

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 20-F/A

December 09, 2016

Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F/A**

(Amendment No. 1)

..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE  
ACT OF 1934

**OR**

..ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup> 1934

For the fiscal year ended December 31, 2015

**OR**

..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

**OR**

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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. Gao Yonggang, Chief Financial Officer  
Telephone: (8621) 3861-0000  
**Facsimile: (8621) 3895-3568**  
**18 Zhangjiang Road, Pudong New Area, Shanghai, China 201203**  
(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. **None**

Table of Contents

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

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, 2015, there were 42,073,748,961 ordinary shares, par value US\$0.0004 per share, outstanding, of which 980,747,650 ordinary shares were held in the form of 19,614,953 American Depositary Shares ("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

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  
by the International Accounting Standards Board  Other   
x

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.

Table of Contents

**EXPLANATORY NOTE**

We are filing this Amendment No. 1 on Form 20-F/A (this “Amendment No. 1”) to our annual report on Form 20-F for the fiscal year ended December 31, 2015, which was originally filed with the Securities and Exchange Commission on April 25, 2016 (the “Original Form 20-F”), to provide the revised Report of Independent Registered Public Accounting Firm that clearly indicates it covers our consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015 and 2014, and to opine on the financial statement schedules as of and for the years ended December 31, 2015, 2014 and 2013. Additionally, this Amendment No.1 updates the Original Form 20-F to clearly identify the name of the reporting entity for each of the consolidated financial statements and correct a minor typographical error.

This Amendment No. 1 consists of a cover page, this explanatory note, the audited annual financial statements for the year ended December 31, 2015 accompanied by the revised Report of Independent Registered Public Accounting Firm, an exhibit index and the required certifications of the principal executive officer and principal financial officer.

Other than as set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any other item of the Original Form 20-F. As a result, this Amendment No. 1 does not reflect events that have occurred after the April 25, 2016 filing date of the Original Form 20-F.

Table of Contents

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 Form 20-F/A on its behalf.

SEMICONDUCTOR  
MANUFACTURING  
INTERNATIONAL  
CORPORATION

Date: December 9, 2016 By: /s/ Dr. Gao Yonggang

Name: Dr. Gao Yonggang  
Title: Chief Financial Officer

Table of Contents

**EXHIBIT INDEX**

Exhibit 12.1	Certification of Chief Executive Officer required by Rule 13a-14(a) under the Exchange Act
Exhibit 12.2	Certification of Chief Financial Officer required by Rule 13a-14(a) under the Exchange Act
Exhibit 13.1	Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) under the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code

Table of Contents

INDEX OF FINANCIAL STATEMENTS

Contents	Page(s)
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2015, 2014 and 2013</u>	F-4
<u>Consolidated statements of financial position as of December 31, 2015, 2014 and 2013</u>	F-5
<u>Consolidated statements of changes in equity for the years ended December 31, 2015, 2014 and 2013</u>	F-7
<u>Consolidated statements of cash flows for the years ended December 31, 2015, 2014 and 2013</u>	F-8
<u>Notes to the consolidated financial statements</u>	F-10
<u>Additional information — Financial statement Schedule I</u>	F-96

F-1



Table of Contents

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

Semiconductor Manufacturing International Corporation

In our opinion, the accompanying consolidated statement of financial position as at December 31, 2015 and 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the years then ended present fairly, in all material respects, the financial position of Semiconductor Manufacturing International Corporation and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. In addition, in our opinion, the financial statement schedule listed in the accompanying index as of and for the years ended December 31, 2015 and December 31, 2014 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, 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 opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

April 25, 2016

F-2

Table of Contents

**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 statements of financial position of Semiconductor Manufacturing International Corporation and subsidiaries as of December 31, 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year ended December 31, 2013. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and 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, 2013, and the results of their operations and their cash flows for the year ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board. Also, in our opinion, the financial statement schedule as of and for the year ended December 31, 2013, 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), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

**/s/ Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 12, 2014

F-3

Table of Contents

## SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2015

(In USD'000, except share and per share data)

	Notes	Year ended 12/31/15 USD'000	Year ended 12/31/14 USD'000	Year ended 12/31/13 USD'000
Revenue	5	2,236,415	1,969,966	2,068,964
Cost of sales		(1,553,795 )	(1,486,514 )	(1,630,528 )
Gross profit		682,620	483,452	438,436
Research and development expenses, net		(237,157 )	(189,733 )	(145,314 )
Sales and marketing expenses		(41,876 )	(38,252 )	(35,738 )
General and administration expenses		(213,177 )	(139,428 )	(138,167 )
Other operating income (expense), net	7	31,594	14,206	67,870
Profit from operations		222,004	130,245	187,087
Interest income		5,199	14,230	5,888
Finance costs	8	(12,218 )	(20,715 )	(34,392 )
Foreign exchange gains or losses		(26,349 )	(5,993 )	13,726
Other gains or losses, net	9	55,611	18,210	4,010
Share of (loss) profit of investment using equity method		(13,383 )	2,073	2,278
Profit before tax		230,864	138,050	178,597
Income tax expense	10	(8,541 )	(11,789 )	(4,130 )
Profit for the year	11	222,323	126,261	174,467
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		(8,185 )	(324 )	731
Change in value of available-for-sale financial assets		452	—	—
Others		130	—	—
Total comprehensive income for the year		214,720	125,937	175,198
Profit (loss) for the year attributable to: Owners of the Company		253,411	152,969	173,177
Non-controlling interests		(31,088 )	(26,708 )	1,290
		222,323	126,261	174,467
Total comprehensive income (loss) for the year attributable to:				
Owners of the Company		245,803	152,645	173,908
Non-controlling interests		(31,083 )	(26,708 )	1,290
		214,720	125,937	175,198
Earnings per share				

Basic	14	0.01	0.00	0.01
Diluted	14	0.01	0.00	0.01

F-4

Table of Contents

## SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2015

(In USD'000, except share and per share data)

