FASB issued revised guidance on the Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs. The revised guidance specifies how to measure fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs, not requiring additional fair value measurements and not intending to establish valuation standards or affect valuation practices outside of financial reporting. The revised guidance is effective to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. We are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

On June 16, 2011, the FASB issued ASU 2011-05, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. With the exception of the indefinite deferral of the provisions that require entities to present, in both net income and OCI, adjustments of items that are reclassified from OCI to net income, for public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments do not require incremental disclosures in addition to those required by ASC 250 or any transition guidance. We have early adopted the revised guidance on both Presentation of Comprehensive Income and Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards and now present a continuous statement of comprehensive income.

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In September 2011, the FASB revised guidance on *Testing of Goodwill for Impairment*. The revised guidance specifies that an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. The revised guidance is effective to both public and nonpublic entities that have goodwill reported in their financial statements during interim and annual periods beginning after December 15, 2011. We are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

In December 2011, the FASB issued revised guidance on *Disclosures About Offsetting Assets and Liabilities*. The revised guidance specifies that an entity should disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The revised guidance affects all entities that have financial instruments and derivative instruments. The revised guidance is effective for interim or annual periods beginning after December 15, 2011. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

Table of Contents***Incentives from the Chinese government***

The chart below sets forth a brief summary of the material incentives received by our Chinese subsidiaries from the Chinese government. Our Shanghai, Beijing, and Tianjin subsidiaries are qualified as integrated circuit production enterprises under the Chinese government *Several Policies to Encourage the Development of Software and Integrated Circuit Industry*. Under these policies, any company that engages in the semiconductor industry in China and has a total investment size in excess of 8,000 million Renminbi (approximately US\$964 million) and fabricates integrated circuits that have a line width of less than 0.25 micron are entitled to the last three benefits listed below. For a more detailed discussion of these incentives, see Item 4.B-Information on the Company Business Overview Regulation.

<b>Incentive</b>	<b>SMIC Shanghai, SMIC Beijing, and SMIC Tianjin</b>
Preferential Value-added Tax Policies.	17% VAT rate. 17% tax refund rate for exports reduced to 13% as of January 1, 2004. 13% tax refund rate for exports increased to 17% as of November 1, 2004.
Preferential Enterprise Income Tax Policies	Five-year full exemption and five-year 50% reduction upon approval from the local tax bureau.
Preferential Customs Duties and Import-related VAT Policies	Exemption from customs duties with respect to its equipment, spare parts and raw materials. Exemption from import-related VAT with respect to its equipment, spare parts and raw materials. Exemption from VAT for imported equipment will no longer applied as of July 1, 2009 and a 17% VAT rate will apply.

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**Operating Results**

**Sales**

We generate our sales primarily from fabricating semiconductors. We also derive a relatively small portion of our sales from the mask-making, wafer probing, and other services that we perform for third parties separately from our foundry services.

In 2011, fabless semiconductor companies accounted for 81.95%, IDMs accounted for 13.33% and systems and other companies accounted for 4.72%, respectively, of our sales. Although we are not dependent on any single customer, a significant portion of our net sales is attributable to a relatively small number of our customers. In 2009, 2010, and 2011 our five largest customers accounted for approximately 60.0%, 53.7%, and 49.3% of our sales, respectively. Given our small capacity, relative to the industry, the effect of seasonality is lessened and customer satisfaction plays a larger role in sales.

**Cost of sales**

Our cost of sales consists principally of:

- depreciation and amortization;
- overhead, including maintenance of production equipment, indirect materials, including chemicals, gases and various types of precious and other metals, utilities and royalties;
- direct materials, which consist of raw wafer costs;
- labor, including share-based compensation expenses for employees directly involved in manufacturing activities; and
- production support, including facilities, utilities, quality control, automated systems and management functions.

Our depreciation expenses attributable to cost of sales were US\$575.1 million, US\$491.1 million and US\$415.6 million in 2009, 2010 and 2011, respectively.

**Operating expenses (income)**

Our operating expenses (income) consist of:

- *Research and development expenses.* Research and development expenses consist primarily of salaries and benefits of research and development personnel, materials costs, depreciation and maintenance on the equipment used in our research and development efforts, contracted technology development costs, and the costs associated with the ramp-up of new fabs but are partially offset by related government subsidies.
- *General and administrative expenses.* General and administrative expenses consist primarily of salaries and benefits for our administrative, finance and human resource personnel, commercial insurance, fees for professional services and bad debt expenses.
- *Selling and marketing expenses.* Selling and marketing expenses consist primarily of salaries and benefits of personnel engaged in sales and marketing activities, costs of customer wafer samples, other marketing incentives and related marketing expenses.

Table of Contents**Other income (expenses)**

Our other income (expenses) consists of:

- interest income, which has been primarily derived from cash equivalents and short-term investments;
- interest expenses, net of capitalized portions and government interest subsidies, which have been primarily attributable to our bank loans and the imputed interest rate on an outstanding interest-free promissory note; and
- other income and expense items, such as those relating to the employee living quarters and school; and
- foreign exchange gains and losses relating to financing and investing activities, including forward contracts.

**Comparisons of Results of Operations**

## Consolidated Financial Data

The summary consolidated financial data presented below as of and for the years ended December 31, 2009, 2010, and 2011 are derived from, and should be read in conjunction with our audited consolidated financial statements, including the related notes, included elsewhere in this annual report. The summary consolidated financial data presented below as of and for the years ended December 31, 2007 and 2008 is derived from our audited consolidated financial statements not included in this annual report.

	For the year ended December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands, except for share, ADS, percentages, and operating data)				
<b>Statement of Comprehensive Income:</b>					
Sales	\$ 1,523,502	\$ 1,322,092	\$ 1,037,665	\$ 1,532,449	\$ 1,319,466
Cost of sales <sup>(1)</sup>	1,390,187	1,393,788	1,158,148	1,229,266	1,217,525
Gross profit (loss)	133,315	(71,696)	(120,483)	303,183	101,941
Operating expenses (income):					
Research and development	96,686	105,577	176,420	191,046	191,473
General and administrative	68,775	62,466	215,845	41,387	57,435
Selling and marketing	18,489	20,434	26,209	29,087	32,558
Impairment loss of long-lived assets		106,741	126,635	5,138	17,691
Loss (gain) from sale of plant and equipment and other fixed assets	(28,651)	(2,890)	3,891	97	509
Litigation settlement			269,637		
Other operating income				(16,493)	(7,009)
Total operating expenses, net	155,299	292,328	818,637	250,262	292,657
Income (loss) from operations	(21,984)	(364,024)	(939,120)	52,921	(190,716)

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	For the year ended December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands, except for share, ADS, percentages, and operating data)				
Other income (expenses):					
Interest income	11,506	11,289	2,547	4,086	4,724
Interest expense	(37,936)	(50,733)	(24,587)	(22,563)	(20,583)
Change in the fair value of commitment to issue shares and warrants			(30,101)	(29,815)	
Foreign currency exchange gain (loss)	8,039	11,261	7,291	5,101	17,589
Other, net	2,099	6,371	(4,549)	6,534	6,709
Total other income (expense), net	(16,292)	(21,812)	(49,399)	(36,657)	8,439
Income (loss) from continuing operations before income tax and equity investment	(38,276)	(385,836)	(988,519)	16,264	(182,277)
Income tax benefit (expense)	29,720	(26,433)	46,624	4,818	(82,503)
Gain (loss) from equity investment	(4,013)	(444)	(1,782)	285	4,479
Income (loss) from continuing operations	(12,569)	(412,713)	(943,677)	21,367	(260,301)
Income (loss) from discontinued operations net of tax effect	(9,755)	(19,667)	(18,800)	(7,356)	14,741
Net income (loss)	(22,324)	(432,380)	(962,477)	14,011	(245,560)
Accretion of interest to noncontrolling interest	2,856	(7,851)	(1,060)	(1,050)	(1,319)
Loss attributable to noncontrolling interest				140	63
Net income (loss) attributable to Semiconductor Manufacturing International Corporation	(19,468)	(440,231)	(963,537)	13,100	(246,816)
Deemed dividends on convertible preferred shares					(64,970)
Net income (loss) attribute to holders of ordinary shares	(19,468)	(440,231)	(963,537)	13,100	(311,786)
Net income (loss)	(22,324)	(432,380)	(962,477)	14,011	(245,560)
Other comprehensive income (loss):					
Foreign currency translation adjustment	(94)	(437)	53	(706)	4,938
Comprehensive income (loss)	(22,418)	(432,817)	(962,424)	13,305	(240,622)
Comprehensive income (loss) attribute to noncontrolling interest	2,856	(7,851)	(1,060)	(910)	(1,256)
Comprehensive income (loss) attribute to Semiconductor Manufacturing International Corporation	(19,562)	(440,668)	(963,484)	12,395	(241,878)



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	For the year ended December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands, except for share, ADS, percentages, and operating data)				
Earnings (loss) per ordinary share, basic	\$ (0.00)	\$ (0.02)	\$ (0.04)	\$ 0.00	\$ (0.01)
Earnings (loss) per ordinary share, diluted	\$ (0.00)	\$ (0.02)	\$ (0.04)	\$ 0.00	\$ (0.01)
Weighted average shares used in computing basic earnings (loss) per ordinary share <sup>(2)(3)</sup>	18,501,940,489	18,682,544,866	22,359,237,084	24,258,437,559	27,435,853,922
Weighted average shares used in computing diluted earnings (loss) per ordinary share <sup>(3)</sup>	18,501,940,489	18,682,544,866	22,359,237,084	25,416,597,405	27,435,853,922
Earnings (loss) per ADS, basic <sup>(3)</sup>	\$ (0.05)	\$ (1.18)	\$ (2.15)	\$ 0.03	\$ (0.57)
Earnings (loss) per ADS, diluted <sup>(3)</sup>	\$ (0.05)	\$ (1.18)	\$ (2.15)	\$ 0.03	\$ (0.57)
ADS used in calculating basic earnings (loss) per ADS	370,038,810	373,650,897	447,184,742	485,168,751	548,717,078
ADS used in calculating diluted earnings (loss) per ADS	370,038,810	373,650,897	447,184,742	508,331,948	548,717,078
<b>Other Financial Data:</b>					
Gross margin	8.8%	-5.4%	-11.6%	19.8%	7.7%
Operating margin	-1.4%	-27.5%	-90.5%	3.5%	-14.5%
Net margin	-1.5%	-32.7%	-92.8%	0.9%	-18.6%
<b>Operating Data:</b>					
Wafers shipped (in 8 equivalents)					
Total	1,806,535	1,590,778	1,334,261	1,979,851	1,703,615
ASP <sup>(4)</sup>	843	831	778	774	775

(1) Including share-based 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. For 2006, 2007, 2008 and 2009 earnings (loss) per share did not differ from diluted loss per share.

(3) Each ADS represents 50 ordinary shares.

(4) Total sales/total wafers shipped.



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**Comparisons of the Years Ended December 31, 2009, 2010 and 2011**

*Year Ended December 31, 2011 Compared to Year Ended December 31, 2010*

**Sales.** Sales decreased by 13.9% from US\$1,532.4 million for 2010 to US\$1,319.5 million for 2011, primarily due to a decrease in overall wafer shipments. For the full year of 2011, the overall wafer shipments were 1,703,615 units of 8-inch equivalent wafers, down 14.0% year-on-year.

The average selling price of the wafers we shipped increased from US\$774 per wafer to US\$775. The percentage of wafer revenues from advanced technologies, 90nm and below, increased from 22.9% to 28.4% between these two periods.

**Cost of sales and gross profit (loss).** Cost of sales decreased by 1.0% from US\$1,229.3 million for 2010 to US\$1,217.5 million for 2011. Out of the total cost of sales for 2011, US\$415.6 million was attributable to depreciation of plant and equipment, US\$1.8 million was attributable to share-based compensation costs and the remainder, other manufacturing costs of US\$800.1 million was mainly comprised of material cost, labor cost and repair and maintenance cost. Out of the total cost of sales for 2010, US\$491.1 million was attributable to depreciation of plant and equipment, \$2.8 million was attributable to share-based compensation costs and the remainder, other manufacturing costs of US\$735.4 million was mainly comprised of material cost, labor cost and repair and maintenance cost.

We had a gross profit of US\$101.9 million for 2011 compared to US\$303.2 million in 2010. Gross margins were 7.7% in 2011 compared to 19.8% in 2010. The decrease in gross margins was primarily due to a decrease in revenues and an increase in other manufacturing costs offset by a decrease in depreciation as certain plant and equipment were fully depreciated.

**Operating income (expenses) and income (loss) from operations.** Operating expenses increased by 16.9% from US\$250.3 million for 2010 to US\$292.7 million for 2011 primarily due to charges related to an increase in general and administrative expenses and an increase in impairment losses in 2011.

Research and development expenses slightly increased only by 0.3% from US\$191.0 million for 2010 to US\$191.5 million for 2011.

General and administrative expenses increased by 38.6% from US\$41.4 million for 2010 to US\$57.4 million for 2011, primarily due to an increase in personnel, city maintenance and construction tax expenses and extra charges for education.

Selling and marketing expenses increased by 12.0% from US\$29.1 million for 2010 to US\$32.6 million for 2011, due to an increase in sales and marketing activities.

**Impairment of plant and equipment.** In 2011 and 2010, the Company recorded an impairment loss of \$17,691,318 and \$8,442,050, respectively, associated with the disposal of fixed assets with outdated technologies, \$3,304,125 of which in 2010 was related to the subsidiary that was deconsolidated in 2011. As a result, our loss from operations was US\$190.7 million in 2011 compared to income from operations of US\$52.9 million in 2010. Operating margin was (14.45%) and 3.5%, for 2011 and 2010, respectively.

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**Other income (expenses).** Other income was US\$8.4 million in 2011 compared to other expense of US\$36.7 million in 2010 due to the change in the fair value of commitment to issue shares and warrants. Total foreign exchange gain was US\$17.6 million in 2011 as compared to US\$5.1 million in 2010.

**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 \$17.1 million 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 \$14.7 million 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.

**Net income (loss).** Due to the factors described above, we recorded a net loss of US\$245.6 million in 2011 compared to a net income of US\$14.0 million in 2010.

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

**Sales.** Sales increased by 47.7% from US\$1,037.7 million for 2009 to US\$1,532.4 million for 2010, primarily due to an increase in overall wafer shipments. For the full year 2010, the overall wafer shipments were 1,979,851 units of 8-inch equivalent wafers, up 48.4% year-on-year. The average selling price of the wafers we shipped decreased by 0.5% from US\$778 per wafer to US\$774. The percentage of wafer revenues from advanced technologies, 90nm and below, increased from 16.5% to 22.9% between these two periods.

**Cost of sales and gross profit (loss).** Cost of sales increased by 6.1% from US\$1,158.1 million for 2009 to US\$1,229.3 million for 2010. Out of the total cost of sales for 2010, US\$491.1 million was attributable to depreciation of plant and equipment, \$2.8 million was attributable to amortization of deferred costs and share-based compensation costs and the remainder, other manufacturing costs of US\$735.4 million was mainly comprised of material cost, labor cost and repair and maintenance cost. Out of the total cost of sales for 2009, US\$562.7 million was attributable to depreciation of plant and equipment, \$23.5 million was attributable to amortization of deferred costs and share-based compensation costs and the remainder, other manufacturing costs of US\$571.9 million was mainly comprised of material cost, labor cost and repair and maintenance cost.

We had a gross profit of US\$303.2 million for 2010 compared to a gross loss of US\$120.5 million in 2009. Gross margins were 19.8% in 2010 compared to (11.6) % in 2009. The increase in gross margins was due to higher overall wafer shipments in 2010 driven by the market recovery from the 2009 global recession and \$71.6 million decrease in depreciation expense.

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**Operating income (expenses) and income (loss) from operations.** Operating expenses decreased by 69.4% from US\$818.6 million for 2009 to US\$250.3 million for 2010 primarily due to charges related to settlement of litigation, bad debt provision and plant and equipment impairment loss in 2009. We recorded litigation settlement expense, bad debt expense and impairment loss of US\$269.6 million, US\$115.8 million and US\$126.6 million, respectively, in 2009.

Research and development expenses increased by 8.3% from US\$176.4 million for 2009 to US\$191.0 million for 2010, due to an increase expenses associated with 65nm and 45nm technology development.

General and administrative expenses decreased by 80.8% to US\$41.4 million for 2010 from US\$215.8 million for 2009, primarily due to bad debt expenses of US\$115.8 million recorded in 2009.

Selling and marketing expenses increased by 11.1% from US\$26.2 million for 2009 to US\$29.1 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.

**Impairment of plant and equipment.** In 2010, we recorded an impairment loss of \$8.4 million associated with the disposal of fixed assets with outdated technologies, \$3,304,125 of which in 2010 was related to the subsidiary that was deconsolidated in 2011 compared to an impairment loss of \$102.4 million and a discontinued operation loss of \$2,312,736 recorded in 2009 in connection with certain obsolete assets that were held to be abandoned.

As a result, our income from operations was US\$52.9 million in 2010 compared to loss from operations of US\$939.1 million in 2009. Operating margin was 3.5% and (90.5)%, for 2010 and 2009, respectively.

**Other income (expenses).** Other expenses decreased from US\$49.4 million in 2009 to US\$36.7 million in 2010. The foreign exchange gain, combining the operating and non-operating activities, was US\$5.1 million in 2010 as compared to US\$7.3 million in 2009.

**Net income (loss).** Due to the factors described above, we recorded a net income of US\$14.0 million in 2010 compared to a net loss of US\$962.5 million in 2009.

Table of Contents**Liquidity and Capital Resources**

Our cash flows from operations have historically exceeded operating income, reflecting our significant non-cash depreciation expenses. We will require access to significant capital to fund our future capital and capacity expansion requirements, which are difficult to plan in the rapidly changing semiconductor manufacturing industry. We believe the working capital is sufficient for our present requirements. In the first quarter of 2012, we have entered into two new syndicate loans, the details of which are set forth below under the heading Capital Expenditures . Cash flows from operation in 2012 and the new syndicate loans should be sufficient to meet our capital expenditure requirements. If necessary, we will also explore other forms of external financing.

The following table sets forth a condensed summary of our statements of cash flows for the periods indicated:

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<b>(in US\$ thousands)</b>		
<b>Net cash provided by operating activities:</b>			
Net income (loss)	\$ (962,478)	\$ 14,011	\$ (245,559)
Depreciation	746,685	584,242	518,840
Total	283,566	694,613	398,352
<b>Net cash used in investing activities:</b>			
Purchase of property, plant and equipment	(217,269)	(491,539)	(950,559)
Total	(211,498)	(583,713)	(922,626)
<b>Net cash provided by (used in) financing activities:</b>			
Proceeds from short-term borrowings	726,897	716,676	1,251,371
Repayment of short-term borrowings	(641,291)	(631,485)	(1,015,999)
Proceeds from long-term debt	100,946	10,000	74,979
Repayment for long-term debt	(241,655)	(254,382)	(323,319)
Total	(78,902)	(37,851)	268,855
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (6,767)</b>	<b>\$ 72,346</b>	<b>\$ (254,193)</b>

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*Operating Activities*

As of December 31, 2011, we had US\$261.6 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2011 was US\$398.4 million, which was primarily due to the net loss of US\$245.6 million, an increase of US\$36.4 million in accounts receivable, an increase of US\$66.5 million in other long-term liabilities, and the add-back of US\$518.8 million in depreciation.

As of December 31, 2010, we had US\$515.8 million in cash and cash equivalents. These cash and cash equivalents were held in the form of U.S. dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2010 was US\$694.6 million, which was primarily due to the income attributable to holders of ordinary shares of US\$13.1 million, an increase of US\$19.7 million in inventories, an increase of US\$2.4 million in accounts receivable, an increase of US\$34.2 million in accounts payable relating to the purchase of materials and inventories, and the add-back of US\$584.2 million in depreciation and amortization relating to commercial production.

As of December 31, 2009, we had US\$443.5 million in cash and cash equivalents. These cash and cash equivalents were held in the form of U.S. dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2009 was US\$283.6 million, which was primarily due to the loss attributable to holders of ordinary shares of US\$963.5 million, an increase of US\$22.1 million in inventories, an increase of US\$95.4 million in accounts receivable, an increase of US\$35.8 million in accounts payable relating to the purchase of materials and inventories, and the add-back of US\$748.2 million in depreciation and amortization relating to commercial production.

*Investing Activities*

*Our net cash used in investing* activities was US\$922.6 million in 2011, US\$583.7 million in 2010, and US\$211.5 million in 2009. These amounts were primarily attributable to purchases of plant and equipment for our mega-fabs in Shanghai and Beijing, and Tianjin fab in these periods as well as costs associated with the Shanghai fab construction.

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*Financing Activities*

Our net cash used in financing activities in 2011 was US\$268.9 million. This was primarily derived from US\$1,251 million in proceeds from short-term borrowings, US\$75.0 million in proceeds from long-term debt, US\$1,016 million in the repayment of short-term borrowings, US\$323.3 million in the repayment of long-term debt, US\$30.0 million in the repayment of promissory notes and US\$308.3 million in proceeds from issuance of convertible preferred shares.

Our net cash used in financing activities in 2010 was US\$37.9 million. This was primarily derived from US\$716.7 million in proceeds from short-term borrowings, US\$10.0 million in proceeds from long-term debt, US\$631.5 million in the repayment of short-term borrowings, US\$254.4 million in the repayment of long-term debt, US\$80.0 million in the repayment of promissory notes and US\$199 million in proceeds from issuance of ordinary shares.

Our net cash used in financing activities in 2009 was US\$78.9 million. This was primarily derived from US\$726.9 million in proceeds from short-term borrowings, US\$100.9 million in proceeds from long-term debt, US\$641.3 million in the repayment of short-term borrowings, and US\$241.7 million in the repayment of long-term debt.

*Capital Expenditures*

We incurred capital expenditures of US\$190 million, US\$728 million and US\$765 million in 2009, 2010 and 2011, respectively. We currently expect our capital expenditures in 2012 to total approximately US\$430 million, subject to adjustment based on market conditions, principally to expand our operations at our 12 fab in Shanghai. We have financed our substantial capital expenditure requirements through the proceeds received in our Global Offering, several rounds of private financing, cash flows from operations, and bank borrowings. In addition, once a fab is in operation at acceptable capacity and yield rates, it can provide significant cash flows.

The construction in progress balance of approximately \$591,960,595 as of December 31, 2011, primarily consisted of \$373,699,154 and \$105,379,439 of the manufacturing equipment acquired to further expand the production capacity at the 12 fab in Beijing and Shanghai, respectively, and \$92,373,431 related to the ongoing 8 wafer construction project at SMIC Shenzhen. The construction in progress at SMIC Beijing and SMIC Shanghai is currently estimated to be completed prior to June 2012. The additional amount paid to complete these construction initiatives is expected to be \$62,000,000. The remainder of the construction in progress \$20,508,571 relates to various ongoing capital expenditure projects of other SMIC subsidiaries, which are expected to be completed by the second half of 2012.

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Any transfer of funds from our company to our Chinese subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of Chinese governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. In addition, it is not permitted under Chinese law for our Chinese subsidiaries to directly lend money to each other. Therefore, it is difficult to change our capital expenditure plans once the relevant funds have been remitted from our company to our Chinese subsidiaries. These limitations on the free flow of funds between us and our Chinese subsidiaries could restrict our ability to act in response to changing market conditions and reallocate funds from one Chinese subsidiary to another in a timely manner.

Our cash flows from operations have historically exceeded operating income, reflecting our significant non-cash depreciation expenses. We will require significant access to capital in order to meet future capital and capacity expansion requirements, which are difficult to plan in the rapidly changing semiconductor manufacturing industry. In the first quarter of 2012, SMIS entered into the new syndicate loan, a three-year loan facility in the principal amount of US\$268 million with 9 banks, and SMIB entered into the new syndicate loan, a seven-year loan facility in the principal amount of US\$600 million with 5 banks. We believe that cash flows from operations in 2012 and new syndicate loans should be sufficient to meet our capital expenditure requirement. If necessary, we will also explore other forms of external financing.

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*Commitments*

As of December 31, 2011, we had commitments of US\$40.3 million for facilities construction obligations for our Shanghai, Beijing, Tianjin, and Shenzhen facilities. We had commitments of US\$420.5 million to purchase machinery and equipment for Shanghai, Beijing, Shenzhen and Tianjin fabs. For additional information, see Item 5.A Operating and Financial Review and Prospects-Operating Results Factors that Impact Our Results of Operations-Substantial Capital Expenditures and Item 5.A Operating and Financial Review and Prospects Operating Results Factors that Impact Our Results of Operations Capacity Expansion. As of December 31, 2011, our outstanding long-term liabilities primarily consisted of US\$263.7 million in secured bank loans, which are repayable in installments which commenced in June 2006, with the last payment due in September 2013.

*Shanghai USD and RMB loan*

In June 2009, Semiconductor Manufacturing International (Shanghai) Corporation ( SMIS ) entered into the Shanghai USD and RMB loan, a two-year loan facility in the principal amount of US\$80 million and RMB200million (approximately US\$29.3 million) with The Export-Import Bank of China. The principal amount was fully repaid in 2011.

The facility was secured by the manufacturing equipment located in SMIS 's 12-inch fab. This two-year bank facility was used to finance future expansion and general corporate needs for SMIS 's 12-inch fab. The interest rates from the US tranche and RMB tranche varied from 2.4% to 4.86%.

*Shanghai USD loan*

In April 2011, SMIS entered into the Shanghai USD loan, a new two-year loan facility in the principal amount of US\$69 million with The Export-Import Bank of China. This two-year bank facility was used to finance future expansion for SMIS 's 12-inch fab. As of December 31, 2011, SMIS had drawn down US\$26.5 million. The principal amount of \$3.0 million will be repayable within 2012 and \$23.5 million be repayable in June 2013. The interest rate is 4.395%.

The total outstanding balance of the facilities is collateralized by certain equipment of SMIS with an original cost of US\$38.6 million as of December 31, 2011.

The Shanghai USD loan contains covenants to maintain certain minimum coverage ratio. SMIS was in compliance with these covenants as of December 31, 2011.



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*Beijing USD syndicate loan*

In May 2005, Semiconductor Manufacturing International (Beijing) Corporation ( SMIB ) entered into the Beijing USD syndicate loan, a five-year loan facility in the aggregate principal amount of US\$600 million, with a syndicate of financial institutions based in the PRC. The principal amount is repayable starting from December 2007 in six equal semi-annual installments. On June 26, 2009, SMIB amended the syndicated loan agreement to defer the commencement of the three remaining semi-annual payments to December 28, 2011. SMIB made a payment of US\$109 million in 2011. The amendment includes a provision for mandatory early repayment of a portion of the outstanding balance if SMIB's financial performance exceeds certain predetermined benchmarks. The amendment was accounted for as a modification as the terms of the amended instrument were not substantially different from the original terms. The interest rate before the amendment was 2.59%, and the interest rate after the amendment is 2.9945%.

The total outstanding balance of the Beijing USD syndicate loan is collateralized by SMIB's plant and equipment with an original cost of US\$1,318.6 million as of December 31, 2011.

The Beijing USD syndicate loan contains covenants to maintain minimum cash flows as a percentage of noncash expenses and to limit total liabilities, excluding shareholder loans, as a percentage of total assets. SMIB was in compliance with these covenants as of December 31, 2011.

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

1.  $[\text{Net profit} + \text{depreciation} + \text{amortization} + \text{financial expenses} - (\text{increase of accounts receivable and advanced payments} + \text{increase of inventory} - \text{increase in accounts payable and advanced receipts})] / \text{financial expenses} < 1$ ; and
2.  $(\text{Total liability} - \text{borrowings from shareholders, including principal and interest}) / \text{Total assets} > 70\%$  (when SMIC Beijing's capacity is less than 20,000 12-inch wafers per month); and  $(\text{Total liability} - \text{borrowings from shareholders, including principal and interest}) / \text{Total assets} > 50\%$  (when SMIC Beijing's capacity exceeds 20,000 12-inch wafers per month).

SMIB was in compliance with these covenants as of December 31, 2011.

*Beijing USD and RMB Loan*

In September 2011, SMIB entered into the Beijing USD and RMB Loan, a two-year loan facility in the principal amount of US\$25 million and RMB150 million (approximately \$24 million) with The Export-Import Bank of China. This two-year bank facility was used for working capital purposes. As of December 31, 2011, SMIB had drawn down US\$25 million and RMB150 million on this loan facility. The principal amount is repayable in September 2013. The interest rate is variable from 6.35% to 6.65%.

The total outstanding balance of the Beijing USD and RMB Loan is collateralized by SMIB's plant and equipment with an original cost of \$US132.3 million as of December 31, 2011.

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*EUR loan*

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. The interest rate is variable from 2.5% to 5.0%.

The total outstanding balance of the facility is collateralized by certain SMIT's equipment at the original cost of US\$115 million as of December 31, 2011.

*Tianjin USD syndicate loan*

In May 2006, Semiconductor Manufacturing International (Tianjin) Corporation ( SMIT ) entered into the Tianjin USD syndicate loan, a five-year loan facility in the aggregate principal amount of US\$300 million, with a syndicate of financial institutions based in the PRC. This five-year bank loan was used to expand the capacity of SMIT's fab.

We have guaranteed SMIT's obligations under this facility. The principal amount is repayable starting from 2010 in six semi-annual installments and interest rate varied from 1.6% to 1.7%. The facility was fully repaid.

Any of the following in respect of SMIT would have constituted 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.

SMIT was in compliance with these covenants as of December 31, 2011.

*Short-term Credit Agreements.*

As of December 31, 2011, we had 24 short-term credit agreements that provided total credit facilities of up to US\$919 million on a revolving credit basis. As of December 31, 2011, the Company had drawn down US\$607.4 million under these credit agreements and US\$311.6 million was available for future tradings and borrowings. The outstanding borrowings under the credit agreements are unsecured, except for US\$43.3 million, which is secured by term deposits, and US\$23.2 million, which is secured by real property with an original cost of US\$17.5 million. The interest expense incurred in 2011 was \$20.8 million of which \$10.2 million was capitalized as additions to assets under construction. The interest rate ranged from 1.6% to 7.2% in 2011.

Please see Item 8.A Financial Information- Consolidated Statements and Other Financial Information Dividends and Dividend Policy on our ability to pay dividends on our ordinary shares.

Please see Item 11 Quantitative and Qualitative Disclosures About Market Risk regarding the risk of loss related to adverse changes in market prices, including foreign currency exchange rates and interest rates of financial instruments.

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**C. Research and Development, Patents and Licenses, etc.**

Our research and development activities are principally directed toward the development and implementation of more advanced and lower cost process technology. We spent US\$176.4 million in 2009, US\$191.0 million in 2010 and US\$191.5 million in 2011 on research and development expenses, which represented 17.0%, 12.5% and 14.5%, respectively, of our sales in those respective years. Our research and development costs were partially offset by related government subsidies of US\$31.9million, US\$32.8 million and US\$42.6 million in 2009, 2010 and 2011 respectively and included non-recurring engineering costs associated with the ramp-up of a new wafer facility. We plan to continue to invest significant amounts in research and development in 2012 for our 28 and 22/20 nanometer manufacturing process.

The research and development (R&D) efforts were focused primarily on advanced logic and system-on-chip (SOC) process technologies. SMIC in 2011 has achieved many significant milestones. In the area of advanced logic process technologies, 55-nanometer (nm) low-leakage (LL) process technology, a half node derivative from the existing 65nm LL, was released for volume manufacturing early in the year, 45nm and 40nm (LL) passed qualification in partnership with major customers both domestic and abroad and started risk production in the fourth quarter, the development of 28nm process technologies is underway and on schedule with respect to the planned roadmap, and pathfinding on 22/20nm process technology started in the fourth quarter. The 55nm LL and 40nm LL process technologies are complemented with silicon-based SPICE models, PDK, DRC and silicon-validated IP for supporting mixed-signal and RF product design of customers. In the memory process technologies, 0.13um e-EEPROM process technology for bankcard/insurance card and 90nm eFlash for high-end smartcard have been successfully set up and are under product-based testing, and 90nm ETOX NOR Flash was brought into production. In the CMOS image sensor process technology area, 1.75um pixel device successfully developed and qualified, and ready for 2 mega and 3 mega pixel applications. On the process technology for power management (PMIC), a major program to support the 10/30/35 volt platform was successfully developed, qualified and is now supporting volume production of multiple products. Lastly, the program on CMOS based MEMS (CMEMS), Integrated Passive Devices (IPD) and Through Silicon Via (TSV) had achieved major milestones and will be placed into field for initial production at specific time points in 2012. During 2011, SMIC made more than 1,000 patent filings as a result of its R&D activities.

We employ approximately 450 research and development engineers with experience in the semiconductor industry. Most of them have advanced degrees from leading universities in China and around the world. To address the planned R&D activities in 2012 and 2013, the Technology Research & Development business function unit carried out organization building and restructuring in 2011 for improved operational efficiency and the unit is planning a manpower increase of ten percent or more in 2012.

Table of Contents**D. Trend Information**

See Item 5 Operating and Financial Review and Prospects-Factors that Impact Our Results of Operations for a discussion of the most significant recent trends affecting our operations.

**E. Off-Balance Sheet Arrangements**

We have not entered into any off-balance sheet transactions.

**F. Tabular Disclosure of Contractual Obligations**

Set forth in the table below are the aggregate amounts, as of December 31, 2011, of our future cash payment obligations under our existing debt arrangements on a consolidated basis:

Contractual obligations	Payments due by period				
	Total (consolidated, in US\$ thousands)	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Short-Term Borrowings <sup>(1)</sup>	\$ 607,427	\$ 607,427	\$	\$	\$
Secured long-term loans <sup>(1)</sup>	263,715	191,354	72,361		
Purchase Obligations <sup>(2)</sup>	460,783	460,783			
Other Long-Term Obligations <sup>(3)</sup>	57,934	29,374	28,560		
<b>Total Contractual Obligations</b>	<b>\$ 1,389,859</b>	<b>\$ 1,288,938</b>	<b>\$ 100,921</b>	<b>\$</b>	<b>\$</b>

- (1) These amounts represent outstanding borrowings. Refer to F-27, *Indebtedness*, for a description of the short-term and long-term borrowings.
- (2) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.
- (3) Includes the remaining installment payments relating to the settlement with TSMC.