	Notes	12/31/15 USD'000	12/31/14 USD'000	12/31/13 USD'000
Assets				
Non-current assets				
Property, plant and equipment	17	3,903,818	2,995,086	2,528,834
Land use right		91,030	135,331	136,725
Intangible assets	18	224,279	207,822	215,265
Investments in associates	20	181,331	57,631	29,200
Investments in joint ventures	21	17,646	—	—
Deferred tax assets	10	44,942	44,383	43,890
Derivative financial instrument	22	30,173	—	—
Other assets	23	32,078	30,867	6,237
Total non-current assets		4,525,297	3,471,120	2,960,151
Current assets				
Inventories	25	387,326	316,041	286,251
Prepayment and prepaid operating expenses		40,184	40,628	43,945
Trade and other receivables	26	499,846	456,388	379,361
Other financial assets	24	282,880	644,071	240,311
Restricted cash	27	302,416	238,051	147,625
Cash and cash equivalent		1,005,201	603,036	462,483
		2,517,853	2,298,215	1,559,976
Assets classified as held-for-sale	16	72,197	44	3,265
Total current assets		2,590,050	2,298,259	1,563,241
Total assets		7,115,347	5,769,379	4,523,392

Table of Contents

## SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2015

(In USD'000, except share and per share data)

	Notes	12/31/15 USD'000	12/31/14 USD'000	12/31/13 USD'000
<b>Equity and liabilities</b>				
<i>Capital and reserves</i>				
Ordinary shares \$0.0004 par value, 50,000,000,000 shares authorized, 42,073,748,961, 35,856,096,167 and 32,112,307,101 shares issued and outstanding at December 31, 2015, 2014 and 2013, respectively	28	<b>16,830</b>	14,342	12,845
Share premium	28	<b>4,903,861</b>	4,376,630	4,089,846
Reserves	29	<b>96,644</b>	98,333	74,940
Accumulated deficit	30	<b>(1,287,479)</b>	(1,540,890)	(1,693,859)
Equity attributable to owners of the Company		<b>3,729,856</b>	2,948,415	2,483,772
Non-controlling interests		<b>460,399</b>	359,307	109,410
Total equity		<b>4,190,255</b>	3,307,722	2,593,182
<i>Non-current liabilities</i>				
Borrowings	31	<b>416,036</b>	256,200	600,975
Convertible bonds	32	—	379,394	180,563
Bonds payable	33	<b>493,207</b>	491,579	—
Deferred tax liabilities	10	<b>7,293</b>	69	167
Deferred government funding		<b>175,604</b>	184,174	209,968
Other liabilities	34	<b>65,761</b>	—	—
Total non-current liabilities		<b>1,157,901</b>	1,311,416	991,673
<i>Current liabilities</i>				
Trade and other payables	35	<b>1,047,766</b>	794,361	393,890
Borrowings	31	<b>113,068</b>	162,054	390,547
Convertible bonds	32	<b>392,632</b>	—	—
Deferred government funding		<b>79,459</b>	62,609	26,349
Accrued liabilities	36	<b>132,452</b>	131,114	127,593
Other financial liabilities	37	<b>1,459</b>	—	—
Current tax liabilities	10	<b>355</b>	103	158
Total current liabilities		<b>1,767,191</b>	1,150,241	938,537
Total liabilities		<b>2,925,092</b>	2,461,657	1,930,210
Total equity and liabilities		<b>7,115,347</b>	5,769,379	4,523,392



F-6

Table of Contents

## SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

(In USD'000)

	Ordinary shares USD'000 (Note 28)	Share premium USD'000 (Note 28)	Equity- settle employee benefits reserve USD'000 (Note 29)	Foreign currency translation reserve USD'000 (Note 29)	Change in value of available for-sale financial assets USD'000 (Note 29)	Convertible bonds equity USD'000 (Note 29)	Others USD'000 (Note 30)	Accumulated deficit USD'000 (Note 30)	Attributable to owner of the Company USD'000	Non- controlling interest USD'000	Total Equity USD'000
Balance at December 31, 2012	12,800	4,083,588	42,232	3,916	-	-	-	(1,867,036)	2,275,500	952	2,276,404
Profit for the year	-	-	-	-	-	-	-	173,177	173,177	1,290	174,467
Other comprehensive income for the year	-	-	-	731	-	-	-	-	731	-	731
Total comprehensive income for the year	-	-	-	731	-	-	-	173,177	173,908	1,290	175,198
Exercise of stock options	45	6,641	(3,457)	-	-	-	-	-	3,229	-	3,229
Share-based compensation	-	-	16,402	-	-	-	-	-	16,402	-	16,402
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	108,000	108,000
Purchased additional	-	(383)	-	-	-	-	-	-	(383)	(178)	(561)

Edgar Filing: SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP - Form 20-F/A

shares of subsidiaries											
Deconsolidation of subsidiaries due to loss of control	-	-	-	(94 )	-	-	-	-	(94 )	(654 )	(748 )
Recognition of equity component of convertible bonds	-	-	-	-	-	15,210	-	-	15,210	-	15,210
Subtotal		6,258	12,945	(94 )	-	15,210	-	-	34,364	107,168	141,522
Balance at December 31, 2013	12,845	4,089,846	55,177	4,553	-	15,210	-	(1,693,859)	2,483,772	109,410	2,593,382
Profit for the year	-	-	-	-	-	-	-	152,969	152,969	(26,708 )	126,261
Other comprehensive income for the year	-	-	-	(324 )	-	-	-	-	(324 )	-	(324 )
Total comprehensive income for the year	-	-	-	(324 )	-	-	-	152,969	152,645	(26,708 )	125,937
Issuance of ordinary shares	1,411	268,362	-	-	-	-	-	-	269,773	-	269,773
Exercise of stock options	86	18,422	(9,025 )	-	-	-	-	-	9,483	-	9,483
Share-based compensation	-	-	18,388	-	-	-	-	-	18,388	-	18,388
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	276,605	276,605
Recognition of equity component of convertible bonds	-	-	-	-	-	14,354	-	-	14,354	-	14,354
Subtotal	1,497	286,784	9,363	-	-	14,354	-	-	311,998	276,605	588,602
Balance at December 31, 2014	14,342	4,376,630	64,540	4,229	-	29,564	-	(1,540,890)	2,948,415	359,307	3,307,986
Profit for the year	-	-	-	-	-	-	-	253,411	253,411	(31,088 )	222,323
Other comprehensive income for the year	-	-	-	(8,185)	447	-	130	-	(7,608 )	5	(7,603)

Edgar Filing: SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP - Form 20-F/A

Total comprehensive income for the year	-	-	-	(8,185)	447	-	130	253,411	245,803	(31,083)	214,7
Issuance of ordinary shares	2,395	506,412	-	-	-	-	-	-	508,807	-	508,8
Exercise of stock options	93	20,819	(12,169)	-	-	-	-	-	8,743	-	8,743
Share-based compensation	-	-	18,088	-	-	-	-	-	18,088	241	18,32
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	132,082	132,0
Deconsolidation of subsidiaries due to loss of control	-	-	-	-	-	-	-	-	-	(148 )	(148
Subtotal	2,488	527,231	5,919	-	-	-	-	-	535,638	132,175	667,8
Balance at December 31, 2015	16,830	4,903,861	70,459	(3,956)	447	29,564	130	(1,287,479)	3,729,856	460,399	4,190

F-7

Table of Contents

## SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

(In USD'000)

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Profit for the year	222,323	126,261	174,467
Adjustments for:			
Income tax expense	8,541	11,789	4,130
Amortization of intangible assets and land use right	50,541	43,102	44,987
Depreciation of property, plant and equipment	473,008	506,366	501,923
Impairment loss of available-for-sale equipment	—	—	279
Expense recognized in respect of equity-settled share-based payments	18,329	18,388	16,402
Finance costs	12,218	20,715	34,392
Gain on disposal of available-for-sale investment	(387 )	—	—
Gain on disposal of property, plant and equipment	(28,949 )	(13,904 )	(33,996 )
Gain on disposal of subsidiaries	—	—	(28,304 )
Loss (gain) on deconsolidation of subsidiaries	57	208	(5,419 )
Interest income recognized in profit or loss	(5,199 )	(14,230 )	(5,888 )
Bad debt allowance on trade receivables	528	1,616	617
Impairment (reversal) loss recognized on inventories	(13,338 )	29,577	(141 )
Net (gain) loss arising on financial assets at fair value through profit or loss	(52,834 )	(8,649 )	76
Net loss (gain) arising on financial liabilities at fair value through profit or loss	1,459	—	(25 )
Net loss on foreign exchange	15,608	—	—
Reversal of bad debt allowance on trade receivables	(541 )	(59 )	(1,213 )
Share of loss (profit) of investment using equity method	13,383	(2,073 )	(2,278 )
Other non-cash expense	—	(769 )	(413 )
	714,747	718,338	699,596
Operating cash flows before movements in working capital:			
Increase in trade and other receivables	(39,902 )	(89,232 )	(33,375 )
(Increase) decrease in inventories	(57,947 )	(59,367 )	8,595
Increase in restricted cash relating to operating activities	(16,675 )	(41,637 )	(5,944 )
(Increase) decrease in prepaid operating expenses	(856 )	1,129	2,129
(Increase) decrease in other assets	(6,476 )	(1,731 )	619
Increase (decrease) in trade and other payables	39,096	79,340	(24,311 )
Increase in deferred government funding	8,280	8,268	85,972
Increase (decrease) in accrued liabilities and other liabilities	49,928	(3,768 )	42,264

Edgar Filing: SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP - Form 20-F/A

Cash generated from operations	690,195	611,340	775,545
Interest paid	(26,174 )	(16,087 )	(43,239 )
Interest received	4,894	14,239	6,770
Income taxes received (paid)	282	(1,390 )	(1,060 )
Net cash generated from operating activities	669,197	608,102	738,016

F-8

Table of Contents

(In USD'000)

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Investing activities			
Payments to acquire financial assets	(2,412,259 )	(1,997,624 )	(258,102 )
Proceeds on sale of financial assets	2,782,181	1,602,513	39,245
Payments for property, plant and equipment	(1,230,812 )	(653,134 )	(650,160 )
Net proceeds after netting off land appreciation tax from disposal of property, plant and equipment and assets classified as held for sale	87,890	52,911	61,099
Proceeds from disposal of available-for-sale investment	1,204	—	—
Payments for intangible assets	(29,384 )	(49,285 )	(45,425 )
Payments for land use rights	(9,265 )	(1,123 )	(76,032 )
Payments to acquire long-term investment	(160,777 )	(49,034 )	(562 )
Change in restricted cash relating to investing activities	181,963	(48,411 )	71,933
Net cash inflow from disposition of disposal subsidiaries	—	—	57,743
Net cash outflow from deconsolidation of subsidiaries	(297 )	(936 )	(6,799 )
Others	—	—	(407 )
Net cash used in investing activities	(789,556 )	(1,144,123 )	(807,467 )
Financing activities			
Proceeds from borrowings	341,176	376,554	905,127
Repayment of borrowings	(453,730 )	(952,383 )	(1,008,698 )
Proceeds from issuance of new shares	508,807	270,180	—
Proceeds from issuance of convertible bonds	—	203,763	195,800
Proceeds from issuance of corporate bonds	—	492,315	—
Proceeds from exercise of employee stock options	8,743	9,483	3,229
Repayment of promissory notes	—	—	(30,000 )
Proceeds from non-controlling interest-capital contribution	132,082	276,771	108,000
Net cash from financing activities	537,078	676,683	173,458
Net increase in cash and cash equivalent	416,719	140,662	104,007
Cash and cash equivalent at the beginning of the year	603,036	462,483	358,490
Effects of exchange rate changes on the balance of cash held in foreign currencies	(14,554 )	(109 )	(14 )
Cash and cash equivalent at the end of the year	1,005,201	603,036	462,483

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

1. General information

Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”) was established as an exempt company incorporated under the laws of the Cayman Islands on April 3, 2000. The address of the principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203. The registered address is at PO Box 309, Uglan House, Grand Cayman, KY1-1104 Cayman Islands. Semiconductor Manufacturing International Corporation is an investment holding company.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are mainly engaged in the computer-aided design, manufacturing, testing, packaging, and trading of integrated circuits and other semiconductor services, as well as designing and manufacturing semiconductor masks. The principal subsidiaries and their activities are set out in Note 19.