Table of Contents**Item 6. Directors, Senior Management and Employees****Directors and Senior Management**

Members of our board of directors are elected by our shareholders. As of April 20, 2012, our board of directors consists of nine directors.

Our executive officers are appointed by, and serve at the discretion of, our board of directors. The following table sets forth the names, age and positions of our directors and executive officers as of April 20, 2012.

<b>Name</b>	<b>Age</b>	<b>Position</b>
<b>Directors</b>		
Zhang Wenyi	65	Chairman and Executive Director
Tzu-Yin Chiu	56	Chief Executive Officer and Executive Director
Chen Shanzhi	43	Non-Executive Director
Gao Yonggang	47	Non-Executive Director
Lawrence Juen-Yee Lau	67	Non-Executive Director
Zhou Jie	44	Non-Executive Director
Tsuyoshi Kawanishi	83	Independent Non-Executive Director
Frank Meng	51	Independent Non-Executive Director
Lip-Bu Tan	52	Independent Non-Executive Director
<b>Senior Managers</b>		
Tzu-Yin Chiu	56	Chief Executive Officer and Executive Director
Chris Chi	60	Chief Business Officer
Gary Tseng	55	Chief Financial Officer
Barry Quan	60	Chief Legal Officer
Shiuh-Wuu Lee	64	Vice President, Technology Development
Haijun Zhao	48	Vice President, North Operations
Jyishyang Liu	59	Vice President, Central Engineering & Services Vice President, Central Operations (Acting)
John Peng	47	Associate Vice President, General Manager of China BU

Except as described below in Item 10 Additional Information Material Contracts Share Purchase Agreement with Datang and Item 10 - Additional Information - Material Contracts - Subscription Agreement with Country Hill Limited, no shareholder has a contractual right to designate a person to be elected to our board of directors.

There are no family relationships among any of our directors and executive officers.

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**Zhang Wenyi**

**Chairman of the Board, Executive Director**

Mr. Zhang Wenyi joined us in 2011. He has been a Director of ours since 2011 and is also a director of several subsidiaries of the Group. Mr. Zhang is an electronics industry veteran and entrepreneur well known for his achievements in both the semiconductor and CRT industries. Mr. Zhang previously served as the Chairman of the board of directors of Shanghai Hua Hong (Group) Co., Ltd., China's first 8-inch foundry, and Chairman of the board of directors of Shanghai Hua Hong NEC Electronics Co., Ltd., a subsidiary of Hua Hong Group, where he successfully transformed its business model into that of a foundry services company. He was also chairman of Shanghai Hua Hong International, Inc., where he spearheaded the implementation of international and professional management practices. Mr. Zhang was previously General Manager of Shaanxi IRICO Color Picture Tube Plant and President and Chairman of IRICO Group Corporation. Under his leadership, IRICO stood out among fierce competition as China's most profitable CRT manufacturer. Mr. Zhang has also served as Vice Minister of China's former Ministry of Electronics Industry. In this capacity, he oversaw the development of China's electronic devices and components industry and was responsible for managing the Electronics Industrial Fund, which supports emerging technologies and innovation within the industry. Mr. Zhang received his bachelor of science degree in electrical engineering from Tsinghua University in Beijing and holds the professional title of senior engineer. He is a member of the 11th National Committee of the Chinese People's Political Consultative Conference.

**Tzu-Yin Chiu**

**Chief Executive Officer & Executive Director**

Dr. Tzu-Yin Chiu joined us as Chief Executive Officer and Executive Director in 2011. He is also a director of almost all of the Group's subsidiaries. Dr. Chiu is a semiconductor industry veteran with over 29 years of experience spanning technology research, business development, operations and corporate management. Prior to joining us, Dr. Chiu was President and CEO of Hua Hong NEC. He has served in various executive positions across the semiconductor industry, including as President and Chief Operating Officer of Silterra Malaysia, Senior Vice President and Chief Operating Officer of Hua Hong International Management and President of Hua Hong Semiconductor International, Senior Vice President of Shanghai Operations at SMIC, and Senior Director of Fab Operations at TSMC. He began his career in the United States at AT&T Bell Laboratories, rising to become the department head of its High Speed Electronics Research Department and Silicon Research Operations Department. Dr. Chiu holds a bachelor's degree from Rensselaer Polytechnic Institute, a Ph.D. in electrical engineering and computer science from the University of California, Berkeley, and an executive MBA from Columbia University. A senior member of the IEEE, Dr. Chiu holds ten semiconductor technology patents in the U.S. with three patents pending, and has published over thirty technical articles.

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**Chen Shanzhi**  
**Non-Executive Director**

Dr. Chen Shanzhi has been a Director since 2009. Dr. Chen is currently the Senior Vice President, Chief Technology Officer and Chief Information Officer of China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group). He is also the Senior Vice President of Datang Telecom Technology & Industry Holdings Co. Ltd., where he is responsible for strategy development, technology and standard development, corporate information technology, strategic alliances and cooperation, investment budget management, and external industrial investment. Dr. Chen is a member of the expert group of the Information technology of the National High Technology Research and Development Program of China (863 Program). Dr. Chen received his bachelor's degree from Xidian University, Master's degree from China Academy of Posts and Telecommunications of Ministry of Posts and Telecommunications and Ph. D. degree from Beijing University of Posts and Telecommunications. Dr. Chen has 20 years of experience in the field of information and communication technology where he has been involved in research and development, technology and strategy management. He has published a book and nearly 100 papers in the domestic and foreign academic conferences and publications, most of which were published by SCI and EI and many of his papers have received awards. At present, he has applied for more than 10 national invention patents.

**Gao Yonggang**  
**Non-Executive Director**

Mr. Gao Yonggang has been a Director since 2009, and is also a director of several subsidiaries of ours. Mr. Gao is currently the Chief Financial Officer of China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group), the chairman of Datang Capital (Beijing) Co., Ltd. and Datang Telecom Group Finance Co. Ltd., and the executive director of Datang Hi-Tech Venture Capital Investment Co., Ltd. He is also a director and a Senior Vice President of Datang Telecom Technology & Industry Holdings Co., Ltd., a managing director of the China Accounting Society, and a member of the Central Enterprise Youth Federation. Mr. Gao has more than 20 years of experience in the area of financial management and has worked as Chief Financial Officer or person in charge of finance in various industries such as retail, industrial, municipal utilities, and many different type of firms like state-owned enterprises, private, joint venture enterprises, government agencies. In November 2004, he was appointed as the Chief Financial Officer of China Academy of Telecommunications Technology by the State-owned Assets Supervision and Administration Commission. Mr. Gao received a Ph. D. degree in management from Nankai University and has engaged in in-depth studies in the field of financial investment where he has been involved in a number of key research projects and has many publications.

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**Zhou Jie**  
**Non-Executive Director**

Mr. Zhou Jie has been a Director since 2009. Mr. Zhou is an executive director and the executive vice president of Shanghai Industrial Investment (Holdings) Co. Ltd., or SIIC, an executive director and the executive deputy Chief Executive Officer of Shanghai Industrial Holdings Limited, or SIHL. He is also a director of certain subsidiaries of SIIC and SIHL. Mr. Zhou graduated from Shanghai Jiaotong University with a master's degree in management science and engineering. He is currently the chairman of the supervisory committee of Shanghai Pharmaceuticals Holdings Co., Ltd.. He was the deputy general manager of the investment banking head office of Shanghai Wanguo Holdings Ltd. (now Shenyin & Wanguo Securities Co. Ltd.) and had held the positions of the chairman and general manager of Shanghai S.I. Capital Co. Ltd. He has over 10 years' experience in investment banking and capital market operation.

**Lawrence Juen-Yee Lau**  
**Non-Executive Director**

Professor Lawrence Juen-Yee Lau has been a Director since 2011. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming Professor of Economics in 1976 and the first Kwoh-Ting Li Professor in Economic Development at Stanford University in 1992. From 1992 to 1996, he served as a Co-Director of the Asia-Pacific Research Center at Stanford University, and from 1997 to 1999, as the Director of the Stanford Institute for Economic Policy Research. He became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University upon his retirement in 2006. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. In 2010, he was appointed Chairman of CIC International (Hong Kong) Co., Limited, a wholly owned subsidiary of China Investment Corporation, and serves concurrently as Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. Professor Lau received his bachelor of science degree (with Great Distinction) in Physics and Economics from Stanford University in 1964 and his Master of Arts and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969, respectively.

**Tsuyoshi Kawanishi**  
**Independent Non-Executive Director**

Mr. Tsuyoshi Kawanishi has been a Director since 2001 and is also a director of a subsidiary of tours. Mr. Kawanishi has more than 50 years of experience in the electronics industry with Toshiba Corporation, where he served as, among other positions, senior executive vice president and senior advisor. Mr. Kawanishi is an advisor to Accenture Ltd. and a number of private companies. Mr. Kawanishi has been proactively leading the semiconductor industry as an advisor to the Semiconductor Equipment and Materials International (SEMI).



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**Frank Meng**  
**Independent Non-Executive Director**

Mr. Frank Meng has been a Director since 2011. Mr. Meng has been with the telecom and semiconductor industry for over 20 years. Mr. Meng joined Motorola in April 2010 and is now the Senior Vice President and President of Greater China for Motorola Mobility Inc. (NYSE: MMI), where he is responsible for overseeing all aspects of the company's business and sales operations in China, Hong Kong and Taiwan. From September 2002 to April 2010, Mr. Meng served as Senior Vice President and President of Greater China of Qualcomm Inc. (NASDAQ:QCOM). Prior to joining Qualcomm Inc., he was the Chief Operating Officer of Tecom Asia Group in Beijing, and he had held various senior posts at Asia.com Inc. and Leyou.com Inc. in Beijing, Infocomm International Corp. in Taipei and Allen Telecom Inc. in Cleveland, Ohio, United States. Mr. Meng received his bachelor of science degree in microwave and fiber optics from the Beijing University of Posts and Telecommunications and his MSEE degree from the Polytechnic University of New York.

**Lip-Bu Tan**  
**Independent Non-Executive Director**

Mr. Lip-Bu Tan has been a Director since 2002 and is also a director of a subsidiary of ours. Mr. Tan is the Founder and Chairman of Walden International, a leading venture capital firm managing over US\$1.9 billion in committed capital. He concurrently serves as President and Chief Executive Officer of Cadence Design Systems, Inc., and has been a member of the Cadence board of directors since 2004. He also serves on the boards of Flextronics International (NASDAQ: FLEX), SINA (NASDAQ: SINA), Inphi (NYSE: IPHI), Global Semiconductor Alliance and several other private companies. Mr. Tan received his Bachelor of Science degree from Nanyang University in Singapore, his MBA from the University of San Francisco, and his Master of Science degree in Nuclear Engineering from the Massachusetts Institute of Technology.

**Senior Management**

**Chris Chi**  
**Chief Business Officer**

Mr. Chris Chi joined us in 2010. Prior to joining us as Chief Business Officer, Mr. Chi was a consultant for C-Square Consulting. Prior to that, Mr. Chi first joined us in 2008 as Senior Vice President of Corporate Marketing & Sales. From 1981 to 2007, he held management positions with TPO Corporation, Freescale Semiconductor, UMC Europe, UMCi Ltd. Singapore, UMC, Chartered Semiconductor Manufacturing Ltd., and Rockwell International Corporation. Mr. Chi is a Ph.D. candidate in materials science and he received his master's degree in materials engineering from the University of California, Los Angeles. With more than 30 years of experience in the semiconductor industry, Mr. Chi is the holder of 5 patents.

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**Gary Tseng**  
**Chief Financial Officer**

Mr. Gary Tseng joined us in 2010. Prior to joining us as Chief Financial Officer, Mr. Tseng was the Chief Operating Officer at China Solar Corporation, a thin-film solar manufacturing start-up company in Shandong, China. From 1983 to 2007, Mr. Tseng held management positions at Legend Semiconductor (LSMC), Digital Display Manufacturing Co., Quanta Computer Company, United Microelectronics Corporation, Taiwan Semiconductor Manufacturing Company Limited, Philips Taiwan Limited, Philips companies in Taiwan, Philips Semiconductor operations in USA and Philips Semiconductor packaging operations in Taiwan. Mr. Tseng received his Master of Science degree in finance from the University of Missouri-Columbia, and his Bachelor of Science in accounting from National Cheng Kung University in Taiwan. In addition, Mr. Tseng is a Certified Public Accountant, Certified Management Accountant and Certified Internal Auditor in the United States of America.

**Barry Quan**  
**Chief Legal Officer**

Mr. Barry Quan joined us in 2010. Prior to joining us, Mr. Quan was a Corporate Vice President at Applied Materials, Inc. and President of Applied Materials China Holding Company. From November 2005 to 2006, he worked at Hua Hong Group as Chief Administrative Officer. Prior to Hua Hong, Mr. Quan was a Corporate Vice President of Legal Affairs at Applied Materials and was also Applied's first Ombudsman.

**Shiuh-Wuu Lee**  
**Vice President, Technology Development**

Dr. Shiuh-Wuu Lee joined us in 2010, and was named Vice President of Technology Development in September 2011. Dr. Lee has over 30 years of experience in the semiconductor industry. Prior to his position with us, Dr. Lee was engaged in logic technology development and developed state-of-the-art tools for microprocessor design at Intel and AT&T Bell Laboratories. Dr. Lee received his Ph.D. from the University of Michigan. He is actively involved in semiconductor technology conferences, and he has 39 published technical papers. He is the holder of three patents.

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**Haijun Zhao**  
**Vice President, North Operations**

Dr. Haijun Zhao joined us in 2010, and was named Vice President of North Operations in September 2011. He has 18 years of experience in semiconductor operations and technology development, most recently as a vice president of technology development, product engineering and Greater China business at ProMOS Technologies in Taiwan. He also previously held management positions at TECH Semiconductor Singapore. Dr. Zhao received his Bachelor of Science and Ph.D. degrees from Tsinghua University, and his MBA from the University of Chicago. He holds two U.S. semiconductor technology patents, with two pending, and has nine published technical papers.

**Jyishyang Liu**  
**Vice President, Central Engineering & Services**  
**Vice President, Central Operations (Acting)**

Dr. Jyishyang John Liu joined us in 2001. He became Vice President of Central Engineering & Services in 2010, and has been Acting Vice President of Central Operations since September 2011. He has 27 years of experience in the international semiconductor industry, beginning with research & development work at Motorola and Bell Laboratories, as well as operations management at UMC. Dr. Liu received his Bachelor of Science and Master of Science degrees from National Tsing Hua University and his Ph.D. degree in materials science and engineering at the Massachusetts Institute of Technology. He has seven published technical papers and holds two patents.

**John Peng**  
**Associate Vice President and General Manager of China Business Unit**

Mr. Peng first joined us in 2001 and is currently General Manager of our China Business Unit. Prior to joining us, he was Senior Operation Director of Wuxi CSMC-HJ Semiconductor Company Limited and was responsible for Fab, PC & MC, facilities and information technology. He was also Deputy General Manager & Fab Director in Huajing MOS BU, responsible for China's national 908 project of AT&T (Lucent) technology transfer and built China's most advanced 6" fab in 1996. He also published more than 10 technical articles. He received his bachelor's degree in physics from Sichuan University. He is a Ph.D. candidate in microelectronics of Southeast University and he received his master's degree in microelectronics from Xidian University in 1988.

Table of Contents**B. Director and Executive Compensation**

The aggregate cash compensation that we paid to all of our executive officers as of December 31, 2011 for services rendered to us and our subsidiaries was approximately US\$2,499,748, of which US\$933,839 represents bonuses accrued in 2010 and paid in 2011. Details of the emoluments paid or payable by the Company to our directors, including Tzu-Yin Chiu, our president, chief executive officer and executive director, in 2011 are set out as below:

	Zhang Wenyi (in US\$)	Tzu-Yin Chiu (in US\$)	Chen Shanzhi (in US\$)	Gao Yonggang (in US\$)	Jiang Shangzhou (in US\$)	David N.K. Wang (in US\$)	Tsuyoshi Kawanishi (in US\$)	Lip-Bu Tan (in US\$)	Frank Meng (in US\$)	Total (in US\$)
Salaries and other benefits	\$ 100,175	\$ 153,964	\$ 48,881	\$ 48,451	\$ 97,259	\$ 601,187	\$ 45,000	\$ 60,417	\$ 4,304	\$ 1,159,638
Discretionary bonus	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Stock Option Benefits	\$ 178,412	\$ 261,371	\$ 23,953	\$ 23,953	\$ 140,403	\$ 477,700	\$ 12,810	\$ 12,810	\$ 14,097	\$ 1,145,509
<b>Total</b>	<b>\$ 278,587</b>	<b>\$ 415,335</b>	<b>\$ 72,834</b>	<b>\$ 72,404</b>	<b>\$ 237,662</b>	<b>\$ 1,078,887</b>	<b>\$ 57,810</b>	<b>\$ 73,227</b>	<b>\$ 18,401</b>	<b>\$ 2,305,147</b>

We do not provide pension, retirement or similar benefits to our executive officers and directors except statutorily required benefits.

In 2011, we have granted options to purchase an aggregate of 115,095,662 ordinary shares under our 2004 Stock Option Plan and awarded an aggregate of 46,933,665 restricted share units under our 2004 Equity Incentive Plan to certain of our executive officers and directors. Both our 2004 Stock Option Plan and the 2004 Equity Incentive Plan are described below. The exercise price of the options granted to our executive officers in 2011 to purchase ordinary shares under the 2004 Stock Option Plan range from US\$0.058 to US\$0.085 per share. The expiration dates of these options range from May 30, 2021 to September 7, 2021.

On April 25, 2004, the compensation committee approved a profit-sharing plan for the benefit of our employees, including our executive officers. Under our profit-sharing plan, a participant who is an employee of the company at the end of a fiscal quarter will be eligible to receive a percentage of our profits for that quarter. No compensation was received by our executive officers in 2009, 2010 and 2011 as a result of their participation in this plan.

Table of Contents**C. Board Practices****Board of Directors**

Our board of directors consists of nine directors. Directors may be elected to hold office until the expiration of their respective terms upon a resolution passed at a duly convened shareholders' meeting by holders of a majority of our issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of shareholders, or AGM.

Each class of Director will serve a term of three years. The Class I Directors were re-elected for a term of three years at the 2011 AGM (except Dr. David N.K. Wang who was not re-elected, and Mr. Zhang Wenyi and Dr. Tzu-Yin Chiu who were appointed by the Board on June 30, 2011 and August 5, 2011, respectively). The Class II Directors were re-elected for a term of three years at the 2009 AGM (except Dr. Chen Shanzhi who was elected at that AGM and Professor Lawrence Juen-Yee Lau who was appointed by the Board on June 30, 2011) and are eligible for re-election at the 2012 AGM. The Class III Directors (except Mr. Frank Meng who was appointed by the Board on August 23, 2011) were re-elected at the 2010 AGM for a term of three years.

The following table sets forth the names and classes of our current directors:

Class I	Class II	Class III
Tzu-Yin Chiu	Chen Shanzhi	Tsuyoshi Kawanishi
Gao Yonggang	Frank Meng	Lawrence Juen-Yee Lau
Zhang Wenyi	Lip-Bu Tan	Zhou Jie

Please see Item 7.B Related Party Transactions, Indemnification Agreements and Service Contracts for a description of the service contracts we have entered into with our directors. Except for the indemnification provisions, the Service Contracts (as defined under Item 7) do not provide for benefits upon termination of service or employment.

**Committees of Our Board of Directors**

Our board of directors has an audit committee, a compensation committee and a nomination committee. The composition and responsibilities of these committees are described below.

**Audit Committee.** Currently, the members of the audit committee are Mr. Lip-Bu Tan (Chairman of the audit committee), Mr. Gao Yonggang and Mr. Frank Meng. None of these members of the audit committee has been an executive officer or employee of ours or any of our subsidiaries. In addition to acting as member of our audit committee, Lip-Bu Tan currently also serves on the audit committee of another publicly traded company, SINA Corporation. In general, and in accordance with section 303A.07 (a) of the Listed Company Manual of the New York Stock Exchange, our board of directors considered and determined that such simultaneous service would not impair the ability of Mr. Tan to effectively serve on our audit committee.

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The responsibilities of the audit committee include, among other things:

- making recommendations to the board of directors concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of our independent auditor, including reviewing the experience, qualifications and performance of the senior members of the independent auditor team, and pre-approving all non-audit services to be provided by our independent auditor;
- approving the remuneration and terms of engagement of our independent auditor;
- reviewing reports from our independent auditor regarding its internal quality-control procedures and any material issues raised in the most recent review or investigation of such procedures and regarding all relationships between us and the independent auditor;
- pre-approving the hiring of any employee or former employee of our independent auditor who was a member of the audit team during the preceding two years;
- reviewing our annual and interim financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of our disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
- reviewing the planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of our internal audit department and the quality and effectiveness of our internal controls;
- reviewing our risk assessment and management policies;
- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of our legal and regulatory compliance procedures;
- establishing procedures for the treatment of complaints received by us regarding accounting, internal accounting controls, auditing matters, potential violations of law and questionable accounting or auditing matters; and
- obtaining and reviewing reports from management, our internal auditor and our independent auditor regarding compliance with applicable legal and regulatory requirements.

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During 2011, the audit committee reviewed:

- the financial reports for the year ended December 31, 2010 and the six month period ended June 30, 2011;
- the quarterly earnings releases and any updates thereto;
- the report and management letter submitted by our outside auditors summarizing the findings of and recommendations from their audit of our financial reports;
- our budget for 2011;
- the findings and recommendations of our outside consultants regarding our compliance with the requirements of the Sarbanes-Oxley Act;
- the effectiveness of our internal control structure in operations and financial reporting integrity and compliance with applicable laws and regulations in collaboration with the Internal Audit Department and reported to our board of directors;
- the findings of our compliance office, which monitors our compliance with the corporate governance code and insider trading policy;
- the audit fees for our outside auditors; and
- our outside auditors' engagement letters

The audit committee reports its work, findings, and recommendations to the board of directors during each quarterly board meeting.

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

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

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**Compensation Committee.** The members of our compensation committee currently consist of Mr. Lip-Bu Tan (chairman of Compensation Committee), Mr. Tsuyoshi Kawanishi and Mr. Zhou Jie. None of these members of the compensation committee has been an executive officer or employee of the Company or any of its subsidiaries.

The responsibilities of the compensation committee include, among other things:

- approving and overseeing the total compensation package for our executive officers and any other officer, evaluating the performance of and determining and approving the compensation to be paid to our chief executive officer and reviewing the results of our chief executive officer and evaluation of the performance of our other executive officers;
- reviewing and making recommendations to our board of directors with respect to director compensation, including equity-based compensation;
- administering and periodically reviewing and making recommendations to the board of directors regarding the long-term incentive compensation or equity plans made available to the directors, employees and consultants;
- reviewing and making recommendations to the board of directors regarding executive compensation philosophy, strategy and principles and reviewing new and existing employment, consulting, retirement and severance agreements proposed for our executive officers; and
- ensuring appropriate oversight of our human resources policies and reviewing strategies established to fulfill our ethical, legal and human resources responsibilities.

In addition to reviewing the remuneration of the non-executive directors and the members of our management, the compensation committee reviewed and approved the granting of stock options and restricted share units pursuant to the terms of the Option Plans in 2011.

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

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



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**Nomination Committee.** Our nomination committee was established by the board of directors on March 23, 2012. The members of our nomination committee currently consist of Mr. Zhang Wenyi (chairman of the nomination committee), Mr. Frank Meng and Mr. Lip-Bu Tan.

The responsibilities of nomination committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the board of directors at least annually and making recommendations on any proposed changes to the board of directors to complement our corporate strategy;
- identifying individuals suitably qualified to become members of the board of directors, consistent with criteria approved by the board of directors, and making recommendations to the board of directors on the selection of individuals nominated for directorships;
- assessing the independence of independent non-executive directors; and
- making recommendations to the board of directors on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of our board of directors and our Chief Executive Officer.

The nomination committee shall report their decisions and recommendations periodically, but no less than once per year, to the board of directors unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

The chairman of the nomination committee, in consultation with the committee members, shall determine the schedule and frequency of the nomination committee meetings, provided that the committee shall meet at least once a year. The chairman of the nomination committee shall develop and set the committee's agenda, in consultation with other members of the committee, the board of directors and management. Minutes of meetings of the committee shall be kept by the secretary of the committee and shall be open for inspection at any reasonable time on reasonable notice by any Director. Minutes of meetings of the committee shall record in sufficient detail the matters considered and decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes shall be sent to all members of the committee for their comment and records respectively, within a reasonable time after the meeting is held.

Table of Contents**Employees**

The following table sets forth, as of the dates indicated, the number of our employees serving in the capacities indicated:

Function	As of December 31,			
	2008	2009	2010	2011
Managers	1,015	1,064	917	898
Professionals <sup>(1)</sup>	4,465	4,510	3,920	4,297
Technicians	4,837	4,484	4,970	3,910
Clerical staff	281	249	269	347
Total <sup>(2)</sup>	10,598	10,307	10,076	9,452

(1) Professionals include engineers, lawyers, accountants and other personnel with specialized qualifications, excluding managers.

(2) Includes 50, 372 and 145 and 1 temporary and part-time employees in 2008, 2009, 2010, and 2011 respectively.

The following table sets forth, as of the dates indicated, a breakdown of the number of our employees by geographic location:

Location of Facility	As of December 31,			
	2008	2009	2010	2011
Shanghai	6,632	6,460	5,395	5,555
Beijing	1,674	1,552	2,102	2,253
Tianjin	958	997	1,439	1,321
Chengdu	1,259	1,104	792	12
Shenzhen	33	154	142	36
Wuhan			174	236
United States	16	17	15	17
Europe	11	9	8	6
Japan	8	8	3	
Hong Kong	7	6	6	5
Taiwan Office				11
Total	10,598	10,307	10,076	9,452

Our employees are not covered by any collective bargaining agreements.

Table of Contents**Share Ownership**

The table below sets forth the ordinary shares beneficially owned by each of our directors and options to purchase ordinary shares as of March 31, 2012:

Name of Director	Current Shareholding	Options to Purchase Ordinary Shares		Awards of Restricted Share Units
		Number of Options	Exercise Price	
Zhang Wenyi	0	21,746,883 <sup>(1)</sup>	US\$0.0584	9,320,093 <sup>(2)</sup>
Tzu-Yin Chiu	4,006,666 <sup>(3)</sup>	86,987,535 <sup>(4)</sup>	US\$0.0584	37,280,372 <sup>(5)</sup>
Chen Shanzhi	0	3,145,319 <sup>(6)</sup>	US\$ 0.0821	
Gao Yonggang	0	3,145,319 <sup>(6)</sup>	US\$ 0.0821	
Lawrence Juen-Yee Lau	0			
Zhou Jie	0			
Tsuyoshi Kawanishi	0	6,134,877 <sup>(7) (8) (9) (10)</sup>	US\$0.0348 US\$0.132	
Frank Meng	0	4,471,244 <sup>(11)</sup>	US\$0.0514	
Lip-Bu Tan	0	4,634,877 <sup>(7) (8) (9)</sup>	US\$0.0348 US\$0.132	

*Notes:*

- (1) On September 8, 2011, Mr. Zhang was granted an option to purchase 21,746,883 ordinary shares at a price of HK\$ 0.455 per share pursuant to our 2004 Stock Option Plan. This option will expire on the earlier of September 7, 2021 or 120 days after termination of the Director's service to the Board. As at December 31, 2011, no portion of this option has been exercised.
- (2) On September 8, 2011, Mr. Zhang was granted an award of 9,320,093 restricted share units (each representing the right to receive one ordinary share) pursuant to our 2004 Equity Incentive Plan. 25% of these restricted share units will vest on each anniversary of June 30, 2011, being Mr. Zhang's date of appointment as Director, and will fully vest on June 30, 2015.
- (3) Dr. Chiu was the beneficial owner of the 4,006,666 ordinary shares.
- (4) On September 8, 2011, Dr. Chiu was granted an option to purchase 86,987,535 ordinary shares at a price of HK\$0.455 per share pursuant to our 2004 Stock Option Plan. This option will expire on the earlier of September 7, 2021 or 120 days after termination of the Director's service to the Board. As at December 31, 2011, no portion of this option has been exercised.
- (5) On September 8, 2011, Dr. Chiu was granted an award of 37,280,372 restricted share units (each representing the right to receive one ordinary share) pursuant to our 2004 Equity Incentive Plan. 25% of these restricted share units will vest on each anniversary of August 5, 2011, being Dr. Chiu's date of appointment as CEO, and will fully vest on August 5, 2015.

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- (6) On May 24, 2010, each of Dr. Chen and Mr. Gao was granted an option to purchase 3,145,319 ordinary shares at a price per share of HK\$0.59. These options will expire on the earlier of May 23, 2020 or 120 days after termination of the Director's service to the Board. As at December 31, 2011, none of these options have been exercised.
- (7) On February 23, 2010, each of Mr. Kawanishi and Mr. Tan was granted with an option to purchase 3,134,877 ordinary shares, at a price per share of HK\$0.77, pursuant to our 2004 Stock Option Plan. These options will expire on the earlier of February 22, 2020 or 120 days after termination of the Director's service to the Board. As at December 31, 2011, none of these options have been exercised.
- (8) On February 17, 2009, each of Mr. Kawanishi and Mr. Tan and was granted an option to purchase 1,000,000 ordinary shares at a price per share of HK\$0.27. These options will expire on the earlier of February 17, 2019 or 120 days after termination of the Director's service to the Board. As at December 31, 2011, none of these options have been exercised.
- (9) On September 29, 2006, each of Mr. Kawanishi and Mr. Tan was granted an option to purchase 500,000 ordinary shares at a price of US\$0.132 per ordinary share. These options fully vested on May 30, 2008 and will expire on the earlier of September 29, 2016 or 120 days after termination of the Director's service to the Board. As at December 31, 2011, none of these options have been exercised.
- (10) Mr. Kawanishi has been granted options to purchase an aggregate of 1,500,000 ordinary shares pursuant to our 2001 Stock Option Plan. These options will expire on July 12, 2012 and January 14, 2014, respectively. As at December 31, 2011, none of these options have been exercised.
- (11) On November 17, 2011, Mr. Meng was granted an option to purchase 4,471,244 ordinary shares at a price of HK\$0.4 per share pursuant to our 2004 Stock Option Plan. This option will expire on the earlier of November 16, 2021 or 120 days after termination of the Director's service to the Board. As at December 31, 2011, no portion of this option has been exercised.

The share holdings set forth above excludes shares beneficially owned by entities affiliated with our directors. Each of our directors disclaims beneficial ownership of the shares beneficially owned by such affiliated entity, except to the extent of such director's pecuniary interest therein as disclosed above.

The exercise price for our options is denominated in Hong Kong dollars. This annual report translates the Hong Kong dollar exercise prices for our options into U.S. dollars based on exchange rates that were in effect as of the applicable option grants dates.

The compensation committee has issued each of our executive officers options to purchase ordinary shares pursuant to our 2001 Regulation S Stock Option Plan, 2001 Regulation S Preference Shares Stock Plan and the 2004 Stock Option Plan, as applicable, and restricted share units that represent rights to receive ordinary shares pursuant to our 2004 Equity Incentive Plan. The exercise price of the options ranges from US\$0.03 to US\$0.35. The options expire between July 10, 2012 and September 7, 2021. The restricted share units expire between February 11, 2018 and September 7, 2021. The majority of the options and restricted share units are subject to a four-year vesting period. Each executive officer owns less than 1% of the total outstanding shares.

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***2001 Stock Plan and 2001 Regulation S Stock Plan***

On March 28, 2001, our board of directors and shareholders adopted our 2001 Stock Plan and our 2001 Regulation S Stock Plan. Under these plans, our directors, employees and consultants are eligible to acquire ordinary shares pursuant to options. At the time of adoption, 250,000,000 post-split ordinary shares were reserved for issuance under the 2001 Stock Plan and 470,000,000 post-split ordinary shares were reserved for issuance under the 2001 Regulation S Stock Plan. On August 27, 2003, our shareholders approved an increase in the number of authorized shares reserved under the plans of 3,438,900 post-split ordinary shares, increasing the total number of authorized shares reserved under the plans to 723,438,900 post-split ordinary shares. On August 27, 2003, September 22, 2003 and December 4, 2003, our shareholders approved additional increases in the number of shares reserved under our 2001 Regulation S Stock Plan of up to 325,000,000, 21,499,990 and 235,089,480 post-split ordinary shares, respectively, which amounts were to be adjusted from time to time to equal 10% of the post-split ordinary shares issuable upon the conversion of all Series C convertible preference shares and Series D convertible preference shares then outstanding. As of December 31, 2011, there were 123,101,911 post-split ordinary shares subject to outstanding options under the plans and there were 489,577,235 post-split ordinary shares outstanding from the exercise of options granted under the plans. These plans terminate on December 4, 2013 but may be terminated earlier by our board of directors.

Stock options granted under the 2001 Stock Plan may be incentive stock options, or ISOs, which are intended to qualify for favorable U.S. federal income tax treatment under the provisions of Section 422 of the U.S. Internal Revenue Code of 1986, as amended, or U.S. Internal Revenue Code, or non-qualified stock options, or NSOs, which do not so qualify. Stock options granted under the 2001 Regulation S Stock Plan are NSOs. The aggregate fair market value of the ordinary shares represented by any given optionee's ISOs that become exercisable in any calendar year may not exceed US\$100,000. Stock options in excess of this limit are treated as NSOs.