These financial statements are presented in US dollars, unless otherwise stated.

2. Application of new and revised International Financial Reporting Standards (“IFRSs”)

(a) New and revised IFRSs that are mandatorily effective for the year ended December 31, 2015

In the current year, the Group has adopted the following amendments to IFRSs that are mandatorily effective for an accounting period that begins on or after January 1, 2015. Such adoption did not have a material effect on the Group’s consolidated financial statements.



Table of Contents2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (*continued*)(a) New and revised IFRSs that are mandatorily effective for the year ended December 31, 2015 (*continued*)  
***Annual Improvements to IFRSs 2010–2012 Cycle***

The amendments to IAS 24 clarify that the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity’s employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. The amendments are effective for annual periods beginning on or after July 1, 2014.

***Annual Improvements to IFRSs 2011–2013 Cycle***

The amendments to IFRS 3 clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11 in the financial statements of the joint arrangement. The amendments are prospectively effective for annual periods beginning on or after July 1, 2014 with early adoption permitted.

## (b) New or revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

<b>New or revised IFRSs</b>	<b>Effective date</b>
IFRS 9 — Financial Instruments	On or after July 1, 2018
IFRS 15 — Revenue from contracts with customers	On or after January 1, 2017
IFRS 16 — Leases	On or after January 1, 2019
Amendments to IFRS 11 — Accounting for acquisitions of interests in joint operations	On or after January 1, 2016
Amendments to IFRS 10, 12 and IAS 28 — Investment entities: applying the consolidation exception	On or after January 1, 2016
Amendments to IAS 1 — Disclosure initiative	On or after January 1, 2016
Amendments to IAS 16 and IAS 38 — Clarification of acceptable methods of depreciation and amortization	On or after January 1, 2016
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its associate or joint venture	On or after January 1, 2016
Amendments to IAS 27 — Equity method in separate financial statements	On or after January 1, 2016
Amendments to IFRSs — Annual Improvements to IFRSs 2012–2014 Cycle	On or after January 1, 2016

The Group is in the process of evaluating the impact of the new standards or amendments on its consolidated financial statements.

F-11

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (*continued*)

(c) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements. Major changes include: (i) Parent company balance sheet is no longer required to be presented as a primary statement. It is presented in the notes to the financial statements; (ii) More extensive disclosures are required for the benefits and interests of directors.

3. Significant accounting policies

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable IFRS issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

**Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value as explained in the accounting policies set out below. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in

these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

• Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

F-12

Table of Contents

3. Significant accounting policies (*continued*)

**Basis of preparation** (*continued*)

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities (including structured entities) controlled by the Group. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

**Basis of consolidation** (*continued*)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.



Table of Contents

3. Significant accounting policies (*continued*)

**Investments in associates** (*continued*)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. The difference between the recoverable amount and the carrying amount is recognized as impairment loss in the profit or loss. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

F-15

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

Investments in joint ventures

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

F-16

Table of Contents

3. Significant accounting policies (*continued*)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

*Sale of goods*

The Group manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Group also sells certain semiconductor standard products to customers.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Customers have the right of return within one year pursuant to warranty provisions. The Group 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 Group 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.

#### Gain on sale of real estate property

Gain from sales of real estate property is recognized when all the following conditions are satisfied: 1) sales contract executed, 2) full payment collected, or down payment collected and non-cancellable mortgage contract is executed with borrowing institution, 3) and the respective properties have been delivered to the buyers.

#### Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

F-17

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollar ("US dollar"), which is the Company's functional and the Group's presentation currency.

In preparing the financial statements of each individual group entity transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into United States dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

F-18



Table of Contents

3. Significant accounting policies (*continued*)

Government funding

Government funding is not recognized in profit or loss until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the funding will be received.

Government funding relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government funding relating to property, plant and equipment, whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government funding that is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related cost are recognized in profit or loss in the period in which they become receivable.

Retirement benefits

The Group'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 Group is required to make contributions to the state-managed retirement plan at a main rate equal to 20.0% to 21.0% (the standard in Shenzhen site ranges from 13% to 14% according to Shenzhen government regulation) of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid. The costs are recognized in profit or loss when incurred.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 38.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. When share options are exercised, the amount previously recognized in the reserve will be transferred to share premium.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

F-19

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

***Deferred tax***

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

F-20

Table of Contents

3. Significant accounting policies (*continued*)

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their costs, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long- term construction projects if the recognition criteria are met.

The Group constructs certain of its plant and equipment. In addition to costs under the construction contracts, external costs that are directly related to the construction and acquisition of such plant and equipment are capitalized. Depreciation is recorded at the time assets are ready for their intended use. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

An item at property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation.

Buildings                      25 years

Plant and equipment 5–10 years

Office equipment 3–5 years

Land use right

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

F-21

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

Intangible assets

Acquired intangible assets which consists primarily of technology, licenses and patents, are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization is computed using the straight-line method over the expected useful lives of the assets of three to ten years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed

the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income.

#### Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subjected to an insignificant risk of changes in value, with original maturities of three months or less.

#### Restricted cash

Restricted cash consists of bank deposits pledged against letters of credit and short-term credit facilities and unused government funding for certain research and development projects. Changes of restricted cash pledged against letter of credit and short-term credit facilities and changes of restricted cash paid for property, plant and equipment are presented as investing activity in consolidated statements of cash flows. Changes of restricted cash of unused government funding for expensed research and development activities are presented as operating activity in consolidated statements of cash flows.



Table of Contents

3. Significant accounting policies (*continued*)

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

## Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (“FVTPL”) and ‘available-for-sale’ (“AFS”) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

F-23

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

**Financial assets** (*continued*)

***Effective interest method***

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

***Financial assets at FVTPL***

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL (including foreign currency forward contracts, cross currency swap contracts, put option and financial products sold by banks) are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

***Available-for-sale financial assets (AFS financial assets)***

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS financial assets are initially recognized at fair value plus transaction costs and subsequently carried at fair value, with changes in fair value recognized in other comprehensive income.

Table of Contents

3. Significant accounting policies (*continued*)

**Financial assets** (*continued*)

***Available-for-sale financial assets (AFS financial assets)*** (*continued*)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as “other gains and losses”.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of “other income”.

Dividends on AFS equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, and cash and bank balances and restricted cash are measured at amortized cost using the effective interest method, less any impairment loss.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

F-25

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

**Financial assets** (*continued*)

***Impairment of financial assets*** (*continued*)

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For assets classified as available for sale, it is assessed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.



Table of Contents

3. Significant accounting policies (*continued*)

**Financial assets** (*continued*)

***Derecognition of financial assets***

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities and equity instruments

***Classification as debt or equity***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

***Convertible Bonds***

The component parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

F-27

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. Significant accounting policies (*continued*)

Financial liabilities and equity instruments (*continued*)

***Convertible Bonds*** (*continued*)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

The Group assesses if the embedded derivatives in respect of the early redemption features are deemed to be clearly and closely related to the host debt contract. Embedded derivatives need not be separated if they are regarded as closely related to its host contract. If they are not, they would be separately accounted for.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

***Financial liabilities***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL (including cross currency swap contracts) when the financial liability is held for trading.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 39.

*Other financial liabilities*

Other financial liabilities (including borrowings, trade and other payables, promissory notes, long-term financial liabilities and bonds payable) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or (where appropriate) shorter period, to the net carrying amount on initial recognition.

Table of Contents

3. Significant accounting policies (*continued*)

Financial liabilities and equity instruments (*continued*)

***Financial liabilities*** (*continued*)

***Derecognition of financial liabilities***

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

***Derivative financial instruments***

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 39.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Inventories***

Inventories are stated at the lower of cost (weighted average) or net realizable value (NRV), with NRV being the “estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale”. The Group estimates the recoverability for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions. If the NRV of an inventory item is determined to be below its carrying value, the Group records a write-down to cost of sales for the difference between the carrying cost and NRV.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. Critical accounting judgments and key sources of estimation uncertainty (*continued*)

Key sources of estimation uncertainty (*continued*)

***Long-lived assets***

The Group assesses the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of asset or cash-generating unit (“CGU”) may not be recoverable. Factors that the Group 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 the use of the assets.

An impairment analysis is performed at the lowest level of identifiable independent cash flows for an asset or CGU. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

The Group makes subjective judgments in determining the independent cash flows that can be related to a specific CGU based on its asset usage model and manufacturing capabilities. The Group measures the recoverability of assets that will continue to be used in the Group’s operations by comparing the carrying value of CGU to the Group’s estimate of the related total future discounted cash flows. If a CGU’s carrying value is not recoverable through the related discounted cash flows, the impairment loss is measured by comparing the difference between the CGU’s carrying value and its recoverable amount, based on the best information available, including market prices or discounted cash flow analysis. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate and sales margin used for extrapolation purposes.

In order to remain technologically competitive in the semiconductor industry, the Group has entered into technology transfer and technology license arrangements with third parties in an attempt to advance the Group’s 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. The Group routinely reviews the remaining estimated useful lives of these intangible assets and deferred costs. The Group also evaluates these intangible assets and deferred costs for impairment whenever events or changes in circumstances indicate that their

carrying amounts may not be recoverable. When the carrying amounts of such assets are determined to exceed their recoverable amounts, the Group will impair such assets and write down their carrying amounts to recoverable amount in the year when such determination was made.

F-30



Table of Contents

4. Critical accounting judgments and key sources of estimation uncertainty (*continued*)

Key sources of estimation uncertainty (*continued*)

***Share-based Compensation Expense***

The fair value of options and shares issued pursuant to the Group's 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. The Group estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. The Group uses projected volatility rates based upon the Group's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect the Group's 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. Further details on share-based compensation are disclosed in note 38.

***Taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with tax planning strategies.

As at December 31, 2015, a deferred tax asset of US\$0.4 million (December 31, 2014: US\$0.5 million and December 31, 2013: nil) in relation to unused tax losses recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which

such a reversal takes place. Further details on taxes are disclosed in Note 10.

F-31

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. Critical accounting judgments and key sources of estimation uncertainty (*continued*)

Key sources of estimation uncertainty (*continued*)

***Fair value of financial instruments***

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 39 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

***Impairment of trade and other receivable***

The Group assesses at the end of each reporting period whether there is any objective evidence that trade and other receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the Group's trade and other receivable at the end of the reporting period is disclosed in Note 26.

The Group is engaged principally in the computer-aided design, manufacturing and trading of integrated circuits. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about resources allocation and assessing performance of the Group. The Group operates in one segment. The measurement of segment profits is based on profit from operation as presented in the statements of profit or loss and other comprehensive income.

The Group operates in three principal geographical areas — United States, Europe, and Asia Pacific. The Group's operating revenue from customers, based on the location of their headquarters, is detailed below.