The board of directors and the compensation committee administer the 2001 Stock Plan and 2001 Regulation S Stock Plan. The compensation committee selected the eligible persons above a certain compensation grade to whom options were granted and determined the grant date, amounts, exercise prices, vesting periods and other relevant terms of the stock options, including whether the options will be ISOs or NSOs. The non-executive option grant committee selected the eligible persons below a certain compensation grade to whom options were granted and determined the grant date, amounts, exercise prices, vesting periods and other relevant terms of stock options within parameters established by the compensation committee and subject to compensation committee ratification. The exercise price of ISOs granted under the 2001 Stock Plan and NSOs granted to residents of California under the 2001 Stock Plan may not be less than 100% and 85%, respectively, of the fair market value of our ordinary shares on the grant date. The exercise price of NSOs not granted to residents of California under either our 2001 Stock Plan or our 2001 Regulation S Stock Plan can be determined by the board of directors, the compensation committee or the non-executive option grant committee in their discretion.

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Stock options granted under the 2001 Stock Plan and 2001 Regulation S Stock Plan may be exercised at any time after they vest, and, in certain instances, prior to vesting. Shares purchased when an option is exercised prior to vesting are subject to our right of repurchase to the extent unvested in the event of the termination of service of the optionee. In the event of the termination of service of an optionee, the unvested portion of a stock option is forfeited and the vested portion terminates six months after a termination of service due to the death or permanent disability of the optionee or 30 days after termination of service for any other reason or such longer periods as may be provided for in option agreements with our optionees. Stock options are generally not transferable during the life of the optionee.

In the event of a change of control (as defined in the plans) or a merger of our company, each outstanding stock option may be assumed or an equivalent stock option or right may be substituted by the successor corporation. In the event that no such substitution or assumption occurs, the outstanding stock options will automatically vest and become exercisable for a period of 15 days, after which the stock options will terminate.

We have not issued stock options under the 2001 Stock Plan or the 2001 Regulation S Stock Plan since the completion of the Global Offering.

***2001 Preference Shares Stock Plan and 2001 Regulation S Preference Shares Stock Plan***

On April 12, 2001, our board of directors and shareholders adopted our 2001 Preference Shares Stock Plan and our 2001 Regulation S Preference Shares Stock Plan. Under these plans, our directors, employees and consultants were able to acquire Series A convertible preference shares prior to the completion of the Global Offering and ordinary shares upon or following the completion of the Global Offering through the exercise of options granted to them. At the time of adoption, 16,000,000 Series A preference shares and ten times that number of ordinary shares (on a post-split basis) were reserved for issuance under the 2001 Preference Shares Stock Plan, and 20,000,360 Series A convertible preference shares and ten times that number of ordinary shares (on a post-split basis) were reserved for issuance under the 2001 Regulation S Preference Shares Stock Plan. On August 19, 2002, our shareholders approved an increase in the number of shares issuable under the plans of 18,000,180 Series A convertible preference shares, increasing the total number of authorized shares reserved under the plans to 54,000,540 Series A convertible preference shares. On August 27, 2003, our shareholders approved a net decrease in the number of shares issuable under the plans of 343,890 Series A convertible preference shares, decreasing the total number of authorized shares reserved under the plans to 53,656,650 Series A convertible preference shares. Upon the conversion of our preference shares into ordinary shares in connection with the Global Offering, options granted under the 2001 Preference Shares Stock Plan and the 2001 Regulation S Preference Shares Stock Plan converted into options to purchase ordinary shares. As of December 31, 2011, there were 19,030,500 ordinary shares subject to outstanding options under the plans, and there were 400,939,130 ordinary shares outstanding from the exercise of options granted under the plans. Our board of directors has elected not to grant any further options under these plans.

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Stock options granted under the 2001 Preference Shares Stock Plan may be ISOs or NSOs. Stock options granted under the 2001 Regulation S Preference Shares Stock Plan are NSOs. The aggregate fair market value of the shares represented by any given optionee's ISOs that become exercisable in any calendar year may not exceed US\$100,000. Stock options in excess of this limit are treated as NSOs.

The board of directors, the compensation committee and the non-executive option grant committee administer the 2001 Preference Shares Stock Plan and 2001 Regulation S Preference Shares Stock Plan. The compensation committee selected the eligible persons above a certain compensation grade to whom options were granted and determined the grant date, amounts, exercise prices, vesting periods and other relevant terms of the stock options, including whether the options will be ISOs or NSOs. The non-executive option grant committee selected the eligible persons below a certain compensation grade to whom options were granted and determined the grant date, amounts, exercise prices, vesting periods and other relevant terms of stock options within parameters established by the compensation committee and subject to compensation committee ratification. The exercise price of ISOs granted under the 2001 Preference Shares Stock Plan and NSOs granted to residents of California under the 2001 Preference Shares Stock Plan may not be less than 100% and 85%, respectively, of the fair market value of our Series A convertible preference shares on the grant date. The exercise price of NSOs not granted to California residents under either our 2001 Preference Shares Stock Plan or our 2001 Regulation S Preference Shares Stock Plan can be determined by the board of directors, the compensation committee or the non-executive option grant committee in their discretion.

Stock options granted under the 2001 Preference Shares Stock Plan and 2001 Regulation S Preference Shares Stock Plan may be exercised at any time after they vest, and, in certain instances, prior to vesting. Shares purchased when an option is exercised prior to vesting are subject to our right of repurchase to the extent unvested in the event of the termination of service of the optionee. In the event of the termination of service of an optionee, the unvested portion of a stock option is forfeited and the vested portion terminates six months after a termination of service due to the death or permanent disability of the optionee or 30 days after termination of service for any other reason or such longer periods as may be provided for in option agreements with our optionees. Stock options are generally not transferable during the life of the optionee.

In the event of a change of control (as defined in the plans) or a merger of our company, each outstanding stock option may be assumed or an equivalent stock option or right may be substituted by the successor corporation. In the event that no such substitution or assumption occurs, the outstanding stock options will automatically vest and become exercisable for a period of 15 days, after which the stock options will terminate.

We have not issued stock options under the 2001 Preference Shares Stock Plan or the 2001 Regulation S Preference Shares Stock Plan since the completion of the global offering.

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**2004 Global Equity Incentive Compensation Program**

Our shareholders adopted the 2004 Stock Option Plan, or Stock Option Plan, the 2004 Equity Incentive Plan, or EIP, and the Employee Stock Purchase Plan (the ESPP), together with the Stock Option Plan and the EIP, the Option Plans) to attract and retain its employees.

Stock Option Plan

The following is a summary of the principal terms of the Stock Option Plan conditionally adopted by the Company by way of shareholders' resolution dated February 16, 2004 and Directors' resolutions passed on January 16, 2004. Adoption of the Stock Option Plan took effect on March 18, 2004 being the first date of dealings in the ordinary shares.

Summary of the terms of the Stock Option Plan

(a) Purpose of the Stock Option Plan

The purposes of the Stock Option Plan are to attract, retain and motivate employees and Directors of, and other service providers to the Company, to provide a means, on and after the Global Offering, of compensating them through the grant of stock options for their contribution to our growth and profits, and to allow such employees, Directors and service providers to participate in such growth and profitability.

(b) Who may join

The Compensation Committee may, at its discretion, invite any employee, officer or other service provider of (including, but not limited to, any professional or other adviser of, or consultant or contractor to) the Company whether located in China, the United States or elsewhere to take up options to subscribe for ordinary shares at a price calculated in accordance with sub-paragraph (e) below. The Compensation Committee may also grant stock options to a Director who is not an employee of the Company ( Non Employee Director ).

(c) Stock Options

Stock options granted under the Stock Option Plan ( Stock Options ) shall entitle a participant ( Participant ) of the Stock Option Plan to purchase a specified number of ordinary shares or ADSs (the Plan Shares ) during a specified period at a price calculated in accordance with sub-paragraph (e) below. Three types of Stock Options may be granted under the Plan, an Incentive Stock Option, a Non-Qualified Stock Option or a Director Option. An Incentive Stock Option is a stock option that falls within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 and may only be granted to employees of the Company and its subsidiaries from time to time. A Non-Qualified Stock Option is a stock option that is not an Incentive Stock Option. A Director Option is a Non-Qualified Stock Option granted to a Non-Employee Director.



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The Company shall issue an Award Document to each Participant of the Stock Option Plan who is granted a Stock Option. The Award Document shall set out the terms and provisions of the grant of a Stock Option to a Participant including applicable vesting dates or the attainment of specified performance goals (as determined by the Compensation Committee or the Administrator (as defined below), as the case may be) by the Participant. The Company may allow a Participant to exercise his or her Stock Options prior to vesting, provided the Participant agrees to enter into a repurchase agreement in respect of the Stock Option with the Company. The Compensation Committee may also (i) accelerate the vesting of a Stock Option, (ii) set the date on which any Stock Option may first become exercisable, or (iii) extend the period during which a Stock Option remains exercisable, except that no Stock Options may be exercised after the tenth anniversary of the date of grant.

The Stock Option Plan does not provide for any payment upon application or acceptance of an option.

(d) Administration of the Stock Option Plan

The Compensation Committee shall be responsible for the administration of the Stock Option Plan. Its responsibilities include granting Stock Options to eligible individuals, determining the number of Plan Shares subject to each Stock Option, and determining the terms and conditions of each Stock Option.

The Compensation Committee is not obliged to grant Stock Options to Participants in uniform terms. Accordingly, the terms and conditions which may be imposed may vary between Participants. Any determination by the Compensation Committee in relation to the carrying out and administering of the Stock Option Plan shall be final and binding. No member of the Compensation Committee shall be liable for any action or determination made in good faith, and the members of the Compensation Committee shall be entitled to indemnification and reimbursement in the manner provided in the Articles.

The Compensation Committee may delegate some or all of its authority under the Stock Option Plan to an individual or individuals (each an Administrator ) who may either be one or more of the members of the Committee or one or more of the officers of the Company. An individual's status as an Administrator shall not affect his or her eligibility to participate in the Stock Option Plan. The Compensation Committee shall not delegate its authority to grant Stock Options to executive officers of the Company.

(e) Exercise Price

The exercise price per Plan Share purchasable under a Stock Option shall be fixed by the Committee at the time of grant or by a method specified by the Compensation Committee at the time of grant, but in no event shall be less than the Fair Market Value of a Plan Share on the date such Stock Option is granted.

The Fair Market Value of a Share will be the higher of (i) the closing price of the ordinary shares on the HKSE's daily quotation sheet on the applicable date of grant (which must be a business day), and (ii) the average closing price of the ordinary shares on the HKSE (as stated in the relevant daily quotation sheets of the HKSE) for the five business days immediately preceding the date of grant.

The Fair Market Value of the ADSs shall be the highest of (i) the closing price of the ADSs on the NYSE on the applicable date of grant, and (ii) the average closing price of the ADSs on the NYSE for the five business days immediately preceding the date of grant.

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(f) Limit of the Stock Option Plan

At the annual general meeting of the shareholders held on June 23, 2010, the shareholders of the Company approved an increase to the number of ordinary shares reserved for issuance under the Stock Option Plan and the ESPP (the Global Limit ) from 1,317,000,000 ordinary shares of the Company to 2,434,668,733 ordinary shares of the Company.

The number of ordinary shares which may be issued pursuant to any outstanding Stock Options granted and yet to be exercised under the Stock Option Plan and all outstanding purchase rights granted under the Employee Stock Purchase Plan or other employee stock purchase plan of the Company must not exceed in aggregate 30 percent of the issued and outstanding ordinary shares in issuance from time to time.

(g) Individual Limit

The total number of ordinary shares underlying Stock Options or other options granted by the Company to, and the total number of ordinary shares that may be purchased under one or more purchase rights granted under the Employee Stock Purchase Plan or any other employee stock purchase plan granted by the Company by, a Participant (including both exercised and outstanding Stock Options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1 percent in the case of an independent Non-executive Director) of the then issued and outstanding ordinary shares unless otherwise allowed under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange , or the Listing Rules.

(h) Exercise of Option

A Stock Option shall vest, and be exercised, in accordance with the terms of the Stock Option Plan, the relevant Award Document and any rules and procedures established by the Compensation Committee for this purpose. However, the term of each Stock Option shall not exceed ten years from the date of grant.

(i) Director Options

Each non-employee Director may be granted Stock Options to purchase ordinary shares (or an equivalent of ADSs) on the terms set out in the relevant Award Document.

The Directors shall exercise all authority and responsibility with respect to Stock Options granted to Directors subject to the requirements of the Listing Rules.

All non-employee Directors' Stock Options shall only vest provided that the Director has remained in service as a Director through such vesting date. The unvested portion of a Stock Option granted to a Director shall be forfeited in full if the Director's service with the Board ends for any reason prior to the applicable vesting date.

Following termination of a non-employee Director's service on the Board, such non-employee Director (or his or her estate, personal representative or beneficiary, as the case may be) shall be entitled to exercise those of his or her Stock Options which have vested as of the date of such termination within 120 days following such termination.

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(j) Termination or Lapse of Option

A Stock Option shall terminate or lapse automatically on:

(i) the expiry of ten years from the date of grant;

(ii) the termination of a Participant's employment or service with the Company for a reason set out in sub-paragraph (l) below;

(iii) save as to any contrary directions of the Compensation Committee, in the event of a complete liquidation or dissolution of the Company, all Stock Options outstanding at the time of the liquidation or dissolution shall terminate without further action by any person;

(iv) the sale or other divestiture of a subsidiary, division or operating unit of the Company (where the Participant is employed by such subsidiary, division or operating unit); and

(v) termination of the service relationship with a service provider (where the Participant is a service provider of the Company).

(k) Rights are personal to Participant

A Stock Option is personal to the Participant and shall be exercisable by such Participant or his Permitted Transferee (as defined below) only. An option shall not be transferred other than by will, by the laws of descent and distribution or pursuant to a domestic relations order. The Compensation Committee may also, at its discretion and subject to such terms and conditions as it shall specify, permit the transfer of a Stock Option for no consideration to a Participant's family members or to a trust or partnership established for the benefit of such family members (collectively Permitted Transferees). Any Stock Option transferred to a Permitted Transferee shall be further transferable only by will or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant.

(l) Termination of employment or service

If a Participant's employment or service with the Company is terminated for the following reasons:

(i) the failure or refusal of the Participant to substantially perform the duties required of him or her as an employee or officer of, or service provider to, the Company;

(ii) any material violation by the Participant of any law or regulation applicable to any business of the Company, or the Participant's conviction of, or a plea of nolo contendere to, a felony, or any perpetration by the Participant of a common law fraud against the Company; or

(iii) any other misconduct by the Participant that is materially injurious to the financial condition, business or reputation of the Company,

Then all Stock Options granted to the Participant, whether or not then vested, shall immediately lapse.

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

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(m) Change in control of the Company

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

(n) Change in the capital structure of the Company

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

(o) Period of the Stock Option Plan

The Stock Option Plan shall remain in force for a period of ten years commencing on the date of Shareholders' approval of the Plan.

(p) Amendments and Termination

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

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

(q) Voting and dividend rights

No voting rights shall be exercisable and no dividends shall be payable in relation to Stock Options that have not been exercised.

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(r) Cancellation of Stock Options

Stock Options granted but not exercised may not be cancelled unless an offer to cancel share options has been made pursuant to Rule 13 of the Hong Kong Code on Takeovers and Mergers and the Hong Kong Securities and Futures commission has consented to such cancellation.

(s) Ranking of Ordinary Shares

The ordinary shares to be allotted upon the exercise of a Stock Option will be subject to the Articles for the time being in force and will rank pari passu with the Plan Shares in issue on the date of such allotment.

Employee Stock Purchase Plan

The following is a summary of the principal terms of the ESPP conditionally adopted by the Company by way of shareholders resolutions dated February 16, 2004 and Directors' resolutions passed on January 16, 2004.

Summary of the terms of the ESPP

(a) Purposes of the ESPP

The purposes of the ESPP are to attract, retain and motivate employees of the Company, to provide a means of compensating the employees for their contributions to the growth and profitability by permitting such employees to purchase the ADSs of the Company at a discount and receive favorable U.S. income tax treatment on a subsequent qualifying disposition of such ADSs.

(b) Who may join

Subject to any contrary directions given by the Compensation Committee, all full-time and regular part-time employees (the Employees ) of the Company as at the first business day (the Offering Date ) of a given period specified by the Committee (the Offering Period ) shall be eligible to enroll in the ESPP. To be eligible to purchase ADSs, all Employees must maintain his or her employment status, without interruption, with the Company through the last day of each Offering Period (the Purchase Date )

(c) Offering Period

The ESPP shall be implemented over a series of Offering Periods. An eligible Employee of the Company may elect to participate in the ESPP for any Offering Period by completing the requisite documents. The Compensation Committee shall determine the starting and ending dates of each Offering Period but no Offering Period shall be shorter than 6 months or longer than 27 months.

(d) Employees' Contributions under the ESPP

All amounts that a Participant contributes ( Contributions ) shall be credited to his or her account under the ESPP. Participants must elect to have payroll deductions made on each payday during the Offering Period in a dollar amount specified in the documents submitted by him or by her. The Compensation Committee may permit Participants to make supplemental Contributions into his or her account, on such terms and subject to such limitations as the Compensation Committee may decide. Participants may, on one occasion only during an Offering Period, decrease the rate of his or her Contributions to his or her account for the Offering Period, including a decrease to zero. The Participant may restore his or her Contributions to the original level, prior to the earlier of,

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- (i) six months after the effective date of any such decrease; and
- (ii) the end of the relevant Offering Period.
- (e) Grant of Purchase Right

Each eligible Employee who elects to participate in the ESPP in any given Offering Period shall be granted on the Purchase Date, a right to purchase the Plan Shares (the Purchase Right ). The Purchase Right of a Participant shall be calculated in accordance with the following formula:

(i) dividing (A) the product of US\$25,000 and the number of calendar years during all or part of which the Purchase Right shall be outstanding by (B) the closing price of the Plan Shares on the applicable exchange on which Plan Shares are trading (the Fair Market Value ) on the applicable exchange of the Plan Shares on the Offering Date; and

(ii) subtracting from the quotient thereof (A) the number of Plan Shares that the Employee has purchased during the calendar year in which the Offering Date occurs under the ESPP or under any other employee stock purchase plan of the Company or any subsidiary of the Company which is intended to qualify under Section 423 of the U.S. International Revenue Code of 1986 plus (B) the number of Plan Shares subject on the Offering Date to any outstanding Purchase Rights granted to the Employee under any related Plan.

If application of the above formula would result in the grant of Purchase Rights covering, in the aggregate, more than the number of Plan Shares that the Compensation Committee has made available for the relevant Offering Period, then the Compensation Committee shall adjust the number of Plan Shares subject to the Purchase Right in order that, following such adjustment, the aggregate number of Plan Shares subject to the purchase Right shall remain within the applicable limit.

All Purchase Rights outstanding at the tenth anniversary of the Plan shall remain outstanding through and may be exercised upon the relevant Purchase Date, but no additional Purchase Right shall be granted under the ESPP.

- (f) Exercise of Purchase Right

Unless a Participant withdraws from the ESPP, his or her Purchase Right shall become exercisable automatically, on the Purchase Date of the relevant Offering Period for the number of Plan Shares obtained by dividing the accumulated Contributions credited to the Participant s account as of the Purchase Date by the applicable Purchase Price, being an amount not less than 85 percent of the Fair Market Value of the Plan Shares on the Offering Date or on the Purchase Date, whichever is lower (the Purchase Price ).

The Compensation Committee may credit any Contributions that have been credited to a Participant s account under the ESPP with interest. Any interest credited to a Participant s account shall not be used to purchase ADSs and shall instead be paid to the Participant at the end of the relevant Offering Period.

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If any portion of a Participant's accumulated Contributions is not used to purchase ordinary shares on a given Purchase Date, the remaining amount shall be held in the Participant's account and used for the purchase of Plan Shares under the next Offering Period, unless the Participant withdraws from the next Offering Period.

The exercise of the Purchase Right granted under the ESPP is not subject to any performance target.

(g) Limit of the ESPP

The number of ordinary shares that may be issued under the Stock Option Plan and the ESPP (the Global Limit) shall not exceed ten percent of the issued and outstanding ordinary shares immediately following the closing of the Global Offering (i.e., 1,317,000,000).

The number of ordinary shares that may be issued upon exercise of all outstanding Purchase Rights granted under the ESPP or other employee stock purchase plan of the Company or and any outstanding stock options granted under the Stock Option Plan or other stock option plan of the Company must not exceed, in the aggregate, thirty percent of the issued and outstanding ordinary shares in issuance from time to time.

(h) Period of the ESPP

The ESPP shall continue for a term of ten years from the date of its approval by the Shareholders unless terminated in accordance with sub-paragraph (i).

(i) Amendments and Termination of the ESPP

The Compensation Committee may at any time amend the ESPP in any respect or terminate the ESPP, except that, without the approval of our shareholders at a meeting duly called, no amendment shall be made in relation to:

(i) increasing the number of ADSs approved for the ESPP; or

(ii) decreasing the Purchase Price per ADSs.

Any alterations or amendments of a material nature or any change to the terms of the Purchase Rights granted must be approved by the shareholders of the Company, unless such alteration or amendment takes effect automatically under the terms of the ESPP. For the avoidance of doubt, any alteration or amendment pursuant to the exercise of any authority granted under the ESPP shall be deemed to take effect automatically under the terms of the ESPP. Any amendment made to the ESPP must be in accordance with the requirements of the Listing Rules or permitted by the SEHK.

If the ESPP is terminated by the Board prior to the tenth anniversary of the date of Board approval, unless the Compensation Committee has also terminated any Offering Period then in progress, Purchase Rights granted before such termination shall continue to be valid and exercisable in accordance with, and subject to, the terms and conditions of the Plan.

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Rule 17.03(9) of the Listing Rules provide that the exercise price of any share option scheme operated by listed issuers may not be lower than effectively the market price of the ordinary shares. As a result of the capital-intensive nature of our business, we have traditionally relied on share options, rather than cash, as an important means of remunerating its employees. This is common in the industry and we wish to continue this practice. Accordingly, we have applied to and obtained from the SEHK a waiver from strict compliance with Rule 17.03(9) of the Listing Rules such that the Company is allowed to continue to grant options over its ADSs to its employees under the ESPP at an exercise price which is at a discount (up to 15 percent discount) to the lower of market price at the commencement of the offering period or the market price on the purchase date.

Up and until December 31, 2011, we have not granted any purchase right under the ESPP.



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The following table sets forth information regarding the beneficial ownership as of March 31, 2012 of our ordinary shares, by each shareholder who is known by us to beneficially own 5% or more of our outstanding ordinary shares as of such date.

<b>Name of Shareholder</b>	<b>Number of Shares Held</b>	<b>Percentage Held<sup>(1)</sup></b>
Datang Telecom Technology & Industry Holdings Co., Ltd.	<b>5,316,569,761<sup>(2)</sup></b>	<b>19.33%</b>
Shanghai Industrial Investment (Holdings) Company Limited ( <b>SIIC</b> )	310,008,000 <sup>(3)</sup>	1.13%
<b>Total:</b>	1,833,269,340 <sup>(4)</sup>	6.66%
Taiwan Semiconductor Manufacturing Company Limited ( <b>TSMC</b> )	<b>2,143,277,340</b>	<b>7.79%</b>
<b>Total:</b>	1,789,493,218 <sup>(5)</sup>	6.51%
	833,810,415 <sup>(6)</sup>	3.03%
	<b>2,623,303,633</b>	<b>9.54%</b>

## Notes:

- (1) Based on 27,509,521,180 ordinary shares of the Company issued and outstanding as at March 31, 2012.
- (2) All such shares are held by Datang Holdings (Hong Kong) Investment Company Limited which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd..
- (3) All such shares are held by SIIC Treasury (B.V.I.) Limited which is a wholly-owned subsidiary of SIIC.
- (4) All such shares are held by S.I. Technology Production Holdings Limited ( **SITPHL** ) which is an indirect wholly-owned subsidiary of SIIC. SITPHL is a wholly-owned subsidiary of Shanghai Industrial Financial (Holdings) Company Limited ( **SIFHCL** ) which in turn is a wholly-owned subsidiary of Shanghai Industrial Financial Holdings Limited ( **SIFHL** ). By virtue Hong Kong's Securities and Futures Ordinance, or of the SFO, SIIC and its subsidiaries, SIFHCL and SIFHL are deemed to be interested in the 1,833,269,340 Shares held by SITPHL. As at December 31, 2011, our Director, Mr. Zhou Jie, is an executive director and the executive vice president of SIIC. He is also an executive director and the executive deputy CEO of Shanghai Industrial Holdings Limited. It is our understanding that voting and investment control over the Shares beneficially owned by SIIC are maintained by the board of directors of SIIC.
- (5) All such ordinary shares are held by TSMC.
- (6) This represents the warrant held by TSMC to subscribe, in aggregate, up to 833,810,415 ordinary shares, subject to adjustment, at an exercise price of HK\$1.30 per share, as recorded in the register kept by the Company under section 336 of the SFO. As at the date of this annual report, no portion of this warrant has been exercised.

Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote, including the election of directors. No shareholder has voting rights that are different from those of other shareholders.

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The following table sets forth information regarding the beneficial ownership as of March 31, 2012 of our convertible preferred shares, by each shareholder who is known by us to beneficially own 5% or more of our outstanding preferred shares as of such date.

<b>Name of Shareholder</b>	<b>Number of Convertible preferred shares Held</b>
China Investment Corporation	360,589,053 <sup>(1)</sup>
	72,117,810 <sup>(2)</sup>
<b>Total:</b>	<b>432,706,863</b>
Datang Telecom Technology & Industry Holdings Co., Ltd.	84,956,858 <sup>(3)</sup>
	16,991,371 <sup>(4)</sup>
<b>Total:</b>	<b>101,948,229</b>

## Notes:

- (1) The 360,589,053 convertible preferred shares are held by Country Hill Limited. Country Hill Limited is a wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by China Investment Corporation.
- (2) This represents the warrant held by Country Hill Limited to subscribe, in aggregate, up to 72,117,810 convertible preferred shares at an exercise price of HK\$5.39 per convertible preferred share (reflective of an effective conversion price of HK\$0.539 per ordinary share (based on the initial conversion rate of 10 ordinary shares per convertible preferred share, subject to adjustment)). As at the date of this annual report, no portion of this warrant has been exercised.
- (3) The 84,956,858 convertible preferred shares are held by Datang Holdings (Hongkong) Investment Company Limited which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd.
- (4) This represents the warrant held by Datang Holdings (Hongkong) Investment Company Limited to subscribe, in aggregate, up to 16,991,371 convertible preferred shares at an exercise price of HK\$5.39 per convertible preferred share (reflective of an effective conversion price of HK\$0.539 per ordinary share (based on the initial conversion rate of 10 ordinary shares per convertible preferred share, subject to adjustment)). As at the date of this annual report, no portion of this warrant has been exercised.

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Each of the convertible preferred shares held by Country Hill Limited and Datang Holdings (Hongkong) Investment Company Limited is entitled to one vote on all matters upon which the ordinary shares are entitled to vote, including the election of directors, as if the convertible preferred shares were converted into ordinary shares. No shareholder has voting rights that are different from those of other shareholders.

The terms related to the conversion of the convertible preferred shares are set out below:

The holders of the convertible preferred shares will have the right at any time to convert (in whole or in part) their convertible preferred shares into fully paid ordinary shares at the conversion rate of ten ordinary shares per convertible preferred share (which shall be for a minimum amount of 70,000,000 convertible preferred shares or, if less than 70,000,000 convertible preferred shares are then held by CIC or Datang Holdings (Hongkong) Investment Company Limited, as applicable, all of such convertible preferred shares). The holders of the convertible preferred shares are not required to pay any amount for conversion of their convertible preferred shares into ordinary shares.

The ordinary shares issued upon conversion will be credited as fully paid, and will rank pari passu in all respects with the other ordinary shares in issue as at the date of the conversion, and will be allotted and issued free from all liens, charges and encumbrances and together with all rights attaching thereto upon allotment and issue and at any time thereafter, including all rights to any dividend or other distribution declared, made or payable by reference to a record date falling on or after the date of the conversion notice.

The convertible preferred shares will be mandatorily converted into ordinary shares at the then applicable conversion rate on June 4, 2012 as if the holder of the convertible preferred shares has elected to convert its convertible preferred shares into ordinary shares on the mandatory conversion date.

The initial conversion rate of ten ordinary shares per convertible preferred share is subject to adjustment upon the occurrence of certain prescribed events, such as capitalization of profits or reserves, consolidations, sub-divisions and re-classifications of shares, capital distributions, issue of shares or other securities, and the issue of a new class of shares carrying voting rights.

In the event of any issue of any ordinary share or any securities which by their terms are convertible into or exchangeable for, or carry right(s) of subscription for, any ordinary share, the conversion rate in force immediately before such issue will be adjusted to compensate the holders of convertible preferred shares by reference to the lowest of:

- (i) the reference price per ordinary share which initially is HK\$0.5390 (subject to adjustment as described in this section);
- (ii) the amount which represents:
  - a. in respect of any rights issue of ordinary shares by the Company, 90% of the relevant theoretical ex-rights price for an ordinary share under that rights issue;

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- b. in respect of any issue of securities which by their terms are convertible into or exchangeable for, or carry right(s) of subscription for, ordinary share(s):
    - (1) in the case of options, warrants or similar instruments, the aggregate of the subscription price or premium for such instrument and the initial exercise price at which the holder of such instrument may subscribe for one ordinary share;
    - (2) in the case of convertible bonds or convertible shares or similar instruments, the initial conversion price at which such instrument may be converted into ordinary shares; or
    - (3) in any other case, the aggregate price paid and initially payable by the subscriber of such securities in order to receive one ordinary share; and
  - c. in respect of any other issue of ordinary shares by the Company, the relevant issue price for an ordinary share under that issue;
- (iii) the amount which represents a discount of 10% to the arithmetic average of the daily volume weighted average price for an ordinary share as shown on the VAP page of Bloomberg for the:
- a. ten consecutive trading days immediately after the date on which the relevant issue is announced;
  - b. in the case of a rights issue, ten consecutive trading days immediately after the ex-rights date; or
  - c. if the reference price to determine the issue price is based on share prices for a period after the relevant issue is announced, all the trading days during that period.

The adjustment will become effective immediately following the date of the issuance of the new securities.

No adjustment to the conversion rate will be made which has the effect or result of: (i) reducing the initial conversion rate upon the issue of the convertible preferred shares, except upon any consolidation of ordinary shares or any corporate exercise with the effect of increasing the nominal value of the ordinary shares; or (ii) any ordinary share, upon conversion, falling to be issued at a price below the nominal value of the ordinary share.

As of December 31, 2011, 27,487,676,065 ordinary shares (including 38,801,504 ADSs representing 1,940,075,200 shares) of our company were outstanding. J.P. Morgan Chase Bank, the depositary under the deposit agreement, has advised us that, as of December 31, 2011, these 38,801,504 ADSs, representing 1,940,075,200 ordinary shares, were held of record by ten US registered shareholders. We have no further information as to shares held or beneficially owned by U.S. persons. Each ADS represents 50 ordinary shares.

We do not believe that we are directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

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**B. Related Party Transactions**

The following disclosure is for the purpose of fulfilling disclosure requirements pursuant to the rules and regulations promulgated pursuant to the U.S. Securities and Exchange Act of 1934, as amended, or the Exchange Act, only, and may contain disclosure of related party transactions not required to be disclosed in our financial statements under U.S. GAAP.

**Indemnification Agreements and Service Contracts**

*Indemnification Agreements.* Article 156 of our Articles of Association provides (amongst others) that we may indemnify any person who is made a party to any action, suit or proceeding by reason of the fact that the person is or was our director, officer, employee or agent, or is or was serving at our request as our director, officer, employee or agent at another entity, subject to certain limitations and applicable conditions.

We recognize the substantial increase in corporate litigation in general, subjecting directors, officers, employees, agents and fiduciaries to expensive litigation risks. We desire to attract and retain the services of highly qualified individuals to serve the company and, in part, in order to induce such individuals to continue to provide services to the company, we wish to provide for the indemnification and advancing of expenses of its directors as permitted by law and applicable regulations.

*a. Original Indemnification Agreements.*

On or around March 18, 2004, upon completion of the Global Offering, we entered into identical indemnification agreements with each director whose appointment as director took effect immediately upon the Global Offering, whom we refer to as the Global Offering Directors, whereby we agreed to, inter alia, indemnify our Global Offering Directors in respect of liability arising from their capacity as our directors. We refer to these indemnification agreements as, collectively, the Original Indemnification Agreements. Pursuant to the Original Indemnification Agreements, we were obliged to indemnify each Global Offering Director, to the fullest extent permitted by law, against all costs, charges, expenses, liabilities, losses and obligations incurred in connection with any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation which might lead to any of the foregoing (an *Applicable Claim* ) by reason of or arising out of any event or occurrence relating to the fact that he is or was a director of SMIC, or any of our subsidiaries, or is or was serving at our request at another corporation or enterprise, or by reason of any activity or inactivity while serving in such capacity (an *Indemnifiable Event* ). Our obligation to indemnify our Global Offering Directors pursuant to the Original Indemnification Agreements was subject to certain exceptions and limitations set out therein.

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*b. New Indemnification Agreements; Service Contracts.*

At the annual general meeting of our shareholders on May 6, 2005, our shareholders, other than our directors, chief executive officer and their respective Associates (as defined in the Listing Rules) approved an amendment to the form of the Original Indemnification Agreements. As amended, we refer to the new form of Indemnification Agreements as the New Indemnification Agreements. The New Indemnification Agreements executed by each of the directors superseded the Original Indemnification Agreements which we had previously entered into with any existing directors. The New Indemnification Agreement reflected the then new requirements under Rules 14A.35 of the HK Listing Rules to set a term of no longer than three years and a maximum aggregate annual value for each connected transaction (as defined under the Listing Rules). The terms of the New Indemnification Agreements were the same as the Original Indemnification Agreements, except that the New Indemnification Agreements were subject to a term of three years and an annual cap. The annual cap in relation to the New Indemnification Agreements was not to exceed a maximum aggregate annual value as disclosed in our previous announcement. For the year ended December 31, 2011, no payment was made to any director under the New Indemnification Agreements.

*Service Contracts.* The New Indemnification Agreements remained in effect until our directors entered into amended service contracts with us between October 7, 2008 and November 25, 2009 which include indemnity provisions. Each of our executive officers also signed service contracts which include indemnity provisions. We refer to the service contracts we have entered into with each of our directors and executive officers collectively as the Service Contracts. The indemnification provisions contained in the Service Contracts are substantially the same as the terms of the New Indemnification Agreements, except that the Service Contracts are not subject to a maximum term or to an annual cap. The indemnification provisions set forth in the Services Contracts will continue in effect with respect to Applicable Claims (as defined therein) relating to Indemnifiable Events regardless of whether the relevant director or executive officer continues to serve as our director or executive officer or to serve at any other enterprise at our request. Except for these indemnification provisions, the Service Contracts do not provide for benefits upon termination of service or employment.

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**Datang Subscription Agreement (2010)**

On July 15, 2010, our placing of 1,500,000,000 new ordinary shares at the placing price of HK\$0.52 per share to not fewer than six independent places through J.P. Morgan Securities (Asia Pacific) Limited and The Royal Bank of Scotland N.V., Hong Kong Branch as the placing agents, or the Placing, was completed. Pursuant to the share purchase agreement entered into between us and Datang Telecom Technology & Industry Holdings Co., Ltd., or Datang, dated November 6, 2008 relating to the sale and purchase of an aggregate of 3,699,094,300 ordinary shares of ours, or the Datang Share Purchase Agreement, Datang has a right of pre-emption to subscribe for a pro rata portion of shares which is equivalent to such number of shares as will result in its percentage shareholding in us not being diluted by the Placing.

On August 16, 2010, we entered into a subscription agreement, or the Datang Subscription Agreement, with Datang pursuant to which we conditionally agreed to issue, and Datang conditionally agreed to subscribe (through Datang Holdings (Hong Kong) Investment Company Limited, or Datang Hong Kong) for, a total of 1,528,038,461 ordinary shares (being equivalent to the sum of (i) the amount of shares issued to Datang pursuant to the exercise of its pre-emptive right under the Datang Share Purchase Agreement in connection with the Placing as will result in Datang's percentage shareholding in the Company not being diluted by the Placing, or the Datang Pre-emptive Shares and (ii) the number of new shares, which, together with the Datang Pre-emptive Shares, would be issued for aggregate purchase price of US\$102 million) at the subscription price of HK\$0.52 per share (being equivalent to the subscription price in the Placing). The completion took place on November 16, 2010, when 1,528,038,461 ordinary shares were issued to Datang under the special mandate approved by our independent shareholders at our extraordinary general meeting held on September 21, 2010.

Please see the section entitled Item 10.C Additional Information Material Contracts for further details of the Datang Subscription Agreement.

**Datang Further Subscription Agreement (2011)**

Datang's pre-emptive right is also applicable to the issue of convertible preferred shares and warrant to Country Hill Limited, a wholly owned subsidiary of China Investment Corporation, pursuant to the subscription agreement dated April 18, 2011 between Country Hill Limited and us in connection with its subscription of (i) 360,589,053 convertible preferred shares and (ii) warrants to subscribe for up to 72,117,810 convertible preferred shares (subject to adjustment). The terms of the convertible preferred shares are set forth in Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders.

Please see Item 10.C Additional Information Material Contracts for further details about the subscription agreement with Country Hill Limited.

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On May 5, 2011, the we entered into a subscription agreement with Datang whereby (i) we conditionally agreed to allot and issue to Datang Hong Kong and Datang Hong Kong agreed to subscribe for 84,956,858 convertible preferred shares at the subscription price of HK\$5.39 per convertible preferred share. The subscription price reflected an effective conversion price of HK\$0.539 per ordinary share (based on the initial conversion rate of ten ordinary shares per convertible preferred shares, which is subject to adjustment) and (ii) we would issue a warrant to Datang Hong Kong to subscribe for, in aggregate, up to 16,991,371 convertible preferred shares (assuming a full exercise of the warrant). Datang Hong Kong may exercise, in whole or in part, at an exercise price of HK\$5.39 per convertible preferred share. The exercise price reflected an effective conversion price of HK\$0.539 per ordinary share. Any unexercised warrants will expire on June 4, 2012, being 12 months after the date of the completion of the issuance of convertible preferred shares and warrant to Country Hill Limited.

On September 16, 2011, 84,956,858 convertible preferred shares and the warrant were issued to Datang HongKong under the special mandate obtained from the shareholders at our extraordinary general meeting held on May 27, 2011.

Please see the section entitled Item 10.C Additional Information Material Contracts for further details of the Datang Further Subscription Agreement.

**Framework Agreement with Datang**

On December 14, 2011, we entered into a Framework Agreement with Datang pursuant to which the Company (including its subsidiaries) and Datang (including its associates) will engage in business collaboration including but not limited to foundry service. The effective period of the Framework Agreement is three years. The pricing for the transactions contemplated under the agreement will be determined by reference to reasonable market price.

The expected caps, being the maximum revenue on an aggregated basis expected to be generated by we from the transactions contemplated under the Framework Agreement, are

- US\$5.2 million for the year ending December 31, 2011,
- US\$40 million for the year ending December 31, 2012, and
- US\$60 million for the year ending December 31, 2013.

In arriving at the above caps, we have considered the potential level of transactions it may potentially engage in light of current market conditions of the semiconductor industry and our technological capability, having regard to the historical transaction volume of Datang and its associates with us, and our historical revenues.



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**Item 8. Financial Information**

**A. Consolidated Statements and Other Financial Information**

Please see Item 18. Financial Statements.

See Item 4.B Information on the Company Business Overview Customers and Markets regarding the percentage of our sales which are exported from China.

**Litigation**

Beginning in December 2003, we became subject to several lawsuits brought by TSMC alleging infringement of certain patents and misappropriation of alleged trade secrets relating to methods for conducting semiconductor fab operations and manufacturing integrated circuits.

On January 30, 2005, we entered into the 2005 settlement agreement, without admission of liability, which provided for the dismissal of all pending legal actions without prejudice between the two companies and agreed to pay TSMC \$175 million in installments over a period of six years.

In accounting for the 2005 Settlement Agreement, we determined that there were several components settlement of litigation, covenant not to sue, patents licensed by us to TSMC and the use of TSMC's patent license portfolio both prior and subsequent to the settlement date. We do not believe that the settlement of litigation, covenant not to sue or patents licensed by us to TSMC qualify as assets under the generally accepted accounting principles in the United States, or US GAAP.

We determined that the use of TSMC's patent license portfolio prior and subsequent to the 2005 Settlement Agreement date qualify for assets under US GAAP. \$16.7 million was allocated to the pre-2005 Settlement Agreement period, reflecting the amount that we would have paid for use of the patent license portfolio prior to the date of the 2005 Settlement Agreement. The remaining \$141.3 million, representing the relative fair value of the licensed patent license portfolio, was recorded on our consolidated balance sheets as a deferred cost ( Deferred Cost ) and was amortized over a six-year period, which represents the life of the licensed patent license portfolio.

On August 25, 2006, TSMC filed a lawsuit against us and certain of our subsidiaries (SMIC Shanghai, SMIC Beijing and SMIC Americas) in the Superior Court of the State of California, County of Alameda for alleged breach of the 2005 Settlement Agreement, alleged breach of promissory notes related to the 2005 Settlement Agreement and alleged trade secret misappropriation by us. We filed counterclaims against TSMC in the same court in September 2006 and also filed suit against TSMC in Beijing in November 2006.

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We settled all pending litigation with TSMC on November 9, 2009, including the legal action filed in California for which a verdict was returned by the jury against SMIC on November 4, 2009, with the 2009 Settlement Agreement which replaced the 2005 Settlement Agreement. The 2009 Settlement Agreement resolved all pending lawsuits between the parties and the parties have since dismissed all pending litigation between them. The terms of the 2009 Settlement Agreement include the following:

- 1) Entry of judgment and mutual release of all claims that were or could have been brought in the pending lawsuits;
- 2) Termination of SMIC's obligation to make remaining payments under the 2005 Settlement Agreement between the parties (approximately US\$40 million);
- 3) Payment to TSMC of an aggregate of US\$200 million (with US\$15 million paid upon execution, funded from SMIC's existing cash balances, and the remainder to be paid in installments over a period of four years);
- 4) Commitment to grant to TSMC of 1,789,493,218 shares of SMIC (representing approximately 8% of SMIC's issued share capital as of October 31, 2009) and a warrant exercisable within three years of issuance to subscribe for 695,914,030 shares of SMIC, subject to adjustment at a purchase price of HK\$1.30 per share, subject to adjustment. Both the shares and the warrant would allow TSMC to obtain total ownership of approximately 10% of SMIC's issued share capital after giving effect to the share issuances and are subject to receipt of required government and regulatory approvals; and
- 5) Certain remedies in the event of breach of this settlement.

Accounting Treatment for the 2009 Settlement Agreement:

In accounting for the 2009 Settlement Agreement, we determined that there were three components of the 2009 Settlement Agreement:

- 1) Settlement of litigation via entry of judgment and mutual release of all claims in connection with pending litigation;
- 2) TSMC's covenant not-to-sue with respect to alleged misappropriation of trade secrets; and
- 3) Termination of payment obligation of the remaining payments to TSMC under the 2005 Settlement Agreement of approximately \$40 million.

All such items were expensed as of the settlement date, and previously recorded deferred cost associated with the 2005 Settlement Agreement were immediately impaired, resulting in an expense of \$269.6 million which was recorded as litigation settlement in the consolidated statements of operations. The commitment to grant shares and warrants was initially measured at fair value and is being accounted for as a derivative with all subsequent changes in fair value being reflected in the consolidated statements of operations. We recorded losses of \$30.1 million and \$29.8 million as the change in fair value of commitments to issue shares and warrants in 2009 and 2010 through the date of issuance of the shares and warrants on July 5, 2010, respectively.

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**Contingent Liability**

In 2007, we entered into equipment purchase and cooperative manufacturing arrangements (the Arrangements ) with an unrelated semiconductor manufacturer (the Counterparty ). The equipment was relocated by 2008 as scheduled. In 2009, we received notifications from the Counterparty that we were responsible for additional equipment relocation expenses and a portion of the losses incurred during the term of the Arrangements. The Company contested the claims and requested further information supporting the Counterparty s claims. The Company recorded its best estimate of the probable amount of its liability on the claims regarding the Arrangements and equipment relocation and charged to cost of sales and general and administrative expense, respectively, in the consolidated financial statement as of and during the year ended December 31, 2009.

The Counterparty filed a demand for dispute arbitration in late 2009 for the equipment relocation expenses. In 2010, we settled the dispute related to the equipment relocation claims by paying \$8.0 million to the Counterparty and continued its investigations and negotiations with the Counterparty under the Arrangements.

In the end of 2010, the Counterparty filed further claims under the Arrangements. In December 2011, we settled the arbitration regarding Arrangements by paying \$21.0 million to the Counterparty. All claims and counterclaims were dismissed then.

**Dividends and Dividend Policy**

At the end of 2011, our accumulated deficit increased to US\$2,010.7 million from an accumulated deficit of US\$1,698.9 million at the end of 2010. We have not declared or paid any cash dividends on the ordinary shares. We intend to retain any earnings for use in our business and do not currently intend to pay cash dividends on the ordinary shares. Dividends, if any, on the outstanding shares will be declared by and subject to the discretion of the Board and must be approved at the annual general meeting of shareholders. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

- our results of operations and cash flow;
- our future prospects;
- our capital requirements and surplus;
- our financial condition;
- general business conditions;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by our subsidiaries to the Company; and
- other factors deemed relevant by the Board.

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Our ability to pay cash dividends will also depend upon the amount of distributions, if any, received by the Company from its wholly-owned Chinese operating subsidiaries. Under the applicable requirements of Chinese Company Law, our subsidiaries in China may only distribute dividends after they have made allowances for:

- recovery of losses, if any;
- allocation to the statutory common reserve funds;
- allocation to staff and workers' bonus and welfare funds; and
- allocation to a discretionary common reserve fund if approved by our shareholders.

More specifically, these operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as statutory common reserves and a discretionary percentage of their net profit has been set aside for the staff and workers' bonus and welfare funds. These operating subsidiaries are not required to set aside any of their net profit as statutory common reserves if the accumulation of such reserves has reached at least 50% of their respective registered capital. Furthermore, if they record no net income for a year, they generally may not distribute dividends for that year.

**B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Table of Contents**Item 9. The Offer and Listing**

Our ordinary shares are principally traded on the HKSE under the stock code 981 . Our ordinary shares began trading on the HKSE on March 18, 2004. Our ADSs, which began trading on the NYSE on March 17, 2004, are traded under the symbol SMI.

The table below sets forth the high and low closing prices on the HKSE and the NYSE for the ordinary shares and ADSs representing such ordinary shares, respectively, since the completion of the Global Offering and for the most recent six months.

	Stock Exchange of Hong Kong Closing price per ordinary share		New York Stock Exchange(1) Closing price per ADS	
	High Price	Low Price	High Price	Low Price
<b>Annual</b>				
Fiscal year 2007	HK\$ 1.240	HK\$ 0.710	US\$ 8.300	US\$ 4.570
Fiscal year 2008	HK\$ 0.820	HK\$ 0.110	US\$ 4.980	US\$ 0.890
Fiscal year 2009	HK\$ 0.660	HK\$ 0.230	US\$ 3.880	US\$ 1.530
Fiscal year 2010	HK\$ 1.060	HK\$ 0.480	US\$ 6.670	US\$ 3.080
Fiscal year 2011	HK\$ 0.940	HK\$ 0.335	US\$ 5.780	US\$ 2.120
<b>Quarterly</b>				
First Quarter 2010	HK\$ 1.050	HK\$ 0.540	US\$ 6.670	US\$ 3.570
Second Quarter 2010	HK\$ 1.060	HK\$ 0.530	US\$ 6.740	US\$ 3.360
Third Quarter 2010	HK\$ 0.630	HK\$ 0.480	US\$ 4.010	US\$ 3.080
Fourth Quarter 2010	HK\$ 0.690	HK\$ 0.540	US\$ 4.360	US\$ 3.410
First Quarter 2011	HK\$ 0.750	HK\$ 0.560	US\$ 4.720	US\$ 3.590
Second Quarter 2011	HK\$ 0.910	HK\$ 0.590	US\$ 5.700	US\$ 3.720
Third Quarter 2011	HK\$ 0.570	HK\$ 0.355	US\$ 3.920	US\$ 2.120
Fourth Quarter 2011	HK\$ 0.445	HK\$ 0.360	US\$ 2.940	US\$ 2.230
First Quarter 2012	HK\$ 0.445	HK\$ 0.370	US\$ 2.860	US\$ 2.330
<b>Monthly</b>				
October 2011	HK\$ 0.445	HK\$ 0.360	US\$ 2.940	US\$ 2.230
November 2011	HK\$ 0.445	HK\$ 0.375	US\$ 2.880	US\$ 2.330
December 2011	HK\$ 0.395	HK\$ 0.360	US\$ 2.530	US\$ 2.230

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	Stock Exchange of Hong Kong		New York Stock Exchange(1)	
	Closing price per ordinary share		Closing price per ADS	
	High Price	Low Price	High Price	Low Price
January 2012	HK\$ 0.420	HK\$ 0.370	US\$ 2.650	US\$ 2.330
February 2012	HK\$ 0.445	HK\$ 0.410	US\$ 2.860	US\$ 2.580
March 2012	HK\$ 0.415	HK\$ 0.380	US\$ 2.640	US\$ 2.350
April 2012 (through April 20)	HK\$ 0.415	HK\$ 0.385	US\$ 2.650	US\$ 2.380

On April 18, 2011, trading in our ADSs on the NYSE was suspended from 9:30 a.m., New York time, pending the release of our announcement regarding our entering into an investment agreement with Country Hill Limited. Trading in our shares resumed at 1:57 p.m., New York time on the same day. There was no trading suspension on the HKSE because it was closed during the NYSE suspension period.

At our request, trading in our shares on the HKSE was suspended with effect from 9:00 a.m. on June 30, 2011, Hong Kong time, pending the release of our announcement regarding our appointment of chairman of our board of directors, redesignation of directors and independent non-executive director, resignation of chief executive officer, appointment of acting chief executive officer and authorized representative, and clarification regarding staff departures. Pursuant to our application to the HKSE, trading in our ordinary shares resumed on the HKSE with effect from 9:00 a.m., July 18, 2011, Hong Kong time. Also at our request, trading in our ADSs on the NYSE was suspended for a like period.

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the first trading day in the 6 months immediately preceding our pre-emptive issue to Datang Hong Kong on September 16, 2011 are set forth below:

2011	Stock Exchange of Hong Kong	New York Stock Exchange(1)
	Closing price per ordinary share	Closing price per ADS
March 1	HK\$ 0.620	US\$ 3.860
April 1	HK\$ 0.610	US\$ 3.890
May 3	HK\$ 0.770	US\$ 4.790
June 1	HK\$ 0.650	US\$ 4.050
July 4	Suspended	Suspended
August 1	HK\$ 0.475	US\$ 2.970

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The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the last trading day before our announcement on May 5, 2011 of the pre-emptive issue to Datang Hong Kong are set forth below:

	<b>Stock Exchange of Hong Kong Closing price per ordinary share</b>	<b>New York Stock Exchange(1) Closing price per ADS</b>
May 4, 2011	HK\$ 0.740	US\$ 4.610

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on April 20, 2012 are set forth below:

	<b>Stock Exchange of Hong Kong Closing price per ordinary share</b>	<b>New York Stock Exchange(1) Closing price per ADS</b>
April 20, 2012	HK\$ 0.400	US\$ 2.520

(1) Each ADS represents 50 ordinary shares.

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**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

The section entitled "Description of Share Capital" in our IPO registration statement is incorporated by reference into this annual report.

The sections entitled "Item 10-Additional Information-Memorandum and Articles of Association" in our annual report on Form 20-F for the fiscal year ended December 31, 2004, filed with the SEC on June 26, 2005 and in our annual report on Form 20-F for the fiscal year ended December 31, 2005, filed with the SEC on June 26, 2006 are incorporated by reference into this annual report. In addition, at the annual general meeting of our shareholders held on June 2, 2008, our shareholders approved an amendment to our Articles of Association to provide that a member of our board of directors may be removed by Ordinary Resolution.

**C. Material Contracts**

*Datang Subscription Agreement (2010)*

On August 16, 2010, we entered into the Datang Subscription Agreement with Datang pursuant to which we conditionally agreed to issue, and Datang conditionally agreed to subscribe (through Datang Hongkong) for, a total of 1,528,038,461 ordinary shares (being equivalent to the sum of (i) the **Datang Pre-emptive Shares** and (ii) such number of new shares, which, together with the Datang Pre-emptive Shares, would be issued for aggregate purchase price of US\$102 million) at the subscription price of HK\$0.52 per share (being equivalent to the subscription price in the Placing). Completion was conditional upon, among other things, the obtaining of PRC governmental and regulatory approvals and consents by Datang.

Subsequently, the completion of this subscription took place on November 16, 2010, when 1,528,038,461 ordinary shares were issued to Datang under the special mandate approved by our independent shareholders at our extraordinary general meeting held on September 21, 2010.



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*Subscription Agreement with Country Hill Limited*

The subscription agreement, or the CIC Subscription Agreement, dated as of April 18, 2011 and entered into by us and Country Hill Limited, a wholly-owned subsidiary of China Investment Corporation, or CIC, in respect of the subscription of 360,589,053 convertible preferred shares, or the CIC Initial Preferred Shares and a warrant to subscribe for 72,117,810 convertible preferred shares, or the CIC Warrants includes, among others, the following terms:

- *Consideration of the CIC Securities.* The subscription price of HK\$5.39 per CIC Initial Preferred Share is reflective of an effective conversion price of HK\$0.539 per ordinary share (based on the initial conversion rate of ten ordinary shares per convertible preferred share) and the total cash consideration payable by CIC is US\$250 million.
- *Terms of the Convertible preferred shares.* Below are the principal terms of the convertible preferred

Shares:

- *Dividend entitlements:* The convertible preferred shares will rank pari passu in respect of entitlement to dividends and other income distribution as ordinary shares as if the convertible preferred shares had been converted into ordinary shares for the relevant accounting period.
- *Capital:* Upon our liquidation, dissolution, winding up (whether voluntary or involuntary) or return or reduction of capital (but not on conversion of the Convertible preferred shares or any repurchases by us of any convertible preferred shares or ordinary shares) , or our assets available for distribution among the shareholders will be applied first in paying to the holders of the convertible preferred shares and holders of our other preferred shares an amount in repayment of capital equal to the amount paid up or credited as paid up on such shares in priority to:
  - (A) any payment to the holders of ordinary shares; and
  - (B) any other obligations ranking pari passu with the claims of the holders of ordinary shares.
- *Ranking:* The CIC Initial Preferred Shares will, upon issue, rank (a) pari passu with the claims of holders of (i) any class of our preferred share capital and (ii) other obligations of ours which rank pari passu with the convertible preferred shares or such preferred shares, and (b) in priority (including with respect to distribution of proceeds upon any liquidation event up to the amount paid up) to any payment to the holders of our ordinary shares and other obligations ours, incurred directly or indirectly by it, which rank, or are expressed to rank, pari passu the claims of the ordinary shares.

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- *Conversion right:* The holders of the convertible preferred shares will have the right at any time to convert (in whole or in part) their convertible preferred shares into fully paid ordinary shares at the conversion rate of ten ordinary shares per convertible preferred share (which shall be for a minimum amount of 70,000,000 Convertible preferred shares or, if less than 70,000,000 convertible preferred shares are then held by CIC, all of such Convertible preferred shares). The holders of the convertible preferred shares are not required to pay any amount for conversion of their convertible preferred shares into ordinary shares. The ordinary shares issued upon conversion will be credited as fully paid, and will rank pari passu in all respects with the other ordinary shares in issue as at the date of the conversion, and will be allotted and issued free from all liens, charges and encumbrances and together with all rights attaching thereto upon allotment and issue and at any time thereafter, including all rights to any dividend or other distribution declared, made or payable by reference to a record date falling on or after the date of the conversion notice.
  - *Mandatory Conversion Date:* The Convertible preferred shares will be mandatorily converted into ordinary shares at the then applicable conversion rate on June 4, 2012 as if the holder of the convertible preferred shares has elected to convert its convertible preferred shares into ordinary shares on the mandatory conversion date.
  - *Adjustment to Conversion Rate:* The initial conversion rate of ten ordinary shares per Convertible Preferred Share is subject to adjustment upon the occurrence of certain prescribed events, among other things, capitalization of profits or reserves, consolidations, sub-divisions and re-classifications of shares, capital distributions, issue of shares or other securities, and the issue of a new class of shares carrying voting rights. In the event of any issue of any ordinary share or any securities which by their terms are convertible into or exchangeable for, or carry right(s) of subscription for, any ordinary share, the conversion rate in force immediately before such issue will be adjusted to compensate the holders of convertible preferred share by reference to the lowest of:
    - (i) the reference price per ordinary share which initially is HK\$0.5390 (subject to adjustment as described in this section);
    - (ii) the amount which represents:
      - (a) in respect of any rights issue of ordinary shares by the Company, 90% of the relevant theoretical ex-rights price for an ordinary share under that rights issue;
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- (b) in respect of any issue of securities which by their terms are convertible into or exchangeable for, or carry right(s) of subscription for, ordinary share(s):
  - (1) in the case of options, warrants or similar instruments, the aggregate of the subscription price or premium for such instrument and the initial exercise price at which the holder of such instrument may subscribe for ordinary shares;
  - (2) in the case of convertible bonds or convertible shares or similar instruments, the initial conversion price at which such instrument may be converted into ordinary shares; or
  - (3) in any other case, the aggregate price paid and initially payable by the subscriber of such securities in order to receive ordinary shares; and
- (c) in respect of any other issue of our ordinary shares, the relevant issue price for an ordinary share under that issue;
- (iii) the amount which represents a discount of 10% to the arithmetic average of the daily volume weighted average price for an ordinary share as shown on the VAP page of Bloomberg for the:
  - (a) ten consecutive trading days immediately after the date on which the relevant issue is announced;
  - (b) in the case of a rights issue, ten consecutive trading days immediately after the ex-rights date; or
  - (c) if the reference price to determine the issue price is based on share prices for a period after the relevant issue is announced, all the trading days during that period.

The adjustment will become effective immediately following the date of the issuance of the new securities.

No adjustment to the conversion rate will be made which has the effect or result of: (i) reducing the initial conversion rate upon the issue of the convertible preferred shares, except upon any consolidation of ordinary shares or any corporate exercise with the effect of increasing the nominal value of the ordinary shares; or (ii) any ordinary share, upon conversion, falling to be issued at a price below the nominal value of the ordinary share.

- *Voting:* The convertible preferred shares will entitle the holders thereof to receive notice of, attend and vote at any meeting of our members. Each convertible preferred shares will confer on its holder such number of voting rights as if the convertible preferred shares had been converted into ordinary shares.

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- *Consent:* Except with the consent or sanction of at least 75 per cent of the vote of the holders of the convertible preferred shares given at a separate class meeting, no resolution may be made by us to amend the terms of the convertible preferred shares.
- *Transferability:* The convertible preferred shares will be freely transferrable save as provided for under the terms of the CIC Subscription Agreement.
- *Redemption:* The convertible preferred shares are non-redeemable.
- *Protection:* We have undertaken to each holder of convertible preferred shares (including but not limited to) (i) that all the ordinary shares issued upon conversion will be duly and validly allotted and issued as fully paid or credited as fully paid and free from all liens, charges and encumbrances; (ii) that we will not in any way vary the rights attached to any class or series of shares, or attach any restriction to any class or series of shares, to the extent that such variation would have the effect of varying the rights attaching to the convertible preferred shares, without prior written approval of 75 per cent. of the holders of convertible preferred shares; (iii) that there will not be shares of different nominal values in issue at any time; (iv) it will not, without prior written approval of 75 per cent. of the holders of convertible preferred shares, take any steps to or so as to liquidate, dissolve or windup our Company or any of our subsidiaries unless such liquidation, dissolution or winding-up will not have a material adverse effect; (v) we will not make any reduction or redemption of capital, share premium account or capital redemption reserve involving repayment of money to our shareholders or reduce any uncalled liability in respect of any issued share except in certain situations; and (vi) we will not enter into any agreement, instrument or other document whatsoever binding on us which may result in any breach of our memorandum and articles of association.

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- *Pre-emptive rights.* Country Hill Limited will have the following right to subscribe for (subject to any authorization, consent, approval, license or notification required for the purposes of or as a consequence of the CIC Subscription either from governmental, regulatory or other public bodies):
  - (i) whilst any convertible preferred shares issued to and beneficially owned by Country Hill Limited (and/or its permitted transferee) remain unconverted and to the extent that the original percentage of our issued share capital held by Country Hill Limited (and/or its permitted transferee) on a fully-diluted basis through such convertible preferred shares immediately prior to the issue is reduced as a result of the issue of any new ordinary shares or preferred shares, any securities convertible into or exchangeable into ordinary shares or preferred shares or any warrants or other rights to subscribe for ordinary shares or preferred shares (which preferred shares carry voting rights in our general meetings), or Relevant Securities (after having taken into account any adjustment to the conversion rate), such number of additional convertible preferred shares (bearing the same conversion rate as the existing issued convertible preferred shares having reflected the adjustment) so as to enable Country Hill Limited to hold, after the issue of the Relevant Securities, a pro rata portion of our issued share capital (on a fully diluted basis) equal to the original percentage; and
  - (ii) to the extent that any of the Country Hill Limited convertible preferred shares held by Country Hill Limited have been converted and Country Hill Limited is holding our ordinary shares issued as a result of the conversion, such number of additional Relevant Securities so as to enable Country Hill Limited to hold, after the issue of the Relevant Securities, a pro rata portion of the Relevant Securities equal to the percentage of our issued share capital represented by the converted ordinary shares then beneficially owned by Country Hill Limited immediately prior to the issuance of the Relevant Securities.
- *Right to Nominate one member of the Board.* Country Hill Limited will have the right to nominate one member of our board of directors, or CIC Nominee, provided that: (i) the nomination and appointment of the CIC Nominee is considered by the board of directors (excluding CIC Nominee) to be in the best interest of us and our shareholders as a whole; and (ii) the CIC Nominee has passed our conflict and background check in accordance with common and usual standards and policies generally applicable to the appointment and nomination of a director of ours. We will use all reasonable efforts to give effect to the appointment of the CIC Nominee to our board of directors as soon as practicable after the completion of the subscription by Country Hill Limited which took place on June 3, 2011, and no later than 31 August 2011.

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- *Lock-up Undertaking.* Country Hill Limited will be restricted from selling, or transferring the CIC Initial Preferred Shares, any convertible preferred shares issued upon the exercise of the CIC Warrants and any additional convertible preferred shares or warrants subscribed for a period of 2 years from convertible preferred shares, except that Country Hill Limited may transfer any convertible preferred shares or ordinary shares to any wholly-owned subsidiaries of CIC. The lock-up undertaking will cease to apply where any of the following members of our senior management, being Mr. David N.K. Wang, Mr. Gary Tseng, Mr. Simon Yang, Mr. Chris Keh-Fei Chi and Mr. Barry Quan, cease their employment with us within a period of (2) years commencing from June 3, 2011, except where they ceased their employment as a result of misconduct, or as a result of health conditions.
- *Restriction on transfers to a Competitor.* Country Hill Limited has agreed to refrain from transferring to any entity that provides or that has the capability to provide, directly or indirectly through any subsidiary or affiliate, semiconductor wafer fabrication or foundry services to third parties, or a Competitor, directly or indirectly, the convertible preferred shares, the CIC Warrants, or any ordinary shares issued upon conversion of the convertible preferred shares except where there is a genuine open market sale, with the written consent of our board of directors, or for accepting a general offer which has become unconditional or where the offer or has become entitled to exercise compulsory acquisition rights.
- *Warrant Agreement.* On June 3, 2011, or the completion date, we and Country Hill Limited entered into a warrant agreement, or the CIC Warrant Agreement pursuant to the CIC Subscription Agreement whereby the Company issued the CIC Warrant to Country Hill Limited. Major terms of the warrant agreement are as below:
  - *Consideration.* The CIC Warrants are issued as part of CIC's subscription.
  - *Exercise of the CIC Warrants.* Country Hill Limited may exercise, in whole or in part, the CIC Warrants on any business day on or prior to 11:59 p.m., Hong Kong time, on the date that is 12 months from the date of the CIC Warrant Agreement. Upon exercise, the CIC Warrants will be converted into convertible preferred shares. Each partial exercise shall be for a minimum subscription of 15,000,000 convertible preferred shares, or, if less than 15,000,000 Warrant Preferred Shares are issuable under the CIC Warrant then held by Country Hill Limited, for all of such number of convertible preferred shares issuable under the CIC Warrants then held by Country Hill Limited. Any unexercised portion of the CIC Warrants will lapse after the date that is 12 months from the date of the CIC Warrant Agreement.

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- *Exercise Price.* The exercise price of the CIC Warrant is HK\$5.39 per convertible preferred share, which is equivalent to the subscription price for the CIC Initial Preferred Shares and is reflective of an effective conversion price of HK\$0.539 per ordinary share (based on the initial conversion rate of ten ordinary shares per convertible preferred share).
- *Adjustment of Exercise Price.* No adjustment will be made to the exercise price of the CIC Warrant nor the number of convertible preferred shares issuable upon exercise of the CIC Warrant.
- *Warrant Preferred Shares.* The convertible preferred shares issuable upon exercise of the CIC Warrant will not be adjusted but will bear a conversion rate for conversion into ordinary shares that may be adjusted as described in the paragraph Terms of the Convertible preferred shares Adjustment Conversion Rate above. The convertible preferred shares issuable upon exercise of the CIC Warrant will entitle the holders thereof to receive notice of, attend and vote at any meeting of our members. Each such convertible preferred share will confer on its holder such number of voting rights as if such share had been converted into ordinary shares.
- *Transferability.* Save as to transfers to any wholly-owned subsidiary of CIC, the CIC Warrant is not transferable without our prior written approval.
- *No Listing of the CIC Warrant.* No application will be made for a listing of the CIC Warrant on The Stock Exchange of Hong Kong Limited or any other stock exchange.

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*Datang Further Subscription Agreement (2011)*

On May 5, 2011, we entered into a subscription agreement, or the **Datang Further Subscription Agreement** with Datang Hong Kong, whereby We have conditionally agreed to allot and issue to Datang Hong Kong, and Datang Hong Kong has conditionally agreed to subscribe for (i) 84,956,858 Convertible preferred shares at a subscription price of HK\$5.39 per share and (ii) a warrant to subscribe for up to 16,991,371 Convertible preferred shares (subject to adjustment) at an exercise price of HK\$5.39 share pursuant to Datang's exercise of its pre-emptive right under the Datang Share Purchase Agreement in connection with the subscription of Convertible preferred shares and warrant by Country Hill Limited, or the **CIC Subscription**, on the same terms and conditions as reasonably practicable as the CIC Subscription, taking into account the fact that Datang is already an existing shareholder of ours. The issue of the above referenced convertible preferred shares and warrant is conditional on, among other things, obtaining the approval of our independent shareholders and necessary governmental approvals. We have obtained independent shareholders' approval at our extraordinary general meeting held on May 27, 2011.