F-32

Table of Contents5. Segment information (*continued*)

	<b>Revenue from external customers</b>		
<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	
<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>	
<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	
United States	776,223	855,792	1,002,699
Mainland China and Hong Kong	1,066,558	852,204	836,771
Eurasia*	393,634	261,970	229,494
	2,236,415	1,969,966	2,068,964

\* Not including Mainland China and Hong Kong

The Group's operating revenue by product and service type is detailed below:

	<b>Revenue by product and service type</b>		
<b>year ended</b>	<b>year ended</b>	<b>year ended</b>	
<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>	
<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	
Sales of wafers	2,134,943	1,864,524	1,952,774
Mask making, testing and others	101,472	105,442	116,190
	2,236,415	1,969,966	2,068,964

The Group's business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. The Group will continue to incur capital expenditures and depreciation expenses as it equips and ramps-up additional fabs and expand its capacity at the existing fabs. The following table summarizes property, plant and equipment of the Group by geographical location.

	<b>Property, plant and equipment</b>		
<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>	
<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	
United States	95	124	33
Europe	5	4	4
Taiwan	122	9	14
Hong Kong	3,040	3,240	3,440
Mainland China	3,900,556	2,991,709	2,525,343
	3,903,818	2,995,086	2,528,834



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 6. Significant customers

The following table summarizes net revenue or gross accounts receivable for customers which accounted for 10% or more of net revenue and gross accounts receivable:

	Net revenue			Gross accounts receivable		
	Year ended December 31,			December 31,		
	2015	2014	2013	2015	2014	2013
Customer A	366,696	483,430	473,699	75,643	107,475	109,778
Customer B	324,267	*	*	50,068	*	*
Customer C	215,527	*	270,230	25,548	*	19,619
Customer D	168,352	*	*	55,852	*	*
Customer A	16	% 25	% 23	% 19	% 25	% 31
Customer B	15	% *	% *	13	% *	% *
Customer C	10	% *	13	% 6	% *	6
Customer D	8	% *	% *	14	% *	% *

\*Less than 10% of net revenue and gross accounts receivable in the period.

## 7. Other operating income (expense), net

	Year ended 12/31/15 USD'000	Year ended 12/31/14 USD'000	Year ended 12/31/13 USD'000
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	28,949	13,904	33,996
Gain on disposal of subsidiaries	—	—	28,304
(Loss) gain on deconsolidation of subsidiaries	(57	) (208	) 5,419
Others	2,702	510	151
	31,594	14,206	67,870

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2015, 2014 and 2013 was primarily from the sales of the staff living quarters in Shanghai and Beijing to

employees.

F-34



Table of Contents

## 8. Finance costs

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Interest on:			
Bank and other borrowings			
— wholly repayable within five years	6,782	19,245	45,924
— not wholly repayable within five years	202	—	1,440
Interest on convertible bonds	13,238	9,614	1,173
Interest on corporate bonds	22,253	5,554	—
Accretion of interest to preferred shareholders of a subsidiary	—	—	1,683
Total interest expense for financial liabilities not classified as at FVTPL	42,475	34,413	50,220
Less: amounts capitalized	(30,257 )	(13,698 )	(15,828 )
	12,218	20,715	34,392

The weighted average effective interest rate on funds borrowed generally is 3.75% per annum (2014: 2.91% per annum and 2013: 4.42% per annum).

## 9. Other gains and losses, net

For the year ended December 31, 2015, other gains or losses, net were US\$55.6 million (2014: US\$18.2 million and 2013: US\$4.0 million), within which the changes of fair value of the financial products were US\$22.5 million (2014: US\$14.5 million and 2013: US\$0.4 million) and the changes of fair value of the derivative financial instruments were US\$28.9 million (2014: nil and 2013: nil).

## 10. Income taxes

Income tax recognized in profit or loss

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Current tax — Enterprise Income Tax	(47 )	1,226	957
Deferred tax	6,665	(591 )	(783 )
Current tax — Land Appreciation Tax	1,923	11,154	3,956
Total income tax expense raised in the current year	8,541	11,789	4,130



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. Income taxes (*continued*)Income tax recognized in profit or loss (*continued*)

The income tax expense for the year can be reconciled to the accounting profit as follows:

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Profit before tax	230,864	138,050	178,597
Income tax expense calculated at 15% (2014: 15% and 2013:15%)	34,630	20,708	26,790
Effect of expenses not deductible for tax purpose	—	—	1,247
Effect of tax holiday and tax concession	(54,483 )	(12,032 )	(3,045 )
Tax losses for which no deferred tax assets were recognized	25,732	20,134	—
Utilization of previously unrecognized tax losses and temporary differences	(3,687 )	(32,818 )	(23,042 )
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,226	6,387	(641 )
Others	488	(71 )	(578 )
Land Appreciation Tax (after tax)	1,635	9,481	3,399
Income tax expense	8,541	11,789	4,130

The tax rate used for the 2015, 2014 and 2013 reconciliation above is the corporate tax rate of 15% payable by most of the Group's entities in Mainland China under tax law in that jurisdiction.

## Current tax liabilities

	<b>12/31/15 USD'000</b>	<b>12/31/14 USD'000</b>	<b>12/31/13 USD'000</b>
Current tax liabilities			
Income tax payable — Land Appreciation Tax	—	—	73
Income tax payable — Others	355	103	85
	355	103	158

F-36

Table of Contents10. Income taxes (*continued*)

## Deferred tax balances

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statement of financial position:

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Deferred tax assets	44,942	44,383	43,890
Deferred tax liabilities	(7,293 )	(69 )	(167 )
	37,649	44,314	43,723

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Deferred tax assets			
Net operating loss carry forwards	419	524	—
Property plant and equipment	44,523	43,859	43,890
Deferred tax assets	44,942	44,383	43,890
Deferred tax liabilities			
Capitalized interest	(3 )	(69 )	(167 )
Property plant and equipment	(7,290 )	—	—
Deferred tax liabilities	(7,293 )	(69 )	(167 )