Principal terms of the Datang Further Subscription Agreement are as below:

- *Consideration of the Datang Pre-emptive Securities.* The subscription price of HK\$5.39 per convertible preferred share is reflective of an effective conversion price of HK\$0.539 per ordinary share (based on the initial conversion rate of ten ordinary shares per Convertible Preferred Share) and the total cash consideration payable by Datang is US\$58.9 million.
- *Terms of the Convertible Preferred Shares.* Below are their principal terms:
  - *Dividend entitlements.* The convertible preferred shares will rank pari passu in respect of entitlement to dividends and other income distribution as ordinary shares as if the convertible preferred shares had been converted into ordinary shares for the relevant accounting period.
  - *Capital.* Upon our liquidation, dissolution, winding up (whether voluntary or involuntary) or return or reduction of capital (but not on conversion of the convertible preferred shares or any repurchases by us of any convertible preferred shares or ordinary shares) our assets available for distribution among the shareholders will be applied first in paying to the holders of the convertible preferred shares and holders of our other preferred shares an amount equal to the amount paid up or credited as paid up on such shares in priority to:
    - (A) any payment to the holders of ordinary shares; and
    - (B) any other obligations ranking pari passu with the claims of the holders of ordinary shares.



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- *Ranking.* The convertible preferred shares issued pursuant to the Datang Further Subscription Agreement will, upon issue, rank (a) pari passu with the claims of holders of (i) any class of our preferred share capital and (ii) our other obligations which rank pari passu with the convertible preferred shares or such preferred shares, and (b) in priority (including with respect to distribution of proceeds upon any liquidation event up to the amount paid up) to any payment to the holders of our ordinary shares and other obligations, incurred directly or indirectly by it, which rank, or are expressed to rank, pari passu the claims of the ordinary shares.
- *Conversion right.* The holders of the convertible preferred shares will have the right at any time to convert (in whole or in part) their convertible preferred shares into fully paid ordinary shares at the conversion rate which is initially ten ordinary shares per Convertible Preferred Share and subject to adjustment(s) (which shall be for a minimum amount of 70,000,000 convertible preferred shares or, if less than 70,000,000 convertible preferred shares are then held by Datang, all of such convertible preferred shares). The holders of the convertible preferred shares are not required to pay any amount for conversion of their convertible preferred shares into ordinary shares. The ordinary shares issued upon conversion will be credited as fully paid, and will rank pari passu in all respects with the other ordinary shares in issue as at the date of the conversion, and will be allotted and issued free from all liens, charges and encumbrances and together with all rights attaching thereto upon allotment and issue and at any time thereafter, including all rights to any dividend or other distribution declared, made or payable by reference to a record date falling on or after the date of the conversion notice.
- *Mandatory Conversion Date.* The convertible preferred shares will be mandatorily converted into ordinary shares at the then applicable conversion rate on the day immediately following the expiry of twelve months commencing from the completion date of the subscription the convertible preferred shares issued pursuant to the Datang Further Subscription Agreement as if the holder of the convertible preferred shares has elected to convert its convertible preferred shares into ordinary shares on the mandatory conversion date.
- *Adjustment to Conversion Rate.* The initial conversion rate of ten ordinary shares per convertible preferred share is subject to adjustment upon the occurrence of certain prescribed events, among other things, capitalization of profits or reserves, consolidations, sub-divisions and re-classifications of shares, capital distributions, issue of shares or other securities, and the issue of a new class of shares carrying voting rights.

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In the event of any issue of any ordinary share or any securities which by their terms are convertible into or exchangeable for, or carry right(s) of subscription for, any ordinary share, the conversion rate in force immediately before such issue will be adjusted to compensate the holders of convertible preference shares by reference to the lowest of:

- (i) the reference price per ordinary share which initially is HK\$0.5390 (subject to adjustment as described in this section);
- (ii) the amount which represents:
  - (a) in respect of any rights issue of ordinary shares by the Company, 90% of the relevant theoretical ex-rights price for an ordinary share under that rights issue;
  - (b) in respect of any issue of securities which by their terms are convertible into or exchangeable for, or carry right(s) of subscription for, ordinary share(s):
    - (1) in the case of options, warrants or similar instruments, the aggregate of the subscription price or premium for such instrument and the initial exercise price at which the holder of such instrument may subscribe for ordinary shares;
    - (2) in the case of convertible bonds or convertible shares or similar instruments, the initial conversion price at which such instrument may be converted into ordinary shares; or
    - (3) in any other case, the aggregate price paid and initially payable by the subscriber of such securities in order to receive ordinary shares; and
  - (c) in respect of any other issue of our ordinary shares, the relevant issue price for an ordinary share under that issue;
- (iii) the amount which represents a discount of 10% to the arithmetic average of the daily volume weighted average price for an ordinary share as shown on the VAP page of Bloomberg for the:
  - (a) ten consecutive trading days immediately after the date on which the relevant issue is announced; or
  - (b) in the case of a rights issue, ten consecutive trading days immediately after the ex-rights date; or
  - (c) if the reference price to determine the issue price is based on share prices for a period after the relevant issue is announced, all the trading days during that period.

The adjustment will become effective immediately following the date of the issuance of the new securities. No adjustment to the conversion rate will be made which has the effect or result of: (i) reducing the initial conversion rate upon the issue of the convertible preferred shares, except upon any consolidation of ordinary shares or any corporate exercise with the effect of increasing the nominal value of the ordinary shares; or (ii) any ordinary Share, upon conversion, falling to be issued at a price below the nominal value of the ordinary share

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- *Voting.* The convertible preferred shares will entitle the holders thereof to receive notice of, attend and vote at any meeting of our members. Each convertible preferred shares will confer on its holder such number of voting rights as if the convertible preferred shares had been converted into ordinary shares.
- *Consent.* Except with the consent or sanction of at least 75 per cent. of the vote of the holders of the convertible preferred shares given at a separate class meeting, no resolution may be made by the Company to amend the terms of the convertible preferred shares.
- *Transferability.* The convertible preferred shares will be freely transferrable save as provided for under the terms of the Datang Further Subscription Agreement.
- *Redemption.* The convertible preferred shares are non-redeemable.
- *Protection.* We have undertaken to each holder of convertible preferred shares (including but not limited to) (i) that all the ordinary shares upon conversion will be duly and validly allotted and issued as fully paid or credited as fully paid and free from all liens, charges and encumbrances; (ii) that we will not in any way vary the rights attached to any class or series of shares, or attach any restriction to any class or series of shares, to the extent that such variation would have the effect of varying the rights attaching to the convertible preferred shares, without prior written approval of 75 per cent. of the holders of convertible preferred shares; (iii) that there will not be shares of different nominal values in issue at any time; (iv) we will not without prior written approval of 75 per cent. of the holders of convertible preferred shares, take any steps to or so as to liquidate, dissolve or windup our Company or any of our subsidiaries unless such liquidation, dissolution or winding-up will not have a material adverse effect; (v) we will not make any reduction or redemption of capital, share premium account or capital redemption reserve involving repayment of money to its shareholders or reduce any uncalled liability in respect of any issued share except in certain situations; and (vi) we will not enter into any agreement, instrument or other document whatsoever binding on us which may result in any breach of our memorandum and articles of association.

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- *Pre-emptive Rights.* Datang will have the following right to subscribe for (subject to any authorization, consent, approval, license or notification required for the purposes of or as a consequence of the Datang Further Subscription either from governmental, regulatory or other public bodies):
    - (i) whilst any convertible preferred shares issued to and beneficially held by Datang (and/or its permitted transferee) remain unconverted, and to the extent that the original percentage of our issued share capital held by Datang on a fully-diluted basis through such convertible preferred shares immediately prior to the issue is reduced as a result of the issue of any new ordinary shares or preferred shares, any securities convertible into or exchangeable into ordinary shares or preferred shares or any warrants or other rights to subscribe for ordinary shares or preferred shares (which preferred shares carry voting rights in general meetings of the Company) , or the Relevant Securities (after having taken into account any adjustment to the conversion rate), such number of additional convertible preferred shares (bearing the same conversion rate as the existing issued convertible preferred shares having reflected the adjustment) so as to enable Datang to hold, after the issue of the Relevant Securities, a pro rata portion of our issued share capital (on a fully-diluted basis) equal to the original percentage; and
- to the extent that any of the convertible preferred shares held by Datang have been converted and Datang is holding ordinary shares issued as a result of the said conversion, such number of additional Relevant Securities so as to enable Datang to hold, after the issue of the Relevant Securities, a pro rata portion of the Relevant Securities equal to the percentage of our issued share capital represented by the converted ordinary shares then beneficially owned by Datang immediately prior to the issuance of the Relevant Securities, provided that Datang's shareholding in our issued share capital represented by the convertible preferred shares or converted ordinary shares shall be excluded and ignored for the purpose of determining the number of securities that Datang is able to acquire pursuant to its pre-emptive rights under the Datang Share Purchase Agreement.

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- *Lock-up Undertaking.* Datang will be restricted from selling, or transferring the convertible preferred shares issued pursuant to the Datang Further Subscription Agreement, any Convertible preferred shares issued upon the exercise of the warrant issued pursuant to the Datang Further Subscription Agreement and any additional Convertible preferred shares or Warrant subscribed for a period of 2 years from the completion date for the subscription of the above referenced securities, or Datang Closing, except that Datang may transfer any convertible preference shares or ordinary shares to a permitted transferee. The lock-up undertaking will cease to apply where any of the following members of our senior management, being Mr. David N.K. Wang, Mr. Gary Tseng, Mr. Simon Yang, Mr. Chris Keh-Fei Chi and Mr. Barry Quan, cease their employment with us within a period of two (2) years commencing from the Datang Closing date, except where they ceased their employment as a result of misconduct, or as a result of health conditions.
- *Restriction on transfers to a Competitor.* Datang has agreed to refrain from transferring to any entity that provides or that has the capability to provide, directly or indirectly through any subsidiary or affiliate, semiconductor wafer fabrication or foundry services to third parties, directly or indirectly, the above referenced convertible preferred shares, or any ordinary shares issued upon conversion of the convertible preferred shares except where there is a genuine open market sale, with the written consent of our board of directors, or for accepting a general offer which has become unconditional or where the offer or has become entitled to exercise compulsory acquisition rights.
- *Completion of the Datang Further Subscription.* The completion took place on September 16, 2011.
- *Datang Warrant Agreement.* The warrant agreement was entered into between us as the issuer and Datang as the subscriber of the warrant to subscribe for 16,991,371 Convertible preferred shares on September 16, 2011, pursuant to the Datang Further Subscription Agreement. Major terms of this warrant agreement are as below:
- *Consideration.* The warrant is issued as part of the securities issued pursuant to the Datang Further Subscription Agreement.

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- *Exercise of the Datang Pre-emptive Warrants.* Datang may exercise, in whole or in part, the warrant on any business day on or prior to 11: 59 p.m., Hong Kong time, on June 3, 2012. Upon exercise, the warrants will be converted into convertible preferred shares. Each partial exercise will be for a minimum subscription of 15,000,000 convertible preferred shares, or, if less than 15,000,000 convertible preferred shares are issuable under the warrants then held by Datang, for all of such number of convertible preferred shares issuable under the warrants then held by Datang. Any unexercised portion of the warrant will lapse after portion of the warrant.
- *Exercise Price.* The exercise price is HK\$5.39 per convertible preferred share, which is equivalent to the subscription price for the convertible preferred shares issued pursuant to the Datang Further Subscription Agreement and is reflective of an effective conversion price of HK\$0.539 per ordinary share (based on the initial conversion rate of ten ordinary shares per convertible preferred share).
- *Adjustment of Exercise Price.* No adjustment will be made to the exercise price of the warrant nor the number of convertible preferred shares issuable upon exercise of such warrant.
- *Datang Warrant Preferred Shares.* The convertible preferred shares issuable upon exercise of the warrant will not be adjusted but will bear a conversion rate for conversion into ordinary shares that may be adjusted as described in the paragraph Terms of the Convertible preferred shares Adjustment to Conversion Rate above. The convertible preferred shares issuable upon exercise of the warrant will entitle the holders thereof to receive notice of, attend and vote at any meeting of our members. Each such convertible preferred share will confer on its holder such number of voting rights as if such convertible preferred share had been converted into ordinary shares.
- *Transferability.* Save as to transfers to any wholly-owned subsidiary of Datang, the warrant is not transferable without our prior written approval.
- *No Listing of the Datang Warrant.* No application will be made for a listing of the warrant on The Stock Exchange of Hong Kong Limited or any other stock exchange

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*Joint Venture Agreement and JV Memorandum with Hubei Science & Technology Investment Group Co., Ltd.*

On May 12, 2011, the Company entered into a joint venture agreement (the "Joint Venture Agreement") and a memorandum (the "JV Memorandum") with Hubei Science & Technology Investment Group Co., Ltd., or Hubei Science & Technology, a company incorporated in the PRC and wholly-owned by The Wuhan East Lake Hi-Tech Development Zone Administrative Committee, to invest in and manage Wuhan Xinxin Semiconductor Manufacturing Corporation, or Wuhan Xinxin's 12-inch wafer production line.

(i) Joint Venture Agreement

Pursuant to the Joint Venture Agreement, the parties shall establish Semiconductor Manufacturing International (Wuhan) Corp., a joint venture company to be established in Wuhan, Hubei Province, the PRC (the "JV Company"), for the purpose of further developing 12-inch wafer production facilities and implementing advanced technologies for the manufacturing of integrated circuits.

Hubei Science & Technology shall contribute 33.34% of the registered capital of the JV Company in an aggregate amount of US\$500,000,000 over a period of time as described below through the injection of all of the capital of Wuhan Xinxin into the JV Company plus a cash injection of US\$226,168,955. The Company shall contribute 66.66% of the registered capital of the JV Company in an aggregate amount of US\$1,000,000,000 over a period of time as described below.

The capital contribution shall be made in two stages:

- (a) not less than 20% of the registered capital of the JV Company upon the application of the business license of the JV Company, made up of:
  - a. US\$45,233,791 contribution in cash plus all the capital of Wuhan Xinxin in the amount of US\$273,831,045 (based on the value of the paid-up registered capital of Wuhan Xinxin) by Hubei Science & Technology; and
  - b. US\$200,000,000 contribution in cash by the Company; and
- (b) the balance of the outstanding capital contributions from both parties within two years after the establishment of the JV Company.

Hubei Science & Technology shall be entitled to appoint three of the directors of the JV Company, including the managing director, and the Company shall be entitled to appoint two of the directors of the JV Company.

Pursuant to the Joint Venture Agreement, the Company authorizes the JV Company to use the patents and other technologies necessary for the 12-inch wafer production facilities to be operated by the JV Company that the Company could lawfully employ. The JV Company is also authorized to use the relevant trademarks of the Company in the areas of manufacturing, operations and sales.

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The obligations of the parties under the Joint Venture Agreement are subject to compliance with applicable laws (including the rules of regulatory authorities such as The Stock Exchange of Hong Kong Limited)). The establishment of the joint venture is subject to obtaining the necessary PRC approvals and shareholders' approval. The implementation of the joint venture may also be dependent on market conditions.

(ii) JV Memorandum

Pursuant to the JV Memorandum:

- (a) the Company will have the right to purchase the equity interests of Hubei Science & Technology in the JV Company;  
and
  - (b) the Company will have the right to appoint three directors of the JV Company and Hubei Science & Technology will have the right to appoint two directors after our capital contribution in the JV Company exceeds 50% of the total capital contribution.
- (iii) The JV Company

Upon Completion, all of the capital of Wuhan Xinxin will be injected into the JV Company as part of the capital contribution of Hubei Science & Technology. The paid-up registered capital of Wuhan Xinxin is equivalent to US\$273,831,045 using the exchange rate at the time such registered capital was paid up. Wuhan Xinxin is a wholly-owned subsidiary of Hubei Science & Technology and is engaged in the operation of a 300mm wafer fab in Wuhan.



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**Other Contracts**

*Management Service Contracts with Cension Semiconductor Manufacturing Corporation and Wuhan Xinxin Semiconductor Manufacturing Corporation*

The Company provided management services to Cension Semiconductor Manufacturing Corporation ( Cension ), before it was acquired by Texas Instruments Inc., and ceased to be a foundry owned by a municipal government in October 2010. The management service revenues for 2010 and 2009 were \$4,500,000 and \$6,000,000, respectively.

The Company also provided management services to Wuhan Xinxin Semiconductor Manufacturing Corporation ( Xinxin ), which is a government-owned foundry. In 2009, the Company ceased its recognition of management service revenue due to issues of collectability and no revenue was recorded in 2010.

The Company recorded a \$115.8 million bad debt provision in the second half of 2009, of which \$93.5 million and \$21.1 million were due to long outstanding overdue receivables relating primarily to the revenue for management services rendered and related equipment sold, respectively. The Company further negotiated with Cension and reached an agreement to settle the balances between the two parties. Cension agreed to make cash payment of \$47.2 million to the Company. The remaining balances were relinquished.

The Company collected \$6.4 million and \$28.5 million of payments from Cension during 2011 and 2010, respectively, and recorded it as a deduction of general and administrative expense in the consolidated statements of comprehensive income, as it was a recovery of bad debt provision made in 2009. The Company also received \$21,643,822 from Xinxin during 2011, \$14,730,200 of which was recorded as a reduction of general and administrative expense in the consolidated statements of comprehensive income. While the remainder \$6,913,622 was recorded as management service revenue.

*TSMC Share and Warrant Issuance Agreement*

The share and warrant issuance agreement dated as of November 9, 2009 and entered into by us and TSMC in connection with the 2009 Settlement Agreement (the TSMC Share and Warrant Issuance Agreement ) includes, among others, the following terms:

1) Commitment to grant to TSMC 1,789,493,218 shares of SMIC and one or more warrants exercisable within three years of issuance to subscribe for an aggregate of 695,914,030 shares of SMIC, subject to adjustment, at a purchase price of HK\$1.30 per share, subject to adjustment (referred to collectively as the TSMC Warrant ). Issuance of the shares and the TSMC Warrant are subject to receipt of required government and regulatory approvals;

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- 2) TSMC's agreement that, subject to certain exceptions, it will not, except with the prior written consent of our Board of Directors, acquire any of our ordinary shares or other voting securities or securities convertible into or exchangeable for any such securities or take certain specified actions such as making a tender offer or commencing a proxy solicitation with respect to our shares, for so long as TSMC holds any of the securities to be issued to it under the 2009 Settlement Agreement and we have not become the subject of certain specified transactions related to a change of control of SMIC;
- 3) Pre-emptive rights in favor of TSMC which permit TSMC to purchase its pro rata portion (based on the percentage of the issued share capital of SMIC beneficially owned by TSMC) of new equity issuances by SMIC, subject to certain specified exceptions and conditions, including compliance with the rules of the Stock Exchange of Hong Kong;
- 4) Agreement by TSMC to vote all of the ordinary shares of SMIC held by it as recommended by our Board of Directors other than with respect to certain change of control transactions involving SMIC; and
- 5) An obligation of SMIC, if the conditions to the issuance of our shares and the TSMC Warrant to be issued under the 2009 Settlement Agreement have not been satisfied prior to June 30, 2010, and if requested by TSMC, to sell the shares which would otherwise have been issued to TSMC (including the shares issuable under the TSMC Warrant if the trading price for SMIC's shares exceeds the applicable exercise price for specified periods) in underwritten public offerings or share placements and to deliver the proceeds of any such offerings or placements (net of underwriters' discounts or commissions to the placement agent, as applicable) to TSMC.

*TSMC Warrant Agreement*

The Warrant Agreement entered into (subject to receipt of required government and regulatory approvals) by SMIC and TSMC on July 5, 2010 in connection with the 2009 Settlement Agreement (the "TSMC Warrant Agreement") provides for adjustments to the number of shares issuable under the TSMC Warrant, the per share exercise price of the TSMC Warrant and/or the nature of the property issuable upon exercise of the TSMC Warrant including the following:

- 1) In the event of stock dividends, stock splits and similar transactions, the number of shares issuable under the TSMC Warrant and the per share exercise price of the TSMC Warrant will be adjusted so as to make such dividend, split or similar transaction not affect the economic value of the TSMC Warrant;
- 2) In the event of certain specified change of control transactions involving SMIC, the TSMC Warrant will become exercisable for the same consideration as would have been payable with respect to the shares of stock issuable under the TSMC Warrant in connection with that change of control transaction if such shares of stock had been issued prior to the change of control transaction; and

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3) In the event of the issuance by SMIC following November 9, 2009, of any new shares or securities exercisable for, convertible into or exchangeable for common shares of SMIC or similar rights, for a consideration per share (as determined in accordance with certain guidelines in the Warrant Agreement) less than the then-applicable per share exercise price for the TSMC Warrant then the number of shares issuable under the TSMC Warrant will be increased by multiplying such number by a fraction (A) the numerator of which is the then applicable per share exercise price under the TSMC Warrant and (B) the denominator of which is determined by dividing (i) the sum of (x) the then-applicable per share exercise price under the TSMC Warrant multiplied by the number of shares of SMIC outstanding prior to the new issuance plus (y) the total consideration received by SMIC in the new issuance (as determined in accordance with certain guidelines in the Warrant Agreement) by (ii) the number of shares of SMIC outstanding following the new issuance.

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**D. Exchange Controls**

We receive a portion of our sales in Renminbi, which is currently not a freely convertible currency. Approximately 0.16% of our sales for the year ended December 31, 2009, and approximately 10.2% of our sales for the year ended December, 31, 2010, and approximately 23.5% of our sales for the year ended December, 31, 2011 were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these sales into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies.

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**E. Taxation**

The following discussion of the material U.S. federal income and Cayman Islands tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change, possibly with retroactive effect. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under U.S. state, local and non-U.S. tax laws.

**United States Federal Income Taxation**

Except where noted, this summary deals only with the ownership and disposition of the ADSs and ordinary shares that are held as capital assets by U.S. Holders. This summary does not represent a detailed description of the U.S. federal income tax consequences applicable to U.S. Holders that are subject to special treatment under the U.S. federal income tax laws, including:

- banks;
- dealers in securities or currencies;
- financial institutions;
- real estate investment trusts;
- insurance companies;
- tax-exempt organizations;
- persons holding ADSs or ordinary shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle;
- traders in securities that have elected the mark-to-market method of accounting;
- persons liable for the alternative minimum tax;
- persons who have ceased to be U.S. citizens or to be taxed as resident aliens;
- persons who own or are deemed to own more than 10% of our voting shares; or
- U.S. persons whose functional currency is not the U.S. dollar.

This summary is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and U.S. Treasury regulations, rulings and judicial decisions there under as of the date hereof, and such authorities may be replaced, revoked or modified, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below.

A U.S. Holder that holds ADSs or ordinary shares is urged to consult its own tax advisor concerning the U.S. federal income tax consequences as well as any consequences arising under the laws of any other taxing jurisdiction (including any U.S. state or locality) or any aspect of U.S. federal gift or estate law in light of the particular circumstances of the U.S. Holder.



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A U.S. Holder is a beneficial owner of ADSs or ordinary shares that is a U.S. person. A U.S. person is:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or
- a trust if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or have a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership holds ADSs or ordinary shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A U.S. Holder that is a partner of a partnership holding ADSs or ordinary shares is urged to consult its own tax advisors.

*ADSs or Ordinary Shares.* In general, for U.S. federal income tax purposes, a U.S. Holder of ADSs will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Deposits and withdrawals of ordinary shares in exchange for ADSs will not be subject to U.S. federal income taxation.

*Distributions on ADSs or Ordinary Shares.* Subject to the discussion under *-Passive Foreign Investment Company Rules* below, the gross amount of the cash distributions on the ADSs or ordinary shares will be taxable to a U.S. Holder as dividends to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Subject to certain limitations, dividends paid to noncorporate U.S. Holders, including individuals, prior to January 1, 2013 may be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for U.S. federal income tax purposes. A qualified foreign corporation includes:

- a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; and
- a foreign corporation if its stock with respect to which a dividend is paid or its ADSs backed by such stock are readily tradable on an established securities market within the United States,

but does not include an otherwise qualified corporation that is a passive foreign investment company. We believe that we will be a qualified foreign corporation for so long as we are not a passive foreign investment company and the ordinary shares or ADSs are considered to be readily tradable on an established securities market within the United States. A U.S. Holder that exchanges its ADSs for ordinary shares may not be eligible for the reduced rate of taxation on dividends if the ordinary shares are not readily tradable on an established securities market within the United States. Our status as a qualified foreign corporation, however, may change.

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Dividends will be includable in a U.S. Holder's gross income on the date actually or constructively received by such U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. These dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

To the extent that the amount of any cash distribution exceeds our current and accumulated earnings and profits, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or ordinary shares (thereby increasing the amount of gain, or decreasing the amount of loss, a U.S. Holder would recognize on a subsequent disposition of the ADSs or ordinary shares), and the balance in excess of adjusted basis will be subject to tax as capital gain.

To the extent we pay dividends on the ADSs or the ordinary shares in Hong Kong dollars, the U.S. dollar value of such dividends should be calculated by reference to the exchange rate prevailing on the date of actual or constructive receipt of the dividend, regardless of whether the Hong Kong dollars are converted into U.S. dollars at that time. If Hong Kong dollars are converted into U.S. dollars on the date of actual or constructive receipt of such dividends, the tax basis of the U.S. holder in such Hong Kong dollars will be equal to their U.S. dollar value on that date and, as a result, the U.S. Holder generally should not be required to recognize any foreign currency exchange gain or loss. Any gain or loss recognized on a subsequent conversion or other disposition of the Hong Kong dollars generally will be treated as U.S. source ordinary income or loss.

Dividends paid on the ADSs or ordinary shares will be income from sources outside of the United States and will constitute passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit limitation purposes.

**Sale, Exchange or Other Disposition of ADSs or Ordinary Shares.** Subject to the discussion under **-Passive Foreign Investment Company Rules** below, upon the sale, exchange or other disposition of ADSs or ordinary shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ADSs or ordinary shares. A U.S. Holder's tax basis in an ADS or an ordinary share will be, in general, the price it paid for that ADS or ordinary share. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ADS or ordinary share for more than one year. Net long-term capital gains of noncorporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital loss is subject to limitations. Any gain or loss that a U.S. Holder recognizes generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

**Medicare Tax.** Legislation that is enacted but not yet in force may require certain US Holders who are individuals, estates or trusts to pay up to an additional 3.8% tax on, among other things, dividends and capital gains for taxable years beginning after December 31, 2012.



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Passive Foreign Investment Company Rules. We believe that we were not a passive foreign investment company for 2011. Based on the projected composition of our income, the timing of our anticipated capital expenditures and valuation of our assets, we do not expect to be a passive foreign investment company for 2012 and do not expect to become one in the future, although this may change.

In general, we will be deemed to be a passive foreign investment company for any taxable year in which either (i) at least 75% of our gross income is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income.

If we are a PFIC in any taxable year, unless a mark-to-market election described below is made, U.S. Holders will generally be subject to additional taxes and interest charges on certain excess distribution we make and on any gain realized on the disposition or deemed disposition of ADSs or ordinary shares regardless of whether we continue to be a PFIC in the year of the excess distribution or disposition. Distributions in respect of a U.S. Holder's ADSs or ordinary shares during the taxable year will generally constitute excess distributions if, in the aggregate, they exceed 125% of the average amount of distributions in respect of the U.S. Holder's ADSs or ordinary shares over the three preceding taxable years or, if shorter, the portion of the U.S. Holder's holding period before such taxable year.

To compute the tax on excess distributions or any gain, (i) the excess distribution or the gain will be allocated ratably to each day in the holding period; (ii) the amount allocated to the current year and any tax year before we became a PFIC will be taxed as ordinary income in the current year; (iii) the amount allocated to other taxable years will be taxable at the highest applicable marginal rate in effect for that year; and (iv) an interest charge at the rate for underpayment of taxes will be imposed with respect to any portion of the excess distribution or gain described under (iii) above that is allocated to such other taxable years. In addition, if we are PFIC, no distribution will qualify for taxation at the preferential rate for non-corporate holders discussed in -Distributions on ADSs or Ordinary Shares above.

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If we are a PFIC in any year in which our ADSs or ordinary shares are marketable, a U.S. Holder will be able to avoid the excess distribution rules described above if such U.S. Holder makes a timely mark-to-market election with respect to its ADSs or ordinary shares. The ADSs or ordinary shares will be marketable as long as they remain regularly traded on a national securities exchange, such as the New York Stock Exchange or the Hong Kong Stock Exchange. If this election is made in a timely fashion, the U.S. Holder will generally recognize as ordinary income or ordinary loss the difference between the fair market value of the ADSs or ordinary shares on the last day of any taxable year and the U.S. Holder's adjusted tax basis in the ADSs or ordinary shares. Any ordinary income resulting from this election will generally be taxed at ordinary income rates. Any ordinary losses will be deductible only to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. The U.S. Holder's adjusted tax basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss.

Alternatively, the excess distribution rules described above may generally be avoided by electing to treat us as a Qualified Electing Fund, or QEF, under Section 1295 of the Internal Revenue Code of 1986, as amended. A QEF election is available only if the U.S. Holder receives an annual information statement from the PFIC setting forth its ordinary earnings and net capital gains, as calculated for U.S. federal income tax purposes. We will not provide our U.S. Holders with the information statement necessary to make a QEF election. Accordingly, U.S. Holders will not be able to make or maintain such an election.

A U.S. Holder is urged to consult its own tax advisors concerning the availability of making a mark-to-market election or a qualified electing fund election and the U.S. federal income tax consequences of holding the ADSs or ordinary shares if we are deemed to be a passive foreign investment company in any taxable year.

*Information Reporting and Backup Withholding.* In general, unless a U.S. Holder belongs to a category of certain exempt recipients (such as corporations), information reporting requirements will apply to distributions on ADSs or ordinary shares made within the United States and to the proceeds of sales of ADSs or ordinary shares that are effected through the U.S. office of a broker or the non-U.S. office of a broker that has certain connections with the United States. Backup withholding currently imposed at a rate of 28% scheduled to rise to 31% in 2013 may apply to these payments if a U.S. Holder fails to provide a correct taxpayer identification number or certification of exempt status, fails to report in full dividend and interest income or, in certain circumstances, fails to comply with applicable certification requirements.

Any amounts withheld under the backup withholding rules may generally be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax, provided the U.S. Holder furnishes the required information to the Internal Revenue Service in a timely manner.

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**Cayman Islands Taxation**

The following summary constitutes the opinion of Conyers Dill & Pearman to the material Cayman Islands tax consequences of acquiring, owning, and transferring our ADSs and ordinary shares.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. You will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your ADSs or ordinary shares. In addition, you will not be subject to withholding tax on payments of dividends or distributions, including upon a return of capital, nor will gains derived from the disposal of ADSs or ordinary shares be subject to Cayman Islands income or corporation tax.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of ADSs or ordinary shares. However, an instrument transferring title to an ADS, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We were incorporated under the laws of the Cayman Islands as an exempted company and, as such, obtained an undertaking in April 2000 from the Governor in Council of the Cayman Islands substantially that, for a period of twenty years from the date of such undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to us and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on our ADSs or ordinary shares.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statements by Experts**

Not applicable.

**H. Documents on Display**

**Documents on Display**

We are subject to the information requirements of the Exchange Act. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

Table of Contents**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the risk of loss related to adverse changes in market prices, including foreign currency exchange rates and interest rates of financial instruments. We are exposed to these risks in the ordinary course of our business. Our exposure to these risks derives primarily from changes in interest rates and foreign currency exchange rates. To mitigate some of these risks, we utilize spot, forward, and derivative financial instruments.

***Foreign Exchange Rate Fluctuation Risk***

Our revenue, expense, and capital purchasing activities are primarily transacted in U.S. dollars. However, since we have operations consisting of manufacturing, sales activities and capital purchasing outside of the U.S., we enter into transactions in other currencies. We are primarily exposed to changes in exchange rate for the Euro, Japanese Yen, and Renminbi.

To minimize these risks, we purchase 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 Renminbi, Japanese Yen or Euros, and do not qualify for hedge accounting. As of December 31, 2011, we had outstanding foreign currency forward exchange contracts with notional amounts of US\$165.6 million. As of December 31, 2011, the fair value of foreign currency forward exchange contracts was approximately a gain of US\$0.1 million, which is recorded in other income and other current assets.

We do not enter into foreign currency exchange contracts for speculative purposes. See Item 3.D Key Information Risk Factors Risks Related to Our Financial Condition and Business-Exchange rate fluctuations could increase our costs, which could adversely affect our operating results and the value of our ADSs and Item 3.D Key Information Risk Factors Risks Related to Conducting Operations in China-Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results.

	As of December 31, 2011 (in US\$ thousands)	
	Notional Amount 2011	Fair Value
<b>Forward Exchange Agreement</b>		
(Receive RMB/Pay US\$)		
Contract Amount	160,993	211
(Receive EUR/Pay US\$)		
Contract Amount	4,653	(88)
Total Contract Amount	165,646	123

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On December 15, 2005, we entered into a long-term loan facility agreement in the aggregate principal amount of EUR 85 million. We are primarily exposed to changes in the exchange rate for the Euro.

To minimize the risk, we entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the long-term loan to protect against the adverse effect of exchange rate fluctuations arising from foreign-currency denominated loans. The cross currency swap contract does not qualify for hedge accounting.

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.

As of December 31, 2011, we had outstanding cross currency swap contracts with notional amounts of US\$3.7 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2011, the fair value of cross currency swap contracts was approximately a liability of US\$0.5 million.

**Interest Rate Risk**

Our exposure to interest rate risks relates primarily to our long-term debt obligations, which we generally assume 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 our debt obligations outstanding as of December 31, 2011. Our long-term debt obligations are all subject to variable interest rates. The interest rates on our U.S. dollar-denominated loans are linked to the LIBOR. The interest rates on our EUR denominated loan is linked to the EURIBOR. As a result, the interest rates on our loans are subject to fluctuations in the underlying interest rates to which they are linked.

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>(Forecast)</b>	
	<b>(in US\$ thousands, except percentages)</b>	
<b>US\$ denominated</b>		
Average balance	181,290	33,209
Average interest rate	3.58%	5.5%
<b>EUR denominated</b>		
Average balance	3,245	-
Average interest rate	1.96%	-%
<b>RMB denominated</b>		
Average balance	24,235	30,791
Average interest rate	6.65%	5.36%
<b>Weighted average forward interest rate</b>	<b>3.51%</b>	<b>5.29%</b>

Table of Contents**Item 12. Description of Securities Other Than Equity Securities****A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares*****Fees and Charges That An ADR Holder May Have To Pay*****Category****(as defined by SEC)****Depository Actions****Associated Fee**

(a) Depositing or substituting the underlying shares	Each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions (as such terms are defined in paragraph (10) of the Deposit Agreement as filed with the SEC on March 10, 2004 which we are referred to herein as the Depositary Agreement )	\$5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
(b) Receiving or distributing dividends	Distribution of dividends	\$0.02 or less per ADS (or portion thereof)
(c) Selling or exercising rights	Distribution or sale of securities	Such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities
(d) Withdrawing an underlying security	Each person surrendering ADSs for withdrawal of Deposited Securities	\$5.00 for each 100 ADSs (or portion thereof) surrendered.
(e) Transferring, splitting or grouping receipts;	Transfers, combining or grouping of depository receipts	\$1.50 per ADR
(f) General depository services, particularly those charged on an annual basis.	Not applicable	Not applicable

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**Category**

**(as defined by SEC)**

(g) Expenses of the depositary

**Depositary Actions**

Fees and expenses incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation.

**Associated Fee**

The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or Deposited Securities (which are payable by such persons or Holders), (iii) transfer or registration fees for the registration of transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), and (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency). These charges may be changed in the manner indicated in paragraph (16) of the Depositary Agreement

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**Fees and Payments Made By The Depositary To The Company**

**DIRECT**

**PAYMENTS**

J.P. Morgan, as depositary, has agreed to reimburse certain reasonable Company expenses related to our ADR Program and incurred by us in connection with the program. In the year ended 2011, the total reimbursed amount was \$724,235.71 among which \$254,155.33 was for investor relations, \$106,465.94 was for legal service fees, \$47,985 was for NYSE annual listing fees, \$295,850.05 was for equity incentive plan share registration fees, and \$19,779.39 was for broker reimbursement. The amounts the depositary reimbursed are not performance related to the fees collected by the depositary from ADR holders.

**INDIRECT PAYMENTS**

As part of its service to us, J.P. Morgan has agreed to waive \$120,000 annually for on-going ADR program maintenance. The table below sets forth the fees that J.P. Morgan has agreed to waive and/or expenses that J.P. Morgan has agreed to pay in the year ended December 31, 2011.

Category of Expenses	Amount Waived or Paid for Fiscal Year Ended December 31, 2011
Third-party expenses paid directly	\$
Fees waived	\$ 120,000

**Item 13. Defaults, Dividend Arrearages, and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.



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**Item 15. Controls and Procedures**

***Disclosure Controls and Procedures***

Our Chief Executive Officer and our Chief Financial and Accounting Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). They have concluded that as of December 31, 2011, our disclosure controls and procedures were effective.

***Report By Management On Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial reporting reliability and financial statement preparation and presentation.

Our management assessed the effectiveness of internal control over financial reporting as of December 31, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) in Internal Control – Integrated Framework. Based on our assessment we believe that, as of December 31, 2011, our internal control over financial reporting is effective based on COSO criteria.

***Attestation Report of the Registered Public Accounting Firm***

The effectiveness of internal control over financial reporting as of December 31, 2011 has been audited by our independent registered public accounting firm, Deloitte Touche Tohmatsu as stated in its report (See F-2).

**Changes In Internal Control Over Financial Reporting**

There were no changes in the design in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents**Item 16A. Audit Committee Financial Expert**

Our board has determined that Mr. Lip-Bu Tan is an audit committee financial expert as defined under the applicable rules of the SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Mr. Tan is independent as such term is defined under Section 303A.02 of the New York Stock Exchange Listed Company Manual.

**Item 16B. Code of Ethics**

We have adopted a Code of Business Conduct and Ethics which is applicable to all of our employees, including our Chief Executive Officer, Chief Financial and Accounting Officer, and any other persons performing similar functions.

Our Code of Business Conduct and Ethics is available, free of charge, to any person who sends a request for a paper copy to us at Semiconductor Manufacturing International Corporation, 18 Zhangjiang Road, Pudong New Area, Shanghai, China 201203, Attention: Investor Relations.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate audit fees, audit-related fees, tax fees and all other fees we paid or incurred for audit services, audit-related services, tax services and other services rendered by our principal accountants during the fiscal years ended December 31, 2010 and December 31, 2011.

	<b>2010</b>	<b>2011</b>
Audit Fees	US \$1,250,000	US \$1,250,000
Audit-Related Fees	US \$	US \$
Tax Fees	US \$	US \$
Total	US \$1,250,000	US \$1,250,000

Audit fees consist of the standard work associated with U.S. GAAP and statutory audits of our annual financial statements including the review of our quarterly financial results and filings with the Securities and Exchange Commission, Hong Kong Stock Exchange and other regulators.

Audit-related fees include services relating to our compliance with the requirements of the Sarbanes-Oxley Act and services relating to our resolution of SEC related comments.

Tax services include tax compliance, tax advice, tax planning and transfer pricing with respect to the various regulations to which we are subject.

The audit committee has approved all audit-related services performed by Deloitte Touche Tohmatsu, which is located at 35/F, One Pacific Place, 88, Queensway, Hong Kong. The audit committee has also approved and will continue to consider, on a case-by-case basis, all non-audit services. According to the charter of our audit committee, before our principal accountants are engaged by us to render audit or non-audit services, the engagement, including the nature and scope of the work to be performed and the associated fees, must be approved by our audit committee. Our audit committee has not established any pre-approval policies and procedures.

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**Item 16D. Exemptions from the Listing Standards of Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Pursuant to the terms of our 2001 Stock Plan, 2001 Preference Shares Stock Plan, 2001 Regulation S Stock Plan and 2001 Regulation S Preference Shares Stock Plan recipients of stock options to purchase our ordinary shares are entitled to early exercise their options, subject to our right of repurchase. When employees, directors, or service providers who have early exercised their options terminate their employment with us, we may repurchase the unvested shares subject to the option, at a price which is the lower of the exercise price of the option and the fair market value of our ordinary shares as of the date of repurchase. Other than repurchases of unvested shares upon termination of employment pursuant to these employee stock option plans, we have not repurchased any of our outstanding capital stock during 2011.

**Item 16F. Changes in Registrant's Certifying Accountant**

None.

**Item 16G. Corporate Governance**

We are incorporated under the laws of the Cayman Islands. The principal trading market for our shares is the Hong Kong Stock Exchange. We have adopted a set of corporate governance guidelines in accordance with the applicable laws, rule and regulations, including our Corporate Governance Policy and our Code of Business Conduct and Ethics, each of which are posted on our website.

Because our American Depositary Shares are registered with the SEC and are listed on the New York Stock Exchange, or the NYSE, we are also subject to certain U.S. corporate governance requirements, including many of the provisions of the Sarbanes-Oxley Act of 2002. However, because we are a foreign private issuer, many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to us. We are permitted to follow corporate governance practices in accordance with Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in lieu of most of the corporate governance standards contained in the NYSE Standards.

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Set forth below is a brief summary of the significant differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers:

- The NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not subject to this requirement, and we have not established a nominating/corporate governance committee. Instead, our Board has established a nomination committee to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, make recommendations on any proposed changes to the Board to complement our corporate strategy, identify individuals suitably qualified to become Board members consistent with criteria approved by the Board, assess the independence of independent non-executive Directors, make recommendations to the Board on the selection of individuals nominated for directorships, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the Chief Executive Officer. However, such nomination committee is not responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company and overseeing the evaluation of the Board and management.
- The NYSE Standards provide detailed tests that U.S. domestic issuers must use for determining independence of directors. While we may not specifically apply the NYSE tests, our Board assesses independence in accordance with Hong Kong Stock Exchange Listing Rules, and in the case of audit committee members in accordance with Rule 10A-3 under the Exchange Act, and considers whether there are any relationships or circumstances which are likely to affect such director s independencēfrom management.
- We believe that the composition of our Board and its committees and their respective duties and responsibilities are otherwise generally responsive to the relevant NYSE Standards applicable to U.S. domestic issuers. However, the charters for our audit and compensation committees may not address all aspects of the NYSE Standards. For example, NYSE Standards require compensation committees of U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to this requirement, and we have not addressed this in our compensation committee charter. We disclose the amounts of compensation of our directors on a named basis and the five highest individuals on an aggregate basis in our annual report in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.
- The NYSE Standards require that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. We comply with the requirements of Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in determining whether shareholder approval is required, and we do not take into consideration the NYSE s detailed definition of what are considered material revisions .

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The above summary is not a detailed, item-by-item analysis of the differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic issuers, but rather is intended to provide our U.S. shareholders with a brief, general summary of the significant ways that our corporate governance practices differ from those of a U.S. domestic issuer.

**Item 16H. Mine Safety Disclosure**

Not applicable.

**Item 17. Financial Statements**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**Item 18. Financial Statements**

See pages F-1 to F-49.

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**Item 19. Exhibits**

- Exhibit 1.1 Eleventh Amended and Restated Articles of Association, as adopted at the Registrant's annual general meeting of shareholders on June 2, 2008 <sup>(1)</sup>
- Exhibit 4.1 Settlement Agreement dated January 31, 2005 by and between Semiconductor Manufacturing International Corporation and Taiwan Semiconductor Manufacturing Corporation, Ltd., including Patent License Agreement <sup>(2)</sup>
- Exhibit 4.2 English language summary of Chinese language Syndicate Loan Agreement dated May 26, 2005, between Semiconductor Manufacturing International (Beijing) Corporation, Semiconductor Manufacturing International Corporation, as guarantor, and China Development Bank, China Construction Bank, Bank of China, Agricultural Bank of China, China Merchants Bank, HuaXia Bank, China Mingsheng Bank, Bank of Communications, Bank of Beijing, Industrial and Commercial Bank of China (Asia) and CITIC Ka Wah Bank <sup>(2)</sup>
- Exhibit 4.3 Form of Indemnification Agreement, as adopted at the Registrant's annual general meeting of shareholders on May 6, 2005<sup>(2)</sup>
- Exhibit 4.4 Form of Service Contract between the Company and each of its executive officers<sup>(3)</sup>
- Exhibit 4.5 Form of Service Contract between the Company and each of its directors<sup>(3)</sup>
- Exhibit 4.6 English language summary of Chinese language Syndicate Loan Agreement dated May 31, 2006, between Semiconductor Manufacturing International (Tianjin) Corporation, Semiconductor Manufacturing International Corporation, as guarantor, and China Construction Bank, China Minsheng Bank, China Development Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Merchants Bank, China Bo Hai Bank, Bank of Communications and Bangkok Bank <sup>(4)</sup>
- Exhibit 4.7 English language summary of Chinese language Syndicate Loan Agreement dated June 8, 2006, between Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International Corporation, as guarantor, and ABN AMRO Bank N.V., Bank of China (Hong Kong) Limited, Bank of Communications, The Bank of Tokyo-Mitsubishi UFJ, Ltd., China Construction Bank, DBS Bank Ltd., Fubon Bank (Hong Kong) Limited, Industrial and Commercial Bank of China and Shanghai Pudong Development Bank <sup>(4)</sup>
- Exhibit 4.8 Share Purchase Agreement, dated November 6, 2008, by and between the Company and Datang Telecom Technology & Industry Holdings Limited Co., Ltd.<sup>(5)</sup>
- Exhibit 4.9 English language translation of Strategic Cooperation Agreement, dated December 24, 2008 by and between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd. <sup>(6)</sup>

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Exhibit 4.10	Settlement Agreement dated November 9, 2009 by and between the Company and Taiwan Semiconductor Manufacturing Corporation, Ltd., including Share and Warrant Agreements <sup>(7)</sup>
Exhibit 4.11	Placing Agreement dated July 8, 2010 by and between the Company as the Issuer and J.P. Morgan (Asia Pacific) Limited and The Royal Bank of Scotland N.V., Hong Kong Branch as placing agents <sup>(8)</sup>
Exhibit 4.12	Subscription Agreement with Datang Telecom Technology & Industry Holdings Co., Ltd. dated August 16, 2010 <sup>(8)</sup>
Exhibit 4.13	Subscription Agreement with Country Hill Limited, a wholly-owned subsidiary of China Investment Corporation dated April 18, 2011 <sup>(8)</sup>
Exhibit 4.14	Share Subscription Agreement with Datang Holdings (Hongkong) Investment Company Limited, a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd., dated May 5, 2011 <sup>(8)</sup>
Exhibit 4.15	English language translation of Chinese language Joint Venture Agreement and Joint Venture Memorandum dated May 12, 2011, between Semiconductor Manufacturing International Corporation and Hubei Science & Technology Investment Group Co., Ltd. <sup>(8)</sup>
Exhibit 8.1	List of Subsidiaries
Exhibit 12.1	Certification of CEO under Section 302 of the U.S. Sarbanes-Oxley Act of 2002
Exhibit 12.2	Certification of CFO under Section 302 of the U.S. Sarbanes-Oxley Act of 2002
Exhibit 13.1	Certification of CEO and CFO under Section 906 of the U.S. Sarbanes-Oxley Act of 2002
Exhibit 15.1	Consent of Deloitte Touche Tohmatsu
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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- (1) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2007, filed June 27, 2008 and amended November 28, 2008.
- (2) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2004, filed June 28, 2005. With respect to Exhibit 4.1, please refer to Item 8 Litigation in the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2008.
- (3) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2008, filed June 22, 2009.
- (4) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2005, filed June 28, 2006.
- (5) Previously filed as an exhibit to the Registrant's Form 6-K dated November 17, 2008. Portions of this exhibit were omitted and filed separately with the Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, concerning confidential treatment.
- (6) Previously filed as an exhibit to the Registrant's Form 6-K dated January 5, 2009. Portions of this exhibit were omitted and filed separately with the Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, concerning confidential treatment.
- (7) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2009, filed June 29, 2010.
- (8) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2010, filed June 28, 2011.



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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SEMICONDUCTOR MANUFACTURING  
INTERNATIONAL CORPORATION

Date: April 27, 2012

By: /s/ Dr. Tzu-Yin Chiu

Name: Dr. Tzu-Yin Chiu  
Title: Chief Executive Officer and  
Executive Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF  
SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

We have audited the accompanying consolidated balance sheets of Semiconductor Manufacturing International Corporation and subsidiaries (the Company) as of December 31, 2011, 2010 and 2009, and the related consolidated statements of comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements and financial statement schedule are the responsibility of our management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Semiconductor Manufacturing International Corporation and subsidiaries as of December 31, 2011, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), our internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2012 expressed an unqualified opinion on our internal control over financial reporting.

Deloitte Touche Tohmatsu Certified Public Accountants

Hong Kong

March 29, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF  
SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

We have audited the internal control over financial reporting of Semiconductor Manufacturing International Corporation and subsidiaries (the Company) as of December 31, 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report by Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on our internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011, of the Company and our report dated March 29, 2012 expressed an unqualified opinion on those financial statements.

Deloitte Touche Tohmatsu Certified Public Accountants  
Hong Kong  
March 29, 2012

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## Consolidated Statements of Comprehensive income

(In US dollars, except share data)

	For the year ended December 31,		
	2011	2010	2009
Sales	\$1,319,466,033	\$1,532,448,539	\$1,037,665,386
Cost of sales	1,217,524,773	1,229,266,360	1,158,148,223
Gross profit (loss)	101,941,260	303,182,179	(120,482,837)
Operating expenses (income):			
Research and development	191,473,241	191,046,463	176,420,148
General and administrative	57,434,832	41,387,122	215,844,944
Selling and marketing	32,558,510	29,087,197	26,208,722
Impairment loss of long-lived assets	17,691,318	5,137,925	126,634,897
Loss from sale of equipment and other fixed assets	508,378	96,901	3,890,656
Litigation settlement			269,637,431
Other operating income	(7,009,241 )	(16,493,049 )	
Total operating expenses, net	292,657,038	250,262,559	818,636,798
Income (loss) from operations	(190,715,778)	52,919,620	(939,119,635)
Other income (expense):			
Interest income	4,724,375	4,086,406	2,546,974
Interest expense	(20,582,726)	(22,563,056)	(24,586,689)
Change in the fair value of commitment to issue share and warrants		(29,815,453 )	(30,100,793 )
Foreign currency exchange gain	17,588,644	5,101,293	7,290,542
Others, net	6,709,092	6,534,070	(4,549,233)
Total other income (expense), net	8,439,385	(36,656,740)	(49,399,199)
Income (loss) from continuing operations before income tax and equity investment	(182,276,393 )	16,262,880	(988,518,834 )
Income tax benefit (expense)	(82,502,706)	4,818,497	46,624,242
Gain (loss) from equity investment	4,478,546	284,830	(1,782,142 )
Income (loss) from continuing operations	(260,300,553 )	21,366,207	(943,676,734 )
Income (loss) from discontinued operations	14,741,100	(7,355,561)	(18,800,808)
Net income (loss)	(245,559,453 )	14,010,646	(962,477,542 )
Accretion of interest to noncontrolling interest	(1,319,761)	(1,050,000)	(1,059,663)
Loss attributable to noncontrolling interest	63,177	139,751	
Net income (loss) attributable to Semiconductor Manufacturing International Corporation	(246,816,037 )	13,100,397	(963,537,205 )
Deemed dividends on convertible preferred shares	(64,970,095)		
Net income (loss) attributable to holders of ordinary shares	(311,786,132)	13,100,397	(963,537,205)
Net income (loss)	(245,559,453 )	14,010,646	(962,477,542 )
Other comprehensive income (loss):			
Foreign currency translation adjustment	4,937,787	(706,128)	52,960
Comprehensive income (loss)	(240,621,666)	13,304,518	(962,424,582)
Comprehensive income (loss) attributable to noncontrolling interest	(1,256,584)	(910,249)	(1,059,663)
Comprehensive income (loss) attributable to Semiconductor Manufacturing International Corporation	(241,878,250)	12,394,269	(963,484,245)
Earnings (loss) per ordinary share, basic	\$(0.01)	\$0.00	\$(0.04)
Earnings (loss) per ordinary share, diluted	\$(0.01)	\$0.00	\$(0.04)
Shares used in calculating basic earnings (loss) per ordinary share	27,435,853,922	24,258,437,559	22,359,237,084
Shares used in calculating diluted earnings (loss) per ordinary share	27,435,853,922	25,416,597,405	22,359,237,084

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



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## Consolidated balance Sheets

(In US dollars, except share data)

	December 31,		
	2011	2010	2009
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$261,615,478	\$515,808,332	\$443,462,514
Restricted cash	136,907,126	161,350,257	20,360,185
Accounts receivable, net of allowances of \$42,820,668; \$49,373,296 and \$96,144,543 at December 31, 2011, 2010 and 2009, respectively	165,233,593	206,622,841	204,290,545
Inventories	207,308,380	213,404,499	193,705,195
Prepaid expense and other current assets	90,448,245	78,278,131	28,881,866
Assets held for sale			8,184,462
Current portion of deferred tax assets	3,273,728	3,638,427	8,173,216
Total current assets	864,786,550	1,179,102,487	907,057,983
Prepaid land use rights	77,231,088	78,798,287	78,111,788
Plant and equipment, net	2,516,578,019	2,351,862,787	2,251,614,217
Acquired intangible assets, net	179,279,333	173,820,851	182,694,105
Equity investment	19,612,790	9,843,558	9,848,148
Other long-term assets	41,927,959	215,178	391,741
Deferred tax assets	28,513,676	109,050,066	94,358,635
<b>TOTAL ASSETS</b>	<b>\$3,727,929,415</b>	<b>\$3,902,693,214</b>	<b>\$3,524,076,617</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable	\$280,690,730	\$515,577,285	\$228,882,804
Short-term borrowings	607,427,103	372,055,279	286,864,063
Current portion of long-term debt	191,354,539	333,458,941	205,784,080
Accrued expenses and other current liabilities	142,415,427	146,986,675	111,086,990
Current portion of promissory notes	29,374,461	29,374,461	78,608,288
Commitment to issue shares and warrants relating to litigation settlement			120,237,773
Income tax payable	63,435	1,892,691	58,573
Total current liabilities	1,251,325,695	1,399,345,332	1,031,522,571
Long-term liabilities:			
Non-current portion of promissory notes	28,559,711	56,327,268	83,324,641
Long-term debt	72,360,902	178,596,008	550,653,099
Government subsidy - deferred portion	125,335,473	49,142,806	709,690
Other long-term liabilities		9,646,000	25,749,562
Deferred tax liabilities	1,332,620	1,094,257	1,035,164
Total long-term liabilities	227,588,706	294,806,339	661,472,156
Total liabilities	1,478,914,401	1,694,151,671	1,692,994,727
Noncontrolling interest	4,199,520	39,004,168	34,841,507
Commitments			
Equity:			
Ordinary shares, \$0.0004 par value, 50,000,000,000 shares authorized, 27,487,676,065, 27,334,063,747 and 22,375,886,604 shares issued and outstanding at December 31, 2011, 2010 and 2009, respectively	10,995,071	10,933,625	8,950,355





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(In US dollars, except share data)

	December 31, 2011	2010	2009
Additional paid-in capital	4,240,529,406	3,858,642,606	3,499,723,153
Convertible preferred shares, \$0.0004 par value, 5,000,000,000 shares authorized, 445,545,911 shares, nil and nil issued and outstanding at December 31, 2011, 2010 and 2009, respectively	178,218		
Accumulated other comprehensive income (loss)	3,845,496	(1,092,291)	(386,163)
Accumulated deficit	(2,010,732,697)	(1,698,946,565)	(1,712,046,962)
Total equity	2,244,815,494	2,169,537,375	1,796,240,383
<b>TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY</b>	<b>\$3,727,929,415</b>	<b>\$3,902,693,214</b>	<b>\$3,524,076,617</b>
Net current liabilities	\$(386,539,145)	\$(220,242,845)	\$(124,464,588)
Total assets less current liabilities	\$2,476,603,720	\$2,503,347,882	\$2,492,554,046

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

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## Consolidated Statements of equity

(in US dollar, except share data)

	Ordinary shares		Convertible Preferred Shares	
	Share	Amount	Shares	Amount
Balance at January 1, 2009	22,327,784,827	\$8,931,114		\$
Exercise of stock options	48,101,777	19,241		
Share-based compensation				
Net income (loss) attributable to Semiconductor Manufacturing International Corporation				
Foreign currency translation adjustments				
Balance at December 31, 2009	22,375,886,604	\$8,950,355		\$
Exercise of stock options	140,645,464	\$56,258		\$
Issuance of ordinary shares relating to litigation settlement	1,789,493,218	715,797		
Issuance of warrant relating to litigation settlement				
Issuance of ordinary shares	3,028,038,461	1,211,215		
Share-based compensation				
Net income (loss) attributable to Semiconductor Manufacturing International Corporation				
Foreign currency translation adjustments				
Balance at December 31, 2010	27,334,063,747	\$10,933,625		\$
Exercise of stock options	153,612,318	\$61,446		\$
Issuance of Convertible Preferred				
Shares and warrants			445,545,911	178,218
Deemed dividend on preferred convertible shares				
Share-based compensation				
Net income (loss) attributable to Semiconductor Manufacturing International Corporation				
Foreign currency translation adjustments				
Balance at December 31, 2011	27,487,676,065	\$10,995,071	445,545,911	\$178,218

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

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## Consolidated Statements of Cash flows

(In US dollars)

	Year ended December 31,		
	2011	2010	2009
Operating activities:			
Net income (loss)	<b>\$(245,559,453)</b>	\$14,010,646	\$(962,477,542)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred taxes	<b>81,139,452</b>	(10,097,549)	(56,222,094)
Loss (Gain) from sale of plant and equipment and other fixed assets	<b>508,378</b>	(658,535)	3,832,310
Depreciation	<b>518,840,210</b>	584,241,805	746,684,986
Non-cash interest expense on promissory notes and long-term payables relating to license agreements	<b>2,416,772</b>	4,038,189	3,844,324
Amortization of acquired intangible assets	<b>31,449,387</b>	27,167,870	35,064,589
Share-based compensation	<b>5,333,860</b>	8,794,633	10,145,101
Loss (Gain) from equity investment	<b>(4,478,546)</b>	(284,830)	1,782,142
Impairment loss of long-lived assets	<b>17,691,318</b>	8,442,050	138,294,783
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	<b>551,059</b>	1,076,767	111,584,756
Forgiveness of payables	<b>(19,011,413)</b>		
Gain on disposition of discontinued operation, net of taxes	<b>(17,103,295)</b>		
Other non-cash expense	<b>556,071</b>	711,469	
Changes in operating assets and liabilities:			
Accounts receivable	<b>36,368,548</b>	(2,402,228)	(95,382,736)
Inventories	<b>886,712</b>	(19,699,304)	(22,068,328)
Prepaid expense and other current assets	<b>(11,132,693)</b>	(46,335,851)	28,920,815
Other long-term assets	<b>(9,897,365)</b>		
Prepaid land use right	<b>1,567,198</b>	(686,498)	1,500,183
Accounts payable	<b>(13,092,859)</b>	34,205,945	35,788,601
Accrued expenses and other current liabilities	<b>16,823,032</b>	53,406,989	11,349,772
Other long-term liabilities	<b>66,546,667</b>	37,109,116	21,679,690
Income tax payable	<b>(1,829,256)</b>	1,834,118	(493,433)
Changes in restricted cash relating to operating activities	<b>(60,221,170)</b>	(30,077,566)	
Net cash provided by operating activities	<b>398,352,614</b>	694,612,689	283,566,143
Investing activities:			
Purchase of plant and equipment	<b>(950,558,633)</b>	(491,538,600)	(217,269,234)
Proceeds from government subsidy to purchase plant and equipment	<b>1,966,961</b>	26,876,268	54,125,325
Proceeds received from sale of assets held for sale		7,810,382	1,482,716
Proceeds from sale of plant and equipment	<b>4,421,061</b>	6,375,042	3,715,641
Purchase of intangible assets	<b>(31,184,700)</b>	(21,681,441)	(59,096,987)
Purchase of short-term investments	<b>(40,350,344)</b>	(25,812,871)	(49,974,860)
Sale of short-term investments	<b>43,192,561</b>	23,400,000	69,903,150
Change in restricted cash relating to investing activities	<b>84,315,961</b>	(110,912,506)	(14,105,371)
Purchase of long-term investment	<b>(4,845,611)</b>		(278,103)
Sale of long-term investment	<b>1,900,000</b>		
Advance Payment in connection with a proposed joint venture	<b>(27,969,805)</b>		
Net cash received upon purchase of a subsidiary		1,770,603	
Net cash outflow from disposition of			

discontinued operations	(3,513,345)		
Net cash used in investing activities	(922,625,894)	(583,713,123)	(211,497,723)

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(In US dollars)

	Year ended December 31,		
	2011	2010	2009
<b>Financing activities:</b>			
Proceeds from short-term borrowings	1,251,371,100	716,676,446	726,897,421
Repayment of short-term borrowings	(1,015,999,276)	(631,485,230)	(641,291,131)
Repayment of promissory notes	(30,000,000)	(80,000,000)	(15,000,000)
Proceeds from long-term debt	74,979,192	10,000,000	100,945,569
Repayment of long-term debt	(323,318,700)	(254,382,231)	(241,655,460)
Proceeds from exercise of employee stock options	3,525,007	2,217,678	215,026
Proceeds from issuance of ordinary shares		199,122,212	
Proceeds from issuance of Convertible Preferred Shares	308,297,502		
Redemption of noncontrolling interest			(9,013,444)
Net cash (used in) provided by financing activities	268,854,825	(37,851,125)	(78,902,019)
Effect of exchange rate changes	1,225,601	(702,623)	66,544
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(254,192,854)</b>	<b>72,345,818</b>	<b>(6,767,055)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>515,808,332</b>	<b>443,462,514</b>	<b>450,229,569</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$261,615,478</b>	<b>515,808,332</b>	<b>\$443,462,514</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Income taxes paid	\$3,192,510	\$3,444,934	\$9,636,901
Interest paid	\$38,765,494	33,686,823	\$37,934,992
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH, INVESTING AND FINANCING ACTIVITIES</b>			
Accounts payable for plant and equipment	\$(118,736,645)	(342,373,019)	\$(105,618,026)
Long-term payable for acquired intangible assets	\$	\$(5,015,672)	\$(28,966,666)
Receivable for sales of manufacturing equipment	\$	\$	\$23,137,764

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## 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 letters of credit and short-term credit facilities and unused government subsidies for certain research and development projects.

Table of Contents**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, receivable for sale of manufacturing equipment and other long-term assets. 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	2011	2010	2009
Balance, beginning of year	\$49,373,296	\$96,144,543	\$5,680,658
Provision recorded during the year	551,059	1,076,767	94,704,790
Write-offs in the year	(703,687)	(19,348,014)	(4,240,905)
Recovered in the year	(6,400,000 )	(28,500,000 )	
Balance, end of year	\$42,820,668	\$49,373,296	\$96,144,543

The Company collected \$6,400,000 and \$28,500,000 from a managed government-owned foundry during the year ended December 31, 2011 and 2010 for which a specific allowance had been previously provided.

Allowances for receivable for sale of Equipment and other fixed assets	2011	2010	2009
Balance, beginning of year	\$3,944,204	\$21,120,871	\$
Provision recorded during the year			21,120,871
Write-offs in the year	(3,944,204)	(17,176,667)	
Recovered in the year			
Balance, end of year	\$	\$3,944,204	\$21,120,871

Table of Contents**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 land use agreements which range from 50 to 70 years.

**(i) 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 <del>7</del> years
Furniture and office equipment	3 <del>5</del> 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. All amounts are recorded 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 consists 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.



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2. **Summary of Significant Accounting Policies** *(continued)*

(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 its asset usage model and manufacturing capabilities. The Company measures the recoverability of assets that will continue to be used in its operations by comparing the carrying value of the asset group to its 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.

(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.

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Table of Contents2. **Summary of Significant Accounting Policies** (continued)

(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:

	<b>For the year ended December 31,</b>		
	2011	2010	2009
Total actual interest expense (non-litigation)	<b>\$39,567,076</b>	\$34,016,123	\$41,421,385
Recorded in the consolidated statements of comprehensive income			
Interest expense	<b>(20,582,726)</b>	(22,563,056)	(24,586,689)
Gain (Loss) on discontinued operations		(92,774)	(112,647)
Gross capitalized interest	<b>18,984,350</b>	11,360,293	16,722,049
Government subsidies	<b>(825,787 )</b>	(4,190,735 )	(11,617,950 )
Net capitalized interest	<b>\$18,158,563</b>	\$7,169,558	\$5,104,099

(o) **Government subsidies**

The Company received the following types of government subsidies:

**Government subsidies under specific R&D projects**

The Company received government awards of \$126.1 million, \$82.4 million, \$97.6 million and recognized \$42.6 million, \$32.8 million, and \$31.9 million in the form of reimbursement of certain R&D expenses in 2011, 2010 and 2009, respectively, for several specific R&D projects. The awards are recorded as restricted cash upon receipt and deferred until the milestones specified in the terms of the subsidy have been reached, at which time they are recorded as a reduction in R&D expense.

**Government subsidies for specific intended use**

The Company received government subsidies in cash of \$0.8 million, \$4.2 million, and \$11.6 million in 2011, 2010 and 2009, respectively, which were determined based on the estimated interest expense to be incurred, in each of the respective years, on the Company's budgeted outstanding borrowings. These government subsidies are recorded as a liability upon receipt and until the requirements (if any) specified in the terms of the subsidy have been reached, at which time they are recorded as a reduction in interest expense.

Certain local governments provided subsidies to encourage the Company to participate and manage new plants relating to the integrated circuit industry. In 2011, 2010 and 2009 the Company received local government subsidies of \$2.0 million, \$26.9 million and \$54.1 million, respectively. The Company recorded \$2.4 million, \$26.7 million and \$57.3 million as a reduction to the carrying value of the fixed assets or construction in progress in 2011, 2010 and 2009, respectively.

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2. **Summary of Significant Accounting Policies** *(continued)*

- (o) **Government subsidies** *(continued)*  
**General purpose government subsidies and rewards**  
The government provided subsidies of \$1.7 million with no restriction on use in 2011. The Company considers the grants as being provided for general operating purposes, as the government did not identify specific projects or types of expenses in connection with these subsidies. As such, they were recorded as other operating income in 2011 upon receipt.
- (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 as other income (expense) in the statements of comprehensive income.  
  
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).

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2. **Summary of Significant Accounting Policies** *(continued)*

(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 for 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 to 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 upon examination by the tax authorities based on the technical merits of the position.

(t)

**Comprehensive income (loss)**

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on the accompanying consolidated balance sheets, consists of the cumulative foreign currency translation adjustment.

(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.

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2. **Summary of Significant Accounting Policies** *(continued)*

(u) **Fair value** *(continued)*

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 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, receivables for sale of equipments and other long-term assets. 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, 2011. The Company's other financial instruments that are not recorded at fair value are not significant.

(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.

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2. **Summary of Significant Accounting Policies** *(continued)*

(x)

**Recently issued accounting standards**

In May 2011, the FASB issued revised guidance on the Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs. The revised guidance specifies how to measure fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs, not requiring additional fair value measurements and not intending to establish valuation standards or affect valuation practices outside of financial reporting. The revised guidance is effective to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

On June 16, 2011, the FASB issued ASU 2011-05, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. With the exception of the indefinite deferral of the provisions that require entities to present, in both net income and OCI, adjustments of items that are reclassified from OCI to net income, for public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted. The amendments do not require incremental disclosures in addition to those required by ASC 250 or any transition guidance. The Company has early adopted the revised guidance on both Presentation of Comprehensive Income and Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards.

In September 2011, the FASB revised guidance on Testing of Goodwill for Impairment. The revised guidance specifies that an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. The revised guidance is effective to both public and nonpublic entities that have goodwill reported in their financial statements during interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.