## 2015.12.31

	<b>Opening balance</b>	<b>Recognized in profit or loss</b>	<b>Closing balance</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Deferred tax (liabilities)/assets in relation to:			
Property plant and equipment	43,859	(6,626 )	37,233
Capitalized interest	(69 )	66	(3 )
Others	524	(105 )	419
	44,314	(6,665 )	37,649

## 2014.12.31

	<b>Opening balance</b>	<b>Recognized in profit or loss</b>	<b>Closing balance</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Deferred tax (liabilities)/assets in relation to:			
Property plant and equipment	43,890	(31 )	43,859
Capitalized interest	(167 )	98	(69 )
Others	—	524	524
	43,723	591	44,314

F-37

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. Income taxes (*continued*)**Deferred tax balances** (*continued*)

2013.12.31

	<b>Opening balance</b>	<b>Recognized in profit or loss</b>	<b>Closing balance</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Deferred tax (liabilities)/assets in relation to:			
Property plant and equipment	38,955	4,935	43,890
Allowances and reserves	3,829	(3,829 )	—
Accrued expenses	224	(224 )	—
Capitalized interest	(373 )	206	(167 )
Unrealized exchange gain	(64 )	64	—
Depreciation for asset held for sale	(3 )	3	—
Others	372	(372 )	—
	42,940	783	43,723

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax, or the EIT Law, the profits of a foreign invested enterprise arising in 2008 and beyond that distributed to its immediate holding company who is a non-PRC tax resident 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 (which should have commercial substance and proceed the formal treaty benefit application with in-charge tax bureau) are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region.

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation.

The EIT law (became effective on January 1, 2008) applies a uniform 25% enterprise income tax rate to both tax resident enterprise and non-tax resident enterprise, except where a special preferential rate applies.

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 US\$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 of the tax 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%.

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 circuit enterprises.

F-38



Table of Contents

10. Income taxes (*continued*)

**Deferred tax balances** (*continued*)

On April 20, 2012, State Tax Bureau issued CaiShui [2012] No. 27 (“Circular No. 27”), stipulating the income tax policies for the development of integrated circuit industry. Circular No. 1 was partially abolished by Circular No. 27 and the preferential taxation policy in Circular No. 1 was replaced by Circular No. 27.

On July 25, 2013, State Tax Bureau issued [2013] No. 43 (“Circular No. 43”), clarifying that the accreditation and preferential tax policy of integrated circuit enterprise established before December 31, 2010, is applied pursuant to Circular No. 1.

The detailed tax status of SMIC’s principal PRC entities with tax holidays is elaborated as follows:

1) *Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”)* Pursuant to the relevant tax regulations, SMIS is qualified as an integrated circuit enterprise and enjoyed a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2004 after utilizing all prior years’ tax losses. The income tax rate for SMIS was 15% in 2015 (2014: 15% and 2013: 12.5%).

2) *Semiconductor Manufacturing International (Tianjin) Corporation (“SMIT” or “SMIC Tianjin”)*

In accordance with Circular No. 43 and Circular No. 1, SMIT is qualified as an integrated circuit enterprise and enjoying a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2013 after utilizing all prior years’ tax losses. The income tax rate for SMIT was 0% from 2013 to 2017 and 12.5% from 2018 to 2022. After that, the income tax rate will be 15%.

3) *Semiconductor Manufacturing International (Beijing) Corporation (“SMIB” or “SMIC Beijing”)*

In accordance with Circular No. 43 and Circular No. 1, SMIB is qualified as an integrated circuit enterprise and enjoying a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2015 after utilizing all prior years’ tax losses. The income tax rate for SMIB was 0% from 2015 to 2019 and 12.5% from 2020 to 2024. After that, the income tax rate will be 15%.

*Semiconductor Manufacturing International (Shenzhen) Corporation (“SMIC Shenzhen”), Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”) and SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”)*

In accordance with Circular No. 43, Circular No. 1 and Circular No. 27, *SMIC Shenzhen, SMNC and SJ Jiangyin* 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 its first profit-making year after utilizing all prior tax losses on or before December 31, 2017. *SMIC Shenzhen, SMNC and SJ Jiangyin* were in accumulative loss positions as of December 31, 2015 and the tax holiday has not begun to take effect.

All the other PRC entities of SMIC were subject to income tax rate of 25%.

F-39

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. Income taxes (*continued*)

## Unused tax losses

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US\$577.3 million (December 31, 2014: US\$532.8 million and December 31, 2013: US\$851.7 million) due to the unpredictability of future profit streams, of which US\$228.0 million, US\$156.2 million, US\$8.9 million, US\$81.3 million and US\$102.9 million will expire in 2016, 2017, 2018, 2019 and 2020, respectively.

## 11. Profit (loss) for the year

Profit (loss) for the year has been arrived at after charging (crediting)

**11.1 Impairment losses (reversal of impairment losses) on trade receivables**

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Allowance on trade receivables (see Note 26)	528	1,616	617
Reversal of allowance on doubtful trade receivables ( <u>see Note 26</u> )	(541 )	(59 )	(1,213 )
	(13 )	1,557 )	(596 )

**11.2 Depreciation and amortization expense**

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Depreciation of property, plant and equipment	473,008	506,366	501,923
Amortization of intangible assets and land use right	50,541	43,102	44,987
Total depreciation and amortization expense	523,549	549,468	546,910

**11.3 Employee benefits expense**

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Wages, salaries and social security contributions	299,267	249,622	233,025
Bonus	107,859	50,157	68,618
Paid annual leave	66	796	541
Non-monetary benefits	21,414	17,231	17,937
Equity-settled share-based payments (Note 38)	18,329	18,388	16,402
Total employee benefits expense	446,935	336,194	336,523

F-40

Table of Contents11. Profit (loss) for the year *(continued)*

Profit (loss) for the year has been arrived at after charging (crediting) *(continued)*

**11.4 Royalties expense**

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Royalties expense	36,262	26,344	32,546

**11.5 Government funding***Government funding under specific R&D projects*

The Group received government funding (including those with primary condition that the Group should purchase, construct or otherwise acquire non-current assets) of US\$40.2 million, US\$57.3 million and US\$145.8 million and recognized US\$34.3 million, US\$37.4 million and US\$26.9 million as reductions of certain R&D expenses in 2015, 2014 and 2013 for several specific R&D projects respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of R&D expenses until the milestones specified in the terms of the funding have been reached.

*Government funding for specific intended use*

The Group received government funding of US\$4.9 million, US\$21.4 million and US\$7.1 million and recognized US\$4.9 million, US\$21.4 million and US\$7.1 million as reduction of interest expense in 2015, 2014 and 2013 respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of interest expense until the requirements (if any) specified in the terms of the funding have been reached.

**11.6 Auditors' remuneration**

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Audit services	1,322	1,568	1,187
Non-audit services	65	94	—

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 12. Directors' remuneration

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Salaries	2,384	2,216	1,756
Equity-settled share-based payments	1,550	1,305	1,504
	3,934	3,521	3,260

The equity-settled share-based payments granted to directors include both stock options and restricted share units ("RSUs").

The Group granted 30,917,241, 7,773,789 and 27,083,220 options to purchase ordinary shares of the Company to the directors in 2015, 2014 and 2013, respectively. During the year ended December 31, 2015, 18,353,433 stock options were exercised and 1,117,811 stock options were expired. During the year ended December 31, 2014, 1,123,074 stock options were exercised and 3,369,223 stock options were expired. And during the year ended December 31, 2013, 1,000,000 stock options were exercised and 4,634,877 stock options were expired.

The Group granted 10,804,985, 2,910,836 and nil RSUs to purchase ordinary shares of the Company to the directors in 2015, 2014 and 2013, respectively. During the year ended December 31, 2015, 12,377,826 RSUs automatically vested and no RSUs were forfeited. During the year ended December 31, 2014, 12,250,480 RSUs automatically vested and no RSUs were forfeited. And during the year ended December 31, 2013, 11,650,116 RSUs automatically vested and no RSUs were forfeited.

In 2015, 2014 and 2013, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In 2015, 2014 and 2013, no directors waived any emoluments.

## (a) Independent non-executive directors

The fees paid or payable to independent non-executive directors of the Company during the year were as follows:

	<b>Salaries and wages USD'000</b>	<b>Employee settle share- based payment USD'000</b>	<b>Total remuneration USD'000</b>
2015			
William Tudor Brown	47	47	94
Sean Maloney	50	46	96
Lip-Bu Tan	70	—	70
Frank Meng***	28	6	34
Carmen I-Hua Chang	42	149	191
	237	248	485

F-42

Table of Contents12. Directors' remuneration (*continued*)**(a) Independent non-executive directors** (*continued*)

	<b>Salaries and wages</b>	<b>Employee settle share- based payment</b>	<b>Total remuneration</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
2014			
William Tudor Brown	57	90	147
Sean Maloney	62	87	149
Lip-Bu Tan	92	1	93
Frank Meng***	76	18	94
Carmen I-Hua Chang	13	59	72
	300	255	555

	<b>Salaries and wages</b>	<b>Employee settle share- based payment</b>	<b>Total remuneration</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
2013			
Tsuyoshi Kawanishi	20	5	25
William Tudor Brown	18	45	63
Sean Maloney	27	65	92
Lip-Bu Tan	65	5	70
Frank Meng***	54	36	90
	184	156	340

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil and 2013: Nil).



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

12. Directors' remuneration (*continued*)

## (b) Executive directors and non-executive director

	<b>Salaries and wages</b>	<b>Employee settle share- based payment</b>	<b>Total remuneration</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
2015			
Executive directors:			
Zhou Zixue	225	873	1,098
Zhang Wenyi*	578	32	610
Tzu-Yin Chiu**	918	130	1,048
Gao Yonggang	376	201	577
	2,097	1,236	3,333
Non-executive director:			
Chen Shangzhi	50	—	50
Zhou Jie	—	—	—
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
Ren Kai	—	66	66
	50	66	116
	<b>Salaries and wages</b>	<b>Employee settle share- based payment</b>	<b>Total remuneration</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
2014			
Executive directors:			
Zhang Wenyi*	524	124	648
Tzu-Yin Chiu**	973	442	1,415
Gao Yonggang	307	399	706
	1,804	965	2,769
Non-executive director:			
Chen Shangzhi	61	3	64
Lawrence Juen-Yee Lau	51	82	133
Zhou Jie	—	—	—
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
	—	—	—

Chen Datong

(Alternate to Lawrence Juen-Yee Lau)

112

85

197

F-44

Table of Contents12. Directors' remuneration (*continued*)(b) Executive directors and non-executive director (*continued*)

	<b>Salaries and wages</b>	<b>Employee settle share- based payment</b>	<b>Total remuneration</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
2013			
Executive directors:			
Zhang Wenyi*	391	274	665
Tzu-Yin Chiu**	963	901	1,864
Gao Yonggang	142	101	243
	1,496	1,276	2,772
Non-executive director:			
Chen Shangzhi	54	10	64
Lawrence Juen-Yee Lau	22	62	84
Zhou Jie	—	—	—
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
Chen Datong (Alternate to Lawrence Juen-Yee Lau)	—	—	—
	76	72	148

\*Zhang Wenyi resigned as chairman of the Board and an executive director with effect from March 6, 2015.

\*\*Tzu-Yin Chiu is also the Chief Executive Officer of the Company.

\*\*\*Frank Meng resigned as an independent non-executive director with effect from June 26, 2015.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 13. Five highest paid employees

The five highest paid individuals during the year included two (2014: three and 2013: two) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining three (2014: two and 2013: three) non-directors, highest paid individuals (including one former director who resigned as an executive director in 2015) for the year are as follows:

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Salaries and other benefits	962	633	955
Bonus	636	328	386
Stock option benefits	552	473	566
	2,150	1,434	1,907

F-45

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

13. Five highest paid employees (*continued*)

The bonus