In December 2011, the FASB issued revised guidance on Disclosures About Offsetting Assets and Liabilities . The revised guidance specifies that an entity should disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The revised guidance affects all entities that have financial instruments and derivative instruments. The revised guidance is effective for interim or annual periods beginning after December 15, 2011. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

(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. Diluted earnings 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 should their effects be anti-dilutive.

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Table of Contents**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, 2011 Using				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
<b>Assets:</b>				
Forward foreign exchange contracts	\$	\$938,531	\$	\$3,259,024
Derivative assets measured at fair value	\$	\$938,531	\$	\$3,259,024
<b>Liabilities:</b>				
Forward foreign exchange contracts	\$	\$(815,494)	\$	\$(2,181,171)
Interest rate swap contracts		(404,549)		(585,415)
Cross-currency interest rate swap contracts		(463,365)		(303,285)
Derivative liabilities measured at fair value	\$	\$(1,683,408)	\$	\$(3,069,871)

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)
<b>Assets:</b>				
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
<b>Liabilities:</b>				
Forward foreign exchange contracts	\$	\$(479,735)	\$	\$(4,169,805)
Interest rate swap contracts		(1,380,454)		(949,068)
Cross-currency interest rate swap contracts		(1,292,475)		(957,678)
Derivative liabilities measured at fair value	\$	\$(3,152,664)	\$	\$(6,076,551)

Table of Contents**3. Fair Value** *(continued)***Assets/Liabilities Measured at Fair Value on a Recurring Basis** *(continued)*

	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)
<b>Assets:</b>				
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
<b>Liabilities:</b>				
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)

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.

**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.

Table of Contents**3. Fair Value** (continued)**Assets Measured at Fair Value on a Nonrecurring Basis** (continued)

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

Description	Fair Value Measurements at December 31, 2009 Using			Total Losses
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
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)

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 comprehensive income for the year ended December 31, 2009.

**4. Restricted Cash**

As of December 31, 2011, 2010 and 2009, restricted cash consisted of \$46,272,510, \$128,818,265 and \$20,360,185 of bank time deposits pledged against letters of credit and short-term borrowings, and \$90,634,616, \$32,531,992 and nil government subsidies mainly for the reimbursement of research and development expenses to be incurred in certain government sponsored projects, respectively.

**5. Derivative Financial Instruments**

The Company has the following notional amount of derivative instruments:

	December 31,		
	2011	2010	2009
Forward foreign exchange contracts	\$165,646,228	\$92,859,692	\$33,501,503
Interest rate swap contracts	48,000,000	76,000,000	54,000,000
Cross-currency interest rate swap contracts	3,669,691	11,279,915	24,699,730
	\$217,315,919	\$180,139,607	\$112,201,233

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 2011, 2010 and 2009, the change in fair value of forward contracts was presented in foreign currency exchange gain in the consolidated statements of comprehensive income. Notional amounts are stated in the US dollar equivalents at spot exchange rates at the respective dates.

Table of Contents5. **Derivative Financial Instruments** (continued)

Settlement currency	Notional amount	US dollar equivalents
<b>As of December 31, 2011</b>		
<b>Euro</b>	<b>3,600,000</b>	<b>\$4,653,360</b>
<b>Renminbi</b>	<b>1,013,047,623</b>	<b>160,992,868</b>
		<b>\$165,646,228</b>
<b>As of December 31, 2010</b>		
<b>Euro</b>	<b>7,682,707</b>	<b>\$10,174,977</b>
<b>Renminbi</b>	<b>546,297,909</b>	<b>82,684,715</b>
		<b>\$92,859,692</b>
<b>As of December 31, 2009</b>		
<b>Euro</b>	<b>14,825,188</b>	<b>\$21,265,249</b>
<b>Renminbi</b>	<b>83,496,523</b>	<b>12,236,254</b>
		<b>\$33,501,503</b>

In 2011, 2010 and 2009, 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 2011, 2010 and 2009, gains or losses on the interest rate swap contracts were recognized as interest expense in the consolidated statements of comprehensive income. As of December 31, 2011, 2010 and 2009, the Company had outstanding cross-currency interest rate swap contracts as follows:

Settlement currency	Notional amount	US dollar equivalents
<b>As of December 31, 2011</b>		
<b>Euro</b>	<b>2,839,000</b>	<b>\$3,669,691</b>
<b>As of December 31, 2010</b>		
<b>Euro</b>	<b>8,517,000</b>	<b>\$11,279,915</b>
<b>As of December 31, 2009</b>		
<b>Euro</b>	<b>17,219,555</b>	<b>\$24,699,730</b>

In 2011, 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,		
	2011	2010	2009
Forward foreign exchange contracts	\$123,037	\$215,060	\$(428,979)
Interest rate swap contracts	(404,549)	(1,380,454)	(529,712)
Cross-currency interest rate swap contracts	(463,365)	(1,292,475)	114,638
	<b>\$(744,877)</b>	<b>\$(2,457,869)</b>	<b>\$(844,053)</b>

As of December 31, 2011, 2010 and 2009, the fair value of the derivative instruments was recorded in accrued expenses and other current liabilities and prepaid expense and other current assets.

Table of Contents**6. 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:

	2011	2010	2009
Current	<b>\$134,958,411</b>	\$174,378,643	\$160,802,634
Overdue:			
Within 30 days	<b>26,467,938</b>	25,395,378	30,882,525
Between 31 to 60 days	<b>1,082,568</b>	3,033,340	1,641,710
Over 60 days	<b>2,724,676</b>	3,815,480	10,963,676
	<b>\$165,233,593</b>	\$206,622,841	\$204,290,545

**7. Inventories**

	2011	2010	2009
Raw materials	<b>\$54,853,095</b>	\$79,037,913	\$57,279,287
Work in progress	<b>93,472,253</b>	86,234,857	102,538,543
Finished goods	<b>58,983,032</b>	48,131,729	33,887,365
	<b>\$207,308,380</b>	\$213,404,499	\$193,705,195

In 2011, 2010 and 2009, provisions for inventory write-downs amounted to \$26,073,533, \$19,893,861 and \$26,296,168 respectively. Provisions for inventory write-downs were recorded in cost of sales to reflect the lower of cost or market adjustments.

**8. Assets Held for Sale**

In 2009, the Company committed to a plan to complete its exit from the DRAM business and to sell certain fixed assets having a carrying value of \$30,903,192 at the time when the decision to fully exit from the DRAM market was made. The Company began actively soliciting for potential buyers for these assets prior to December 31, 2009 and expected to sell them within the following twelve months. At December 31, 2009, the assets were classified as held for sale and were written down to \$8,184,462 representing the Company's estimate of fair value less costs to sell. 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. \$18,640,862 and \$4,077,868 were recorded as a component of impairment loss and discontinued operation loss in the consolidated statements of comprehensive income, respectively.

In 2010, the Company sold a portion of such assets for \$7,611,775, resulting in a gain of \$1,455,721. As of December 31, 2010, the Company concluded that the remaining assets of \$4,756,260 would not be sold within the following 12 months and, accordingly, reclassified such assets to assets held and used.

Table of Contents**9. Plant and Equipment, Net**

	2011	2010	2009
Buildings	<b>\$319,890,768</b>	\$311,717,261	\$293,225,129
Facility machinery and equipment	<b>575,422,687</b>	565,829,867	552,373,720
Manufacturing machinery and equipment	<b>6,310,595,278</b>	5,584,906,496	5,398,887,677
Furniture and office equipment	<b>86,537,280</b>	78,075,574	74,206,691
Transportation equipment	<b>2,212,489</b>	2,109,425	1,890,082
	<b>7,294,658,502</b>	6,542,638,623	6,320,583,299
Less: accumulated depreciation	<b>(5,370,041,078)</b>	(4,902,754,755)	(4,299,836,387)
	<b>1,924,617,424</b>	1,639,883,868	2,020,746,912
Construction in progress	<b>591,960,595</b>	711,978,919	230,867,305
	<b>\$2,516,578,019</b>	\$2,351,862,787	\$2,251,614,217

The Company recorded depreciation expense of \$518,840,210, \$584,241,805 and \$746,684,986 for the years ended December 31, 2011, 2010 and 2009, respectively.

The construction in progress balance of approximately \$591,960,595 as of December 31, 2011, primarily consisted of \$373,699,154 and \$105,379,439 of the manufacturing equipment acquired to further expand the production capacity at the 12 fab in Beijing and Shanghai, respectively, and \$92,373,431 related to the ongoing 8 wafer construction project at SMIC Shenzhen. The construction in progress at SMIC Beijing and SMIC Shanghai is currently estimated to be completed prior to June 2012. The additional amount paid to complete these construction initiatives is expected to be \$62,000,000. The remainder of the construction in progress of \$20,508,571 relates to various ongoing capital expenditure projects of other SMIC subsidiaries, which are expected to be completed by the second half of 2012.

**10. Impairment of Plant and Equipment**

In 2011 and 2010, the Company recorded an impairment loss of \$17,691,318 and \$8,442,050, respectively, associated with the disposal of fixed assets with outdated technologies, \$3,304,125 of which in 2010 was related to the subsidiary that was deconsolidated in 2011.

In 2009, the effect of adverse market conditions and significant changes in the Company's operations strategy led to the Company's decision to abandon a group of long-lived assets. This group of long-lived assets was equipped with outdated technologies and no longer receives vendor support. As of December 31, 2009, this group of assets ceased to be used. As a result, the Company recorded an impairment loss of \$102,363,799 and a discontinued operation loss of \$2,312,736 after writing down the carrying value to zero, respectively.

Table of Contents**11. Acquired Intangible Assets, Net**

	2011	2010	2009
Technology, Licenses and Patents			
Cost:	<b>\$252,272,508</b>	\$236,690,448	\$346,792,269
Accumulated Amortization	<b>(72,993,175)</b>	(62,869,597)	(164,098,164)
Acquired intangible assets, net	<b>\$179,279,333</b>	\$173,820,851	\$182,694,105

The Company entered into several technology, patent and license agreements with third parties whereby the Company purchased intangible assets for \$37,490,003, \$18,294,616 and \$23,334,825 in 2011, 2010 and 2009, respectively.

The Company recorded amortization expense of \$31,449,387, \$27,167,870 and \$35,064,589 in 2011, 2010 and 2009 respectively. The Company expected to record amortization expenses related to the acquired intangible assets as follows:

Year	Amount
2012	\$27,019,752
2013	\$30,829,055
2014	\$30,063,555
2015	\$28,181,995
2016	\$25,764,325

In 2009, the Company recorded impairment losses of \$5,630,236 for licenses related to DRAM products that were no longer in use.

**12. Equity Investment**

	December 31, 2011	% of
	Carrying	Ownership
	Amount	
Equity method investment (unlisted)		
Toppan SMIC Electronics (Shanghai) Co., Ltd.	<b>\$15,856,187</b>	<b>30.0</b>
Cost method investments (unlisted)	<b>\$3,756,603</b>	<b>Less than 20.0</b>
	<b>\$19,612,790</b>	

The Company assesses the status of its equity investments for impairment on a periodic basis. As of December 31, 2011, the Company has concluded that no impairment of its equity investments existed. The fair value of the Company's cost-method investments was not estimated as there were no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.



Table of Contents**13. Accounts Payable**

An aging analysis of the accounts payable is as follows:

	2011	2010	2009
Current	<b>\$194,434,300</b>	\$429,831,103	\$174,834,213
Overdue:			
Within 30 days	<b>42,278,040</b>	42,087,271	25,335,474
Between 31 to 60 days	<b>16,326,978</b>	8,540,898	8,269,941
Over 60 days	<b>27,651,412</b>	35,118,013	20,443,176
	<b>\$280,690,730</b>	\$515,577,285	\$228,882,804

**14. Promissory Note**

In 2009, the Company reached a new settlement with TSMC as detailed in Note 27. Under this agreement, the remaining promissory note of \$40,000,000 under the prior 2005 Settlement Agreement was cancelled. The Company issued twelve non-interest bearing promissory notes with an aggregate amount of \$200,000,000 as the settlement consideration. The Company has recorded a discount of \$8,067,071 for the imputed interest on the notes using an effective interest rate of 2.85% (which represents the Company's average rate of borrowing for 2009), which was recorded as a reduction of the face amount of the promissory notes. In total, the Company paid TSMC \$30,000,000 and \$80,000,000 in 2011 and 2010, respectively. The outstanding promissory notes are as follows:

<b>Maturity</b>	<b>December 31, 2011</b>	
	<b>Face Value</b>	<b>Discounted value</b>
2012, current portion	<b>\$30,000,000</b>	<b>\$29,374,461</b>
2013, non-current portion	<b>30,000,000</b>	<b>28,559,711</b>
Total	<b>\$60,000,000</b>	<b>\$57,934,172</b>

In 2011, 2010 and 2009, the Company recorded interest expense of \$2,232,443, \$3,768,799 and \$2,070,569, respectively, as amortization of the discount.

Table of Contents**15. Indebtedness**

Short-term and long-term debts are as follows:

	2011	2010	2009
Short-term borrowings from commercial banks (a)	<b>\$607,427,103</b>	\$372,055,279	\$286,864,063
Long-term debt by contracts (b):			
Shanghai USD syndicate loan	\$	\$	\$127,840,000
Shanghai USD & RMB loan		110,270,925	99,309,612
Beijing USD syndicate loan	<b>180,084,000</b>	290,062,000	300,060,000
EUR loan	<b>8,270,540</b>	25,422,024	50,227,567
Tianjin USD syndicate loan		86,300,000	179,000,000
Beijing USD & RMB loan	<b>48,837,901</b>		
Shanghai USD loan	<b>26,523,000</b>		
Total long-term debt	<b>\$263,715,441</b>	\$512,054,949	\$756,437,179
Long-term debt by repayment schedule:			
Within one year	<b>\$191,354,539</b>	\$333,458,941	\$205,784,080
More than one year, but not exceeding two years	<b>72,360,902</b>	178,596,008	334,995,270
More than two years, but not exceeding five years			215,657,829
Total	<b>\$263,715,441</b>	\$512,054,949	\$756,437,179
Less: current maturities of long-term debt	<b>\$191,354,539</b>	333,458,941	205,784,080
Non-current maturities of long-term debt	<b>\$72,360,902</b>	\$178,596,008	\$550,653,099

**(a) Short-term borrowings from commercial banks**

As of December 31, 2011, the Company had 24 short-term credit agreements that provided total credit facilities of up to \$919 million on a revolving credit basis. As of December 31, 2011, the Company had drawn down \$607.4 million under these credit agreements and \$311.6 million was available for future tradings and borrowings. The outstanding borrowings under the credit agreements are unsecured, except for \$43.3 million, which is secured by term deposit, and \$23.2 million, which is secured by real property with an original cost of \$17.5 million. The interest expense incurred in 2011 was \$20,818,060 of which \$10,154,263 was capitalized as additions to assets under construction. The interest rate ranged from 1.6% to 7.2% in 2011.

As of December 31, 2010, the Company had 20 short-term credit agreements that provided total credit facilities of up to \$583 million on a revolving credit basis. As of December 31, 2010, the Company had drawn down \$372 million under these credit agreements and \$211 million was available for future borrowings. The outstanding borrowings under the credit agreements are unsecured, except for \$13 million, which is secured by term deposits. The interest expense incurred in 2010 was \$12,037,913 of which \$3,182,351 was capitalized as additions to assets under construction. The interest rate ranged from 1.11% to 5.84% in 2010.

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15. **Indebtedness** *(continued)*

(a)

**Short-term borrowings from commercial banks** *(continued)*

As of December 31, 2009, the Company had 19 short-term credit agreements that provided total credit facilities of up to \$337 million on a revolving credit basis. As of December 31, 2009, the Company had drawn down \$287 million under these credit agreements and \$50 million was available for future borrowings. The outstanding borrowings under the credit agreements are unsecured, except for \$20 million, which is secured by term deposits. The interest expense incurred in 2009 was \$11,250,052, of which \$2,752,239 was capitalized as additions to assets under construction. The interest rate ranged from 1.11% to 8.75% in 2009.

(b)

**Long-term debt**

***Shanghai USD & RMB loan***

In June 2009, Semiconductor Manufacturing International (Shanghai) Corporation ( SMIS ) entered into the Shanghai USD & RMB loan, a two-year loan facility in the principal amount of \$80,000,000 and RMB200,000,000 (approximately \$29,309,012) with The Export-Import Bank of China. The principal amount was fully repaid in 2011.

The facility was secured by the manufacturing equipment located in SMIS 's 12-inch fab. This two year bank facility was used to finance future expansion and general corporate needs for SMIS 's 12-inch fab. The interest rates from the US tranche and RMB tranche varied from 2.4% to 4.86%.

***Shanghai USD loan***

In April 2011, SMIS entered into the Shanghai USD loan, a new two-year loan facility in the principal amount of US\$69 million with The Export-Import Bank of China. This two-year bank facility was used to finance future expansion for SMIS 's 12-inch fab. As of December 31, 2011, SMIS had drawn down US\$26.5 million. The principal amount of \$3.0 million will be repayable within 2012 and \$23.5 million be repayable in June 2013. The interest rate is 4.395%.

The total outstanding balance of the facilities is collateralized by certain equipment of SMIS with an original cost of US\$38.6 million as of December 31, 2011.

The Shanghai USD loan contains covenants to maintain certain minimum coverage ratio. SMIS was in compliance with these covenants as of December 31, 2011.

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15. **Indebtedness** (continued)

(b)

**Long-term debt** (continued)

**Beijing USD syndicate loan**

In May 2005, Semiconductor Manufacturing International (Beijing) Corporation ( SMIB ) entered into the Beijing USD syndicate loan, a five-year loan facility in the aggregate principal amount of \$600,000,000, with a syndicate of financial institutions based in the PRC. The principal amount is repayable starting from December 2007 in six equal semi-annual installments. On June 26, 2009, SMIB and the syndicate amended the syndicated loan agreement to defer the commencement of the three remaining semi-annual payments to December 28, 2011. SMIB has made the repayment of \$109 million in 2011. The amendment includes a provision for mandatory early repayment of a portion of the outstanding balance if SMIB 's financial performance exceeds certain pre-determined benchmarks. The amendment was accounted for as a modification as the terms of the amended instrument were not substantially different from the original terms. The interest rates before and after the amendment, changed from 2.59% to 2.9945%.

The total outstanding balance of the Beijing USD syndicate loan is collateralized by SMIB 's plant and equipment with an original cost of \$1,318.6 million as of December 31, 2011.

The Beijing USD syndicate loan contains covenants to maintain minimum cash flows as a percentage of non- cash expenses and to limit total liabilities, excluding shareholder loans, as a percentage of total assets. SMIB was in compliance with these covenants as of December 31, 2011.

**Beijing USD & RMB Loan**

In September 2011, SMIB entered into the Beijing USD and RMB Loan, a two-year loan facility in the principal amount of US\$25 million and RMB 150 million (approximately \$24 million) with The Export-Import Bank of China. This two-year bank facility was used for working capital purposes. As of December 31, 2011, SMIB had drawn down US\$25 million & RMB 150 million on this loan facility. The principal amount is repayable in September 2013. The interest rate is variable from 6.35% to 6.65%.

The total outstanding balance of the Beijing USD & RMB Loan is collateralized by SMIB 's plant and equipment with an original cost of \$ 132.3 million as of December 31, 2011.

**EUR loan**

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 starting from May 6, 2006. The interest rate is variable from 2.5% to 5.0%.

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, 2011.



Table of Contents15. **Indebtedness** (continued)

(b)

**Long-term debt** (continued)**Tianjin USD syndicate loan**

In May 2006, Semiconductor Manufacturing International (Tianjin) Corporation ( SMIT ) entered into the Tianjin USD syndicate loan, a five-year loan facility in the aggregate principal amount of \$300,000,000, with a syndicate of financial institutions based in the PRC. This five-year bank loan was used to expand the capacity of SMIT 's fab. The Company has guaranteed SMIT 's obligations under this facility. The principal amount was repayable starting from 2010 in six semi-annual installments and interest rate varied from 1.6% to 1.7%. In August 2011, the facility was fully repaid.

Details of the drawn down, repayment and outstanding balance of the abovementioned long-term debts are summarized as follows:

	Shanghai USD Syndicate Loan	Shanghai USD & RMB Loan	Shanghai USD Loan	Beijing USD Syndicate Loan	Beijing USD & RMB Loan	Beijing EUR Loan	Tianjin USD Syndicate Loan
Balance at January 1, 2009	266,050,000			300,060,000		72,037,070	259,000,000
Drawn down		99,309,612					
Repayment	138,210,000					21,809,503	80,000,000
Balance at December 31, 2009	127,840,000	99,309,612		300,060,000		50,227,567	179,000,000
Drawn down		10,961,313					
Repayment	127,840,000			9,998,000		24,805,543	92,700,000
<b>Balance at December 31, 2010</b>		<b>110,270,925</b>		<b>290,062,000</b>		<b>25,422,024</b>	<b>86,300,000</b>
Drawn down			26,523,000		48,837,901		
Repayment		110,270,925		109,978,000		17,151,484	86,300,000
Balance at December 31, 2011			26,523,000	180,084,000	48,837,901	8,270,540	

16. **Convertible Preferred Shares****Convertible Preferred Shares and Warrants**

In June 2011, the Company issued 360,589,053 non-redeemable convertible preferred shares (the Preferred Shares ) and a warrant (the CIC Warrant ) to subscribe for up to 72,117,810 Preferred Shares, to Country Hill Limited, a wholly-owned subsidiary of China Investment Corporation ( CIC ), for an aggregate proceeds of approximately US\$249 million, net of issuance cost of US\$0.6 million which was deducted from the carrying value of the Preferred Shares.

In September 2011, the Company issued 84,956,858 Preferred Shares and a Warrant (the Datang Warrant ) and, together with the CIC Warrant, the Warrant ) to subscribe for up to 16,991,371 Preferred Shares, to Datang Holdings (Hong Kong) Investment Company Limited ( Datang ), for aggregate proceeds of approximately US\$58.9 million.

The par value and the issue price of the Preferred Shares are US\$0.0004 and HK\$5.39 (USD:HKD = 1:7.7943) per share, respectively. The exercise price of the Warrants is HK\$5.39.

Table of Contents**16. Convertible Preferred Shares** *(continued)*

The Company allocated total proceeds between the Preferred Shares and Warrant based on relative fair value on the issuance day and recorded \$292,634,466 and \$15,484,818 to additional paid in capital for Preferred Shares and Warrant respectively. The fair value of the Warrants is determined by applying the Black-Scholes option pricing model, with the following assumptions used:

Expected volatility (%)	51.65%~53.67%
Risk-free interest rate (per annum) (%)	0.09%~0.18%
Expected dividend yield (%)	Nil
Expected term (years)	1 year

The Company assessed beneficial conversion feature ( BCF ) attributable to the Preferred shares and Warrants at each commitment date. The Company recognized \$64,970,095 as deemed dividend in the consolidated statements of comprehensive income, in relation to the Preferred Shares and Warrants issued to CIC, associate with the BCF as of the commitment date. The Company determined that there was no BCF attributable to the Preferred Shares and Warrants issued in September 2011 as the effective conversion prices were greater than the fair value of the ordinary shares on the commitment date.

**Voting**

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

**Dividend entitlements**

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

**Ranking**

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

**Liquidation preference**

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

Table of Contents**16. Convertible Preferred Shares** *(continued)***Conversion Rights**

The holders of the Preferred Shares will have the right at any time to convert their Preferred Shares into fully paid ordinary shares and the Preferred Shares will be mandatorily converted into ordinary shares at the then applicable conversion rate on June 4, 2012.

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

**17. 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 \$17,103,295 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 \$14,741,100 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.

Accordingly, the discontinued operations were retrospectively reflected for all the years presented in the Company's consolidated statements of comprehensive income. The following shows summarized operating results reported as discontinued operations for the years ended December 31, 2011, 2010, and 2009:

	(in US dollars)		
	For the year ended December 31,		
	2011	2010	2009
Sales	\$4,005,078	\$22,340,048	\$32,721,717
Cost of sales	5,411,543	26,072,103	44,962,207
Gross profit (loss)	(1,406,465)	(3,732,055)	(12,240,490)
Total expenses, net	955,730	3,623,506	6,560,318
Net loss before Income Tax	(2,362,195)	(7,355,561)	(18,800,808)
Income tax (expenses) benefits			
Gain on disposition of discontinued operations, net of taxes	17,103,295		
Income(loss) from discontinued operations	\$14,741,100	(\$7,355,561)	(\$18,800,808)



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**18. Income Taxes**

Semiconductor Manufacturing International Corporation is a tax-exempted company incorporated in the Cayman Islands.

Prior to January 1, 2008, the subsidiaries incorporated in the PRC were governed by the Income Tax Law of the PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax laws (the "FEIT Laws").

The Law of the People's Republic of China on Income Tax ( "New EIT Law" ) was promulgated on March 16, 2007, which became effective January 1, 2008. Under the New EIT Law, domestically- owned enterprises and foreign invested enterprises ( "FIEs" ) are subject to a uniform tax rate of 25%. For enterprises entitled to a preferential tax rate of 25% throughout a five-year period. Pursuant to Guofa [2007] No. 39 ( "Circular No. 39" ), the application tax rates during the five-year transitional period are as follows: 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter. Tax holidays enjoyed under the FEIT Laws may be enjoyed until the end of the holiday.

Pursuant to Caishui Circular [2008] No.1 ( "Circular No.1" ) promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately \$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction for the following five years. Pursuant to Caishui Circular [2009] No.69 ( "Circular No. 69" ), the 50% reduction should be based on the statutory tax rate of 25% unless the income tax rate of the Company is reduced by the tax incentives granted by Circular No.39.

On January 28, 2011, the State Council of China issued Guofa [2011] No.4 ( "Circular No.4" ), the Notice on Certain Policies to Further Encourage the Development of the Software and Integrated Circuit Industries which reinstates the EIT incentives stipulated by Circular No.1 for the software and integrated circular enterprises.

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Table of Contents**18. Income Taxes** *(continued)*

The detailed tax status of SMIC's PRC entities is elaborated as follows:

- 1) **SMIS**  
Pursuant to relevant tax regulation, SMIS began a 10-year tax holiday (five year full exemption followed by five year half reduction) from 2004 after utilizing all prior years' tax losses. As SMIS is a manufacturing company located in Shanghai's Pudong New Area, it can continue its tax holiday based on the transitional income tax rate granted by Circular No.39 instead of the statutory income tax rate.

The income tax rate for SMIS was 12% in 2011 and will be 12.5% in 2012 and 2013. After that, the income tax rate will be 15%.

- 2) **SMIB and SMIT**  
In accordance with Circular No.1 and Circular No.4, SMIB and SMIT are entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to their first profit-making years after utilizing all prior tax losses but no later than December 31, 2017. Both entities were in accumulative loss positions as of December 31, 2011 and the tax holiday has not begun to take effect.

The Company's other subsidiaries are subject to respective local income tax laws, including those of Japan, the United States of America and European countries, whose income tax expenses for the years of 2011, 2010 and 2009 were as follows:

	2011	2010	2009
US subsidiary	<b>\$213,723</b>	\$210,000	\$252,000
European subsidiary	<b>215,922</b>	152,105	141,431

In 2011, 2010 and 2009, the Company had minimal taxable income in Hong Kong. In 2011, the Company accrued \$12,948 for income tax expense in Taiwan.

The provision for income taxes by tax jurisdiction is as follows:

	December 31		
	2011	2010	2009
<b>PRC</b>			
Current	<b>\$920,661</b>	\$4,916,947	\$40,949
Adjustments on deferred tax assets and liabilities for enacted changes in tax rate			(32,403,299)
Deferred	<b>81,139,452</b>	(10,097,549)	(23,818,794)
Other jurisdiction, current	<b>442,593</b>	362,105	9,556,902
Income tax (benefit) expense	<b>\$82,502,706</b>	\$(4,818,497)	\$(46,624,242)

Table of Contents**18. Income Taxes** (continued)

The income (loss) before income taxes by tax jurisdiction is as follows:

	<b>December 31</b>		
	2011	2010	2009
PRC	\$(163,355,291)	\$62,898,157	\$(774,867,562)
Other jurisdictions	(18,921,102)	(46,635,277)	(213,651,272)
	<b>\$(182,276,393)</b>	<b>\$16,262,880</b>	<b>\$(988,518,834)</b>

Details of deferred tax assets and liabilities are as follows:

	2011	2010	2009
<b>Deferred tax assets:</b>			
Allowances and reserves	\$4,633,904	\$3,102,688	\$13,019,352
Start-up costs	31,157,821	23,309,859	159,707
Net operating loss carry forwards	197,262,277	185,443,770	109,384,792
Unrealized exchange loss			6,006
Depreciation and impairment of fixed assets	80,477,329	62,068,769	79,104,144
Subsidy on long lived assets		148,473	479,818
Accrued expenses	2,389,533	2,382,856	1,936,337
<b>Total deferred tax assets</b>	<b>315,920,864</b>	<b>276,456,415</b>	<b>204,090,156</b>
Valuation allowance	(284,133,460)	(163,767,922)	(101,558,305)
<b>Net deferred tax assets</b>	<b>\$31,787,404</b>	<b>\$112,688,493</b>	<b>\$102,531,851</b>
Current portion of deferred tax assets	\$3,273,728	\$3,638,427	\$8,173,216
Non-current portion of deferred tax assets	28,513,676	109,050,066	94,358,635
<b>Net deferred tax assets</b>	<b>\$31,787,404</b>	<b>\$112,688,493</b>	<b>\$102,531,851</b>
<b>Deferred tax liability:</b>			
Capitalized interest	(1,266,091)	(1,049,162)	(1,035,164)
Unrealized exchange gain	(66,529)	(45,095)	
<b>Total deferred tax liabilities</b>	<b>(1,332,620)</b>	<b>(1,094,257)</b>	<b>(1,035,164)</b>
Non-current portion of deferred tax liabilities	(1,332,620)	(1,094,257)	(1,035,164)
<b>Total deferred tax liabilities</b>	<b>\$(1,332,620)</b>	<b>\$(1,094,257)</b>	<b>\$(1,035,164)</b>

The Company considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible for tax purpose. Based on the current profit, projected future profitability, and other available evidence, the Company believed it was more-likely-than-not that SMIC will not realize all the deferred tax assets in the future periods. Thus, \$284 million valuation allowances are provided for the deferred tax assets of SMIC.

Table of Contents**18. Income Taxes** *(continued)*

The Company had no material uncertain tax positions as of December 31, 2011 or unrecognized tax benefits which would favorably affect the effective income tax rate in future periods. The Company classifies interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2011, the amount of interest and penalties related to uncertain tax positions is immaterial. The Company does not anticipate any significant increases or decreases to its liability for unrecognized tax benefits within the next 12 months.

As of December 31, 2011, the Company's PRC subsidiaries had net operating loss carried forward of \$951.9 million, of which \$252.7 million, \$179.7 million, \$237.7 million, \$86.3 million and \$195.5 million will expire in 2012, 2013, 2014, 2015 and 2016, respectively.

Under the New EIT Law, the profits of a foreign invested enterprise arising in 2008 and beyond that will be distributed to its immediate holding company outside China will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that are also tax residents in Hong Kong are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region. Since the Company intends to reinvest its earnings to expand its businesses in mainland China, its PRC subsidiaries do not intend to distribute profits to their immediate foreign holding companies for the foreseeable future. Accordingly, as of December 31, 2011, the Company has not recorded any withholding tax on the retained earnings of its PRC subsidiaries.

Income tax expense computed by applying the applicable EIT tax rate of 15% is reconciled to income before income taxes and non controlling interest as follows:

	2011	2010	2009
Applicable enterprise income tax rate	15.0%	15.0%	15.0%
Expenses not deductible for tax purposes		46.4%	(2.2%)
Effect of tax holiday and tax concession	1.3%	33.8%	(0.8%)
Expense (credit) to be recognized in future periods	11.4%	35.6%	(6.3%)
Changes in valuation allowances	(72.6%)	30.0%	(0.7%)
Effect of different tax rate of subsidiaries operating in other jurisdictions	(1.4%)	89.6%	(3.6%)
Utilization of net operating loss carry forwards		(304.5%)	
Changes of tax rate			3.2%
True up	1.0%		
Effective tax rate	(45.3%)	(54.1%)	4.6%

The aggregate amount and per share effect of the tax holiday are as follows:

	2011	2010	2009
The aggregate dollar effect	\$2,369,593	\$3,009,966	\$7,979,279
Per share effect basic and diluted	\$0.00	\$0.00	\$0.00

Table of Contents**19. Noncontrolling Interest**

In 2005, AT issued Series A redeemable convertible preference shares ( Series A shares ) to certain third parties for cash consideration of \$39 million, representing 43.3% equity interest of AT. In 2007, AT repurchased one million Series A shares for \$1 million from a noncontrolling stockholder, and equity interest of the noncontrolling stockholders in AT decreased to 42.7% as of December 31, 2007. On January 1, 2009, the noncontrolling interest holders of AT redeemed eight million Series A shares with a total redemption amount of \$9,013,444 and the equity interest of the noncontrolling stockholders in AT decreased to 33.7%.

At any time after January 1, 2009, if AT has not filed its initial registration statement for its initial public offering, the holders of Series A shares (other than SMIC) shall have the right to require AT to redeem such holders' shares upon redemption request by paying cash in an amount per share equal to the initial purchase price at \$1.00 for such Series A shares plus the product of (i) purchase price of the Series A shares and (ii) 3.5% per annum calculated on a daily basis from May 23, 2005. As of December 31, 2010, 30 million preferred shares were outstanding and redeemable to noncontrolling interest holders. The Series A shares are not considered participating securities and have been recorded at their redemption amount as a noncontrolling interest in the consolidated balance sheets. Adjustments to the carrying value of the Series A shares have been recorded as an accretion of interest to noncontrolling interest in the consolidated statements of comprehensive income.

The carrying value of the various noncontrolling interest was recorded at the higher of the redemption value or the historical cost, increased or decreased for the noncontrolling interest's share of the net income or loss and dividend.

On March 1, 2011, the Company sold its majority ownership interest in AT and deconsolidated the entity. As a result, all previously issued preferred securities by AT were cancelled. Please refer to note 17 for details. Accretion of interest and loss attributed to noncontrolling interest have been reported in the statements of comprehensive income.

**Reconciliation of the Noncontrolling Interest**

Balance at January 1, 2009	\$42,795,288
Redemption	(9,013,444)
Accretion of interest	1,059,663
Balance at December 31, 2009	\$34,841,507
Addition of Noncontrolling Interest	3,252,412
Loss attributed to noncontrolling interest	(139,751)
Accretion of interest	1,050,000
Balance at December 31, 2010	\$39,004,168
Disposal	(36,061,232)
Loss attributed to noncontrolling interest	(63,177)
Accretion of interest	1,319,761
Balance at December 31, 2011	\$4,199,520

Table of Contents**20. Share-based Compensation**

The Company's total share-based compensation expense for the years ended December 31, 2011, 2010 and 2009 was \$5,333,860, \$8,794,633, and \$10,145,101, respectively.

**Stock options**

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), under the terms of which the 2004 Option Plan options are granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of four years. Any compensation expense is recognized on a straight-line basis over the employee service period. As of December 31, 2011, options to purchase 1,088,806,018 ordinary shares were outstanding, and options to purchase 1,296,138,596 ordinary shares were available for future grants.

As of December 31, 2011, the Company also has options to purchase 142,132,411 ordinary shares outstanding under the 2001 Stock Plan. The Company had not issued stock options under this plan after its initial public offering.

A summary of the stock option activity is as follows:

	Ordinary shares		Weighted Average	
	Number of	Weighted	Remaining	Aggregated
	options	average	Contractual	Intrinsic
		exercise	Term	Value
		price		
Options outstanding at January 1, 2011	1,317,679,526	\$0.11		
Granted	321,290,693	\$0.07		
Exercised	(75,381,642)	\$0.05		
Cancelled	(332,650,148)	\$0.11		
Options outstanding at December 31, 2011	1,230,938,429	\$0.10	6.67 years	\$2,642,018
Vested or expected to vest at December 31, 2011	874,243,966	\$0.11	5.93 years	\$1,814,692
Exercisable at December 31, 2011	465,796,149	\$0.12	4.42 years	\$954,932

The total intrinsic value of options exercised in the year ended December 31, 2011, 2010 and 2009 was \$3,388,378, \$2,572,660 and \$167,625, respectively.

The weighted-average grant-date fair value of options granted during the year 2011, 2010 and 2009 was \$0.04, \$0.04 and \$0.02 per option, respectively.

When estimating forfeiture rates, the Company uses historical data to estimate option exercise and employee termination within the pricing formula.

Table of Contents**20. Share-based Compensation (continued)****Stock options (continued)**

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions noted below. The risk-free rate for periods within the contractual life of the option is based on the yield of the US Treasury Bond. The expected term of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the average volatility of our stock prices with the time period commensurate with the expected term of the options. The dividend yield is based on the Company's intended future dividend plan.

	<b>2011</b>	2010	2009
Average risk-free rate of return	<b>1.04%</b>	1.28%	1.18%
Expected term	<b>1.5 years</b>	1.4 years	2.4 years
Volatility rate	<b>69.15%</b>	60.83%	55.95%
Expected dividend yield			

**Restricted share units**

In January 2004, the Company adopted the 2004 Equity Incentive Plan (which was subsequently amended and restated on June 3, 2010.) ( 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. Under the amended and restated 2004 EIP, the Company was authorized to issue up to 1,015,931,725 ordinary shares, being the increased plan limit approved by its shareholders at the 2010 AGM, which is equivalent to 2.5% of its issued and outstanding ordinary shares as of March 31, 2010. As of December 31, 2011, 101,564,432 restricted share units were outstanding and 555,623,273 ordinary shares were available for future grant through the issuance of restricted shares, restricted share units and stock appreciation rights. The RSUs vest over a requisite service period of 4 years and expire 10 years from the date of grant. Any compensation expense is recognized on a straight-line basis over the employee service period.

A summary of RSU activities is as follows:

	Restricted share units		Weighted Average	
	Number of Share Units	Weighted average Fair Value	Remaining Contractual Term	Aggregated Fair Value
Outstanding at January 1, 2011	144,457,562	\$0.10		
Granted	67,949,495	\$0.07		
Exercised	(78,230,676)	\$0.10		
Cancelled	(32,611,949)	\$0.10		
Outstanding at December 31, 2011	101,564,432	\$0.07	9.01 years	\$7,581,599
Vested or expected to vest at December 31, 2011	60,684,535	\$0.07	9.00 years	\$4,475,307

Table of Contents**20. Share-based Compensation (continued)****Restricted share units (continued)**

Pursuant to the 2004 EIP, the Company granted 67,949,495, 207,315,992 and 787,797 RSUs in 2011, 2010, and 2009, respectively, most of which vest over a period of four years. The fair value of the RSUs at the date of grant was \$4,504,015, \$20,169,232 and \$32,213 in 2011, 2010, and 2009, respectively, which is expensed over the vesting period. As a result, the Company has recorded a compensation expense of \$1,845,413, \$3,493,661, and \$3,370,893 in 2011, 2010, and 2009, respectively.

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

As of December 31, 2011, there was \$13,415,847 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 1.51 years.

**21. Reconciliation of Basic and Diluted Earnings (loss) per Share**

The following table sets forth the computation of basic and diluted earnings (loss) per share for the years indicated:

	For the years ended December 31,		
	2011	2010	2009
<b>Numerator:</b>			
Income (loss) from continuing operations	\$(260,300,553)	\$21,366,207	\$(943,676,734)
Accretion of interest to noncontrolling interest attributable to Semiconductor Manufacturing International Corporation from continuing operations	(1,319,761)		
Loss attributable to noncontrolling interest attributable to Semiconductor Manufacturing International Corporation from continuing operations	63,177		
Net income (loss) attributable to Semiconductor Manufacturing International Corporation from continuing operations	(261,557,137)	21,366,207	(943,676,734)
Deemed dividend on convertible preferred shares	(64,970,095)		
Income (loss) attributable to holders of ordinary shares from continuing operations	(326,527,232)	21,366,207	(943,676,734)
Net income (loss) attributable to Semiconductor Manufacturing International Corporation from discontinued operations	14,741,100	(7,355,561)	(18,800,808)
Accretion of interest to noncontrolling interest attributable to Semiconductor Manufacturing International Corporation from discontinued operations		(1,050,000)	(1,059,663)
Loss attributable to noncontrolling interest attributable to Semiconductor Manufacturing International Corporation from discontinued operations		139,751	
Income (loss) attributable to holders of ordinary shares from discontinued operations	14,741,100	(8,265,810)	(19,860,471)
<b>Denominator:</b>			
Weighted average ordinary shares outstanding basic	27,435,853,922	24,258,437,559	22,359,237,084
Weighted average ordinary shares outstanding diluted	27,435,853,922	25,416,597,405	22,359,237,084
<b>Income (loss) per ordinary share:</b>			
<b>Basic</b>			
continuing operations	\$(0.01)	\$0.00	\$(0.04)
discontinued operations	\$0.00	\$(0.00)	\$(0.00)
<b>Diluted</b>			
continuing operations	\$(0.01)	\$0.00	\$(0.04)
discontinued operations	\$0.00	\$(0.00)	\$(0.00)



Table of Contents**21. Reconciliation of Basic and Diluted Earnings (loss) per Share (continued)**

As of December 31, 2011, the Company has 3,057,405,086 ordinary share equivalents outstanding which were excluded from the computation of diluted loss per share, as their effect would have been anti-dilutive due to the net loss reported in such periods. In 2010, the Company has 1,774,346,656 ordinary share equivalents outstanding which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares. In 2009, the Company had 1,463,768,607 ordinary share equivalents outstanding which were excluded from the computation of diluted loss per share, as their effect would have been anti-dilutive due to the net loss reported in such periods.

The following table sets forth the securities comprising these anti-dilutive ordinary share equivalents for the years indicated:

	<b>December 31, 2011</b>	2010	2009
Outstanding options to purchase ordinary shares	<b>1,230,938,429</b>	1,014,825,425	1,410,142,830
Outstanding unvested restricted share units	<b>101,564,432</b>		53,625,777
Warrant shares	<b>1,724,902,225</b>	759,521,231	
	<b>3,057,405,086</b>	1,774,346,656	1,463,768,607

**22. Transactions with Managed Government-Owned Foundries**

The Company provided management services to Cension Semiconductor Manufacturing Corporation ( Cension ), before it was acquired by Texas Instruments Inc., and ceased to be a foundry owned by a municipal government in October 2010. The management service revenues for 2010 and 2009 were \$4,500,000 and \$6,000,000, respectively.

The Company also provided management services to Wuhan Xinxin Semiconductor Manufacturing Corporation ( Xinxin ), which is a government-owned foundry. In 2009, the Company ceased its recognition of management service revenue due to issues of collectability and no revenue was recorded in 2010.

The Company recorded a \$115.8 million bad debt provision in the second half of 2009, of which \$93.5 million and \$21.1 million were due to long outstanding overdue receivables relating primarily to the revenue for management services rendered and related equipment sold, respectively. The Company further negotiated with Cension and reached an agreement to settle the balances between the two parties. Cension agreed to make cash payment of \$47.2 million to the Company. The remaining balances were relinquished.

The Company collected \$6.4 million and \$28.5 million of payments from Cension during 2011 and 2010, respectively, and recorded it as a deduction of general and administrative expense in the consolidated statements of comprehensive income, as it was a recovery of bad debt provision made in 2009. The Company also received \$21,643,822 from Xinxin during 2011, \$14,730,200 of which was recorded as a reduction of general and administrative expense in the consolidated statements of comprehensive income, while the remainder, \$6,913,622, was recorded as management service revenue.

An advance of \$28.0 million was made in connection with a proposed joint venture between the holding company of Xinxin and the Company, which is subject to the approval by the government authority.

Table of Contents**23. Commitments****(a)****Purchase commitments**

As of December 31, 2011, the Company had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Company's facility by December 31, 2012.

Facility construction	\$40,321,896
Machinery and equipment	420,461,238
	<b>\$460,783,134</b>

**(b)****Royalties**

The Company has entered into several license and technology agreements with third parties. The terms of the contracts range from three to ten years. The Company makes royalty payments based on a percentage of sales of products which use the third parties' technology or license. In 2011, 2010 and 2009, the Company incurred royalty expense of \$22,794,499, \$29,498,094 and \$20,836,511, respectively, which was included in cost of sales.

**24. Segment and Geographic Information**

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

	2011	2010	2009
Total sales:			
United States	<b>\$726,011,054</b>	\$847,851,860	\$629,329,696
Europe	<b>35,256,308</b>	39,167,752	20,814,642
Asia Pacific <sup>(1)</sup>	<b>21,243,469</b>	32,011,201	20,334,967
Taiwan	<b>105,788,242</b>	167,153,780	144,292,302
Japan	<b>356,121</b>	3,187,517	9,685,012
China <sup>(2)</sup>	<b>430,810,839</b>	443,076,429	213,208,767
	<b>\$1,319,466,033</b>	\$1,532,448,539	\$1,037,665,386

(1) Not including Taiwan, Japan, China

(2) Including Hong Kong

Revenue is attributed to countries based on headquarter of operations.

Substantially all of the Company's long-lived assets are located in the PRC.

Table of Contents**25. Significant Customers**

The following table summarizes net revenue and accounts receivable for customers which accounted for 10% or more of our accounts receivable and net sales:

	Net revenue Year ended December 31,			Accounts receivable December 31,		
	2011	2010	2009	2011	2010	2009
	A	21%	21%	22%	21%	27%
B	13%	13%	14%	13%	*	*
C	*	10%	13%		*	*
D	*	*	*	*	*	10%

\* Less than 10%.

**26. Contingent Liability**

In 2007, the Company entered into equipment purchase and cooperative manufacturing arrangements (the Arrangements) with an unrelated semiconductor manufacturer (the Counterparty). The equipment was relocated by 2008 as scheduled. In 2009, the Company received notifications from the Counterparty that the Company was responsible for additional equipment relocation expenses and a portion of the losses incurred during the term of the Arrangements. The Company contested the claims and requested further information supporting the Counterparty's claims. The Company recorded its best estimate of the probable amount of its liability on the claims regarding the Arrangements and equipment relocation and charged to cost of sales and general and administrative expense, respectively, in the consolidated financial statement as of and during the year ended December 31, 2009.

The Counterparty filed a demand for dispute arbitration in late 2009 for the equipment relocation expenses. In 2010, the Company settled the dispute related to the equipment relocation claims by paying \$8.0 million to the Counterparty and continued its investigations and negotiations with the Counterparty under the Arrangements.

In the end of 2010, the Counterparty filed further claims under the Arrangements. In December 2011, the Company settled the arbitration regarding Arrangements by paying \$21.0 million to the Counterparty. All claims and counterclaims were dismissed then.

**27. Litigation**

The Company settled all pending litigation with TSMC on November 9, 2009, including the legal action filed in California for which a verdict was returned by the jury against SMIC on November 4, 2009, with a Settlement Agreement (the 2009 Settlement Agreement) which replaced the previous settlement agreement with TSMC (2005 Settlement Agreement). The 2009 Settlement Agreement resolved all pending lawsuits between the parties and the parties have since dismissed all pending litigation between them. The terms of the 2009 Settlement Agreement include the following:

- 1) Entry of judgment and mutual release of all claims that were or could have been brought in the pending lawsuits;
- 2) Termination of SMIC's obligation to make remaining payments under the 2005 Settlement Agreement between the parties (approximately US\$40 million);
- 3) Payment to TSMC of an aggregate of US\$200 million (with US\$15 million paid upon execution, funded from SMIC's existing cash balances, and the remainder to be paid in installments over a period of four years);



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**27. Litigation** *(continued)*

- 4) Commitment to grant TSMC 1,789,493,218 shares of SMIC and a warrant exercisable within three years of issuance to subscribe for an additional 695,914,030 shares, subject to adjustment, at a purchase price of HK\$1.30 per share (which would allow TSMC to obtain, by means of exercise of the warrant, ownership of approximately 2.78% of SMIC's issued share capital as at December 31, 2010 (assuming a full exercise of the warrant)), subject to receipt of required government and regulatory approvals. The 1,789,493,218 ordinary shares and the warrant were issued on July 5, 2010; and
- 5) Certain remedies in the event of breach of this settlement.

Accounting Treatment for the 2009 Settlement Agreement:

In accounting for the 2009 Settlement Agreement, the Company determined that there were three components of the 2009 Settlement Agreement:

- 1) Settlement of litigation via entry of judgment and mutual release of all claims in connection with pending litigation;
- 2) TSMC's covenant not-to-sue with respect to alleged misappropriation of trade secrets; and
- 3) Termination of payment obligation of the remaining payments to TSMC under the 2005 Settlement Agreement of approximately \$40 million.

The Company does not believe that any of the aforementioned qualify as assets under US GAAP. Accordingly, all such items were expensed as of the settlement date, and previously recorded deferred cost associated with the 2005 Settlement Agreement were immediately impaired, resulting in an expense of \$269.6 million which was recorded as litigation settlement in the consolidated statements of comprehensive income. The commitment to grant shares and warrants was initially measured at fair value and was accounted for as a derivative with all subsequent changes in fair value reflected in the consolidated statements of comprehensive income. The Company recorded a loss of \$30.1 million and \$29.8 million as the change in the fair value of commitment to issue shares and warrants in 2009 and 2010 through the date of issuance of the shares and warrants on July 5, 2010, respectively.

**28. Retirement Benefit**

The Company's local Chinese employees are entitled to a retirement benefit based on their basic salary upon retirement and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Company is required to make contributions to the state-managed retirement plan based on a range of 20% to 22% of the monthly basic salary of current employees. Employees are required to make contributions equivalent to 6% to 8% of their basic salary. The contribution of such an arrangement was approximately \$16,553,764, \$12,845,223 and \$12,532,810 for the years ended December 31, 2011, 2010 and 2009, respectively. The Company's retirement benefit obligations outside the PRC are not significant.

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**29. Distribution of Profits**

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of their registered capital. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the respective companies under PRC regulations. The staff welfare and bonus reserve is determined by the Board of Directors and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law. In 2011, 2010 and 2009, the Company did not make any appropriation to non-distributable reserves. As of December 31, 2011, the accumulated non-distributable reserve was \$30 million.

In addition, due to restrictions on the distribution of share capital and additional paid-in capital from the Company's PRC subsidiaries, the PRC subsidiaries' share capital and additional paid-in capital of \$3,412 million at December 31, 2011 is considered restricted.

As a result of these PRC laws and regulations, as of December 31, 2011, reserve and capital of approximately \$3,442 million was not available for distribution to the Company by its PRC subsidiaries in the form of dividends, loans or advances.

In 2011, 2010 and 2009, the Company did not declare or pay any cash dividends on the ordinary shares.

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**ADDITIONAL INFORMATION FINANCIAL STATEMENTS SCHEDULE I**  
**SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**BALANCE SHEETS**  
(In US dollars, except share data)

	December 31,		
	2011	2010	2009
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalent	60,910,164	110,180,720	33,384,536
Restricted cash	7,500,000	7,500,000	12,502,008
Short-term investments		2,453,951	
Accounts receivable, net		440,471	291,073
Amount due from subsidiaries	184,382,596	233,334,694	367,524,590
Prepaid expense and other current assets	2,062,772	1,291,686	2,528,056
<b>Total current assets</b>	<b>254,855,532</b>	<b>355,201,522</b>	<b>416,230,263</b>
Plant and equipment, net	3,641,906	6,638,222	8,164,963
Acquired intangible assets, net	125,561,477	139,510,804	160,939,520
Deferred cost, net			
Investment in subsidiaries	2,332,053,306	2,099,436,556	1,826,666,595
Investment in equity affiliate	19,334,686	7,665,454	7,670,044
<b>TOTAL ASSETS</b>	<b>2,735,446,907</b>	<b>2,608,452,558</b>	<b>2,419,671,385</b>
<b>LIABILITIES AND EQUITY</b>			
Current Liabilities:			
Accounts payable	20,500	8,215,543	4,838,515
Accrued expenses and other current liabilities	17,150,825	27,314,886	72,893,883
Amount due to subsidiaries	206,461,640	187,698,654	77,516,511
Short-term borrowings	209,026,670	109,470,000	146,418,700
Current portion of promissory note	29,374,461	29,374,461	78,608,288
Current portion of long-term payables relating to license agreement		9,000,000	18,622,691
Commitment to issue shares and warrants Relating to litigation settlement			120,237,773
Income tax payable	37,606	1,868,371	
<b>Total current liabilities</b>	<b>462,071,702</b>	<b>372,941,915</b>	<b>519,136,361</b>
Long-term liabilities:			
Promissory notes	28,559,711	56,327,268	83,324,641
Other long term liabilities		9,646,000	20,970,000
Total long-term liabilities	28,559,711	65,973,268	104,294,641
<b>Total liabilities</b>	<b>490,631,413</b>	<b>438,915,183</b>	<b>623,431,002</b>
Equity:			
Ordinary shares, \$0.0004 par value, 50,000,000,000 shares authorized, 27,487,676,065, 27,334,063,747, and 22,375,886,604 shares issued and outstanding at December 31, 2011, 2010 and 2009, respectively	10,995,071	10,933,707	8,950,355
Additional paid-in capital	4,240,529,406	3,858,642,524	3,499,723,153
Convertible preferred shares, \$0.0004 par value, 5,000,000,000 shares authorized, 445,545,911, nil and nil shares issued and outstanding at December 31, 2011, 2010 and 2009, respectively	178,218		
Accumulated other comprehensive income (loss)	3,845,496	(1,092,291)	(386,163)
Accumulated deficit	(2,010,732,697)	(1,698,946,565)	(1,712,046,962)
<b>Total equity</b>	<b>2,244,815,494</b>	<b>2,169,537,375</b>	<b>1,796,240,383</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,735,446,907</b>	<b>2,608,452,558</b>	<b>2,419,671,385</b>





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**SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF OPERATIONS**  
(In US dollars)

	Year ended December 31,		
	2011	2010	2009
<b>Revenue</b>	303,572	14,508,954	20,943,735
Operating expenses:			
General and administrative expenses	8,613,191	29,811,340	111,308,433
Amortization of acquired intangibles assets	23,655,994	21,428,716	32,965,281
Impairment loss of long-lived assets			5,630,237
Litigation settlement			55,182,838
<b>Total operating expenses</b>	<b>32,269,185</b>	<b>51,240,056</b>	<b>205,086,789</b>
<b>Loss from operations</b>	<b>(31,965,613)</b>	<b>(36,731,102)</b>	<b>(184,143,054)</b>
Other income (expense):			
Interest income	449,128	358,830	399,655
Interest expense	(4,627,596)	(4,714,813)	(7,314,896)
Change in the fair value of commitment to issue shares and warrants		(29,815,452)	(30,100,793)
Other income (expense), net	934,689	(5,493,222)	7,563,790
<b>Total other expense, net</b>	<b>(3,243,779)</b>	<b>(39,664,657)</b>	<b>(29,452,244)</b>
<b>Net loss before income tax</b>	<b>(35,209,392)</b>	<b>(76,395,759)</b>	<b>(213,595,298)</b>
Income tax expense	(214,509)	(4,631,225)	(9,163,471)
Gain (loss) from equity investment	4,478,546	284,830	(1,782,142)
Profit (loss) from investment in subsidiaries	(232,973,977)	93,842,551	(738,996,294)
Gain on disposition of a subsidiary	17,103,295		
<b>Net income (loss)</b>	<b>(246,816,037)</b>	<b>13,100,397</b>	<b>(963,537,205)</b>
Deemed dividend on convertible preferred shares	(64,970,095)		
<b>Net income (loss)</b>	<b>(311,786,132)</b>	<b>13,100,397</b>	<b>(963,537,205)</b>

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**SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF CASH FLOWS**  
(In US dollars)

	Year ended December 31,		
	2011	2010	2009
<b>Operating activities</b>			
Net income (loss)	(246,816,037)	13,100,397	(963,537,205)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>			
Loss on disposal of plant and equipment	412,231		
Loss (profit) from investment in subsidiaries	232,973,977	(93,842,551)	738,996,294
Loss (gain) from equity investment	(4,478,546)	(284,830)	1,782,142
Gain on disposition of a subsidiary	(17,103,295)		
Depreciation and amortization	24,955,467	23,474,623	34,357,584
Impairment loss of long-lived assets			5,630,237
Share-based compensation	5,333,860	8,794,633	10,145,101
Non-cash interest expense on promissory note and long-term payable relating to license agreements	2,232,443	3,840,668	2,557,329
Litigation settlement (noncash portion)			9,211,849
Change in the fair value of commitment to issue shares and warrants		29,815,452	30,100,793
Forgiveness of payables	(17,565,487)		
Allowance for doubtful accounts	(2,560)	630	30,911,015
Other non-cash expense		516,910	
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable, net	443,031	(150,028)	(32,671)
Amount due from subsidiaries	51,874,629	134,189,896	(194,240,814)
Prepaid expense and other current assets	(771,087)	1,236,370	(2,669,420)
Accounts payable	(7,887,375)	6,636,844	(232,240)
Amount due to subsidiaries	11,656,136	110,182,143	16,004,466
Accrued expenses and other current liabilities	1,224,075	(40,072,877)	(11,978,670)
Other long term liabilities	(9,646,000)	(11,324,000)	20,970,000
Change in liabilities relating to litigation settlement			212,167,381
Income tax payable	(1,830,765)	1,868,371	(474,983)
<b>Net cash provided by operating activities</b>	<b>25,004,697</b>	<b>187,982,651</b>	<b>(60,331,812)</b>
<b>Investing activities:</b>			
Purchase of plant and equipment	(1,919,922)	(3,778,983)	(19,507,536)
Proceeds from sell of plant and equipment and other Asset			64,899,316
Purchases of acquired intangible assets	(5,405,800)	(14,716,700)	(41,728,828)
Purchase of short-term investments	(19,007,734)	(2,453,951)	
Proceeds from sell of short-term investments	21,461,685		
Purchase of equity investment	(1,000,000)		
Investment in subsidiaries	(451,086,556)	(179,000,125)	(11,980,551)
Change in restricted cash		5,002,008	(12,502,008)
<b>Net cash used in investing activities</b>	<b>(456,958,327)</b>	<b>(194,947,751)</b>	<b>(20,819,607)</b>

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	Year ended December 31,		
	2011	2010	2009
<b>Financing activities:</b>			
Proceeds from short-term borrowing	227,209,647	104,270,000	80,464,986
Repayment of short-term debt	(127,652,977)	(141,218,700)	(115,304,059)
Repayment of promissory notes	(30,000,000)	(80,000,000)	(15,000,000)
Proceeds from exercise of employee stock options	3,525,007	2,217,678	215,026
Proceeds from issuance of ordinary shares		199,122,212	
Proceeds from issuance of preferred shares	308,297,502		
<b>Net cash provided by (used in) financing activities</b>	<b>381,379,179</b>	<b>84,391,190</b>	(49,624,047)
Effect of exchange rate changes	1,303,895	(629,906)	52,960
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(49,270,556)</b>	<b>76,796,184</b>	(130,722,506)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>110,180,720</b>	<b>33,384,536</b>	<b>164,107,042</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>60,910,164</b>	<b>110,180,720</b>	<b>33,384,536</b>
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCIAL ACTIVITIES</b>			
Accounts payable for plant and equipment	(20,500)	(328,168)	(1,587,984)

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## Organization and Principal Activities

As of December 31, 2011, the Company operates primarily through the following subsidiaries:

<b>Name of company</b>	<b>Place and date of incorporation/ establishment</b>	<b>Attributable equity interest held</b>	<b>Principal activity</b>
Better Way Enterprises Limited ( Better Way )	Samoa April 5, 2000	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation ( SMIS )*#	People s Republic of China (the PRC ) December 21, 2000	100%	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America June 22, 2001	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation ( SMIB )*#	PRC July 25, 2002	100%	Manufacturing and trading of semiconductor products
SMIC Japan Corporation#	Japan October 8, 2002	100%	Provision of marketing related activities
SMIC Europe S.R.L	Italy July 3, 2003	100%	Provision of marketing related activities
SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation)*	PRC September 30, 2003	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Tianjin) Corporation ( SMIT )*#	PRC November 3, 2003	100%	Manufacturing and trading of semiconductor products
SMIC Energy Technology (Shanghai) Corporation ( Energy Science )*#	PRC September 9, 2005	100%	Manufacturing and trading of solar cell related semiconductor products

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<b>Name of company</b>	<b>Place and date of incorporation/ establishment</b>	<b>Attributable equity interest held</b>	<b>Principal activity</b>
SMIC Development (Chengdu) Corporation*#	PRC December 29, 2005	100%	Construction, operation, and management of SMIC's living quarters, schools, and supermarket
Magnificent Tower Limited	British Virgin Islands January 5, 2006	100%	Investment holding
Semiconductor Manufacturing International (BVI) Corporation ( SMIC (BVI) )	British Virgin Islands April 26, 2007	100%	Provision of marketing related activities
Admiral Investment Holdings Limited	British Virgin Islands October 10, 2007	100%	Investment holding
SMIC Shenzhen (HK) Company Limited	Hong Kong January 29, 2008	100%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation*	PRC March 20, 2008	100%	Manufacturing and trading of semiconductor products
Siltech Manufacturing (Shanghai) Corporation Limited*	PRC March 3, 2009	100%	Manufacturing and trading of semiconductor products

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**Annex A**

GLOSSARY OF TECHNICAL TERMS

ASIC	Application Specific Integrated Circuit. A proprietary integrated circuit designed and manufactured to meet a customer's specific functional requirements.
Cell	A primary unit that normally repeats many times in an integrated circuit. Cells represent individual functional design units or circuits that may be reused as blocks in designs. For example, a memory cell represents a storage unit in a memory array.
CIS	CMOS Image Sensor. CIS can be used in applications such as still and video cameras and embedded cameras in mobile telephones. It is a fast growing imaging sensor technology. The fabrication of CIS is fully compatible with the mainstream CMOS process, which enables system-on-chip capability, low power consumption and low cost of fabrication.
Clean room	Area within a fab in which the wafer fabrication takes place. The classification of a clean room relates to the maximum number of particles of contaminants per cubic foot within that room. For example, a class 100 clean room contains less than 100 particles of contaminants per cubic foot.
CMOS	Complementary Metal Oxide Silicon. A fabrication process that incorporates n-channel and p-channel CMOS transistors within the same silicon substrate. Currently, this is the most commonly used integrated circuit fabrication process technology and is one of the latest fabrication techniques to use metal oxide semiconductor transistors.
CVD	Chemical Vapor Deposition. A process in which gaseous chemicals react on a heated wafer surface to form solid film.
Die	One individual chip cut from a wafer before being packaged.
Dielectric material	A type of non-conducting material used for isolation purposes between conductors, such as metals.
DRAM	Dynamic Random Access Memory. A device that temporarily stores digital information but requires regular refreshing to ensure data is not lost.
DSP	Digital Signal Processor. A type of integrated circuit that processes and manipulates digital information after it has been converted from an analog source.
EEPROM	Electrically Erasable Programmable Read-Only Memory. An integrated circuit that can be electrically erased and electrically programmed with user-defined information.
EPROM	Erasable Programmable Read-Only Memory. A form of PROM that is programmable electrically yet erasable using ultraviolet light.
FCRAM	Fast Cycle Random Access Memory. A proprietary form of RAM developed by Fujitsu Limited.
Fill factor	The percentage of LCOS metal surface area used for light reflection as compared to the total surface area. The higher the fill factor, the more light will be reflected from a given surface area.

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Flash memory	A type of non-volatile memory where data is erased in blocks. The name flash is derived from the rapid block erase operation. Flash memory requires only one transistor per memory cell versus two transistors per memory cell for EEPROMs, making flash memory less expensive to produce. Flash memory is the most popular form of non-volatile semiconductor memory currently available.
Gold Bumping	The fabrication process of forming gold bump termination electrodes on a finished wafer.
High voltage semiconductor	High voltage semiconductors are semiconductor devices that can drive relatively high voltage potential to systems that require higher voltage of between five volts to several hundred volts.
IDM	Integrated Device Manufacturer.
Integrated circuit	An electronic circuit where all the elements of the circuit are integrated together on a single semiconductor substrate.
Interconnect	Conductive materials such as aluminum, doped polysilicon or copper that form the wiring circuitry to carry electrical signals to different parts of the chip.
I/O	Inputs/Outputs.
LCOS	Liquid Crystal On Silicon. A type of micro-display technology.
Logic device	A device that contains digital integrated circuits that perform a function rather than store information.
Low leakage	Characteristic of a transistor that has a low amount of current leakage. Low leakage allows for power-saving. Low leakage semiconductors are primarily used in applications such as cellular telephones, calculators and automotive applications.
Mask	A glass plate with a pattern of transparent and opaque areas used to create patterns on wafers. Mask is commonly used to refer to a plate that has a pattern large enough to pattern a whole wafer at one time, as compared to a reticle, where a glass plate can contain the pattern for one or more dies but is not large enough to transfer a wafer-sized pattern all at once.
Mask ROM	A type of non-volatile memory that is programmed during fabrication (mask-defined) and the data can be read but not erased.
Memory	A device that can store information for later retrieval.
Micro-display	A small display that is of such high resolution that it is only practically viewed or projected with lenses or mirrors. A micro-display is typically magnified by optics to enlarge the image viewed by the user. For example, a miniature display smaller than one inch in size may be magnified to provide a 12-inch to 60-inch viewing area.
Micron	A term for micrometer, which is a unit of linear measure that equals one one-millionth (1/1,000,000) of a meter. There are 25.4 microns in one one-thousandth of an inch.

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Mixed-signal	The combination of analog and digital circuitry in a single semiconductor.
MOS	Metal Oxide Semiconductor. A type of semiconductor device fabricated with a conducting layer and a semiconducting layer separated by an insulating layer.
NAND Flash	A type of flash memory commonly used for mass storage applications such as MP3 players and digital cameras.
Nanometer	A term for micrometer, which is a unit of linear measure that equals one thousandth (1/1,000) of a micron.
Non-volatile memory	Memory products that maintain their content when the power supply is switched off.
OTP	One-time programmable memory used for program and data storage, usually used in applications that require only a one-time data change.
PROM	Programmable Read-Only Memory. Memory that can be reprogrammed once after manufacturing.
RAM	Random Access Memory. Memory devices where any memory cell in a large memory array may be accessed in any order at random.
distribution Layer Manufacturing	The manufacturing process of fabricating additional dielectric and copper interconnect layers to redistribute the pads to new locations on a finished wafer.
Reticle	See Mask above.
RF	Radio Frequency. Radio frequency semiconductors are primarily used in communications devices such as cell phones.
ROM	Read-Only Memory. See Mask ROM above.
Scanner	An aligner that scans light through a slit across a mask to produce an image on a wafer.
Semiconductor	An element with an electrical resistivity within the range of an insulator and a conductor. A semiconductor can conduct or block the flow of electric current depending on the direction and magnitude of applied electrical biases.
Solder bumping	The fabrication processes of forming solder bump termination electrodes, which are elevated metal structures, or lead free bump termination electrodes.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.



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Stepper	A machine used in the photolithography process in making wafers. With a stepper, a small portion of the wafer is aligned with the mask upon which the circuitry design is laid out and is then exposed to strong light. The machine then steps to the next area, repeating the process until the entire wafer has been done. Exposing only a small area of a wafer at a time allows the light to be focused more strongly, which gives better resolution of the circuitry design.
System-on-chip	A chip that incorporates functions usually performed by several different devices and therefore generally offers better performance and lower cost.
Systems companies	Companies that design and manufacture complete end market products or systems for sale to the market.
Transistor	An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
Volatile memory	Memory products that lose their content when the power supply is switched off.
Wafer	A thin, round, flat piece of silicon that is the base of most integrated circuits.

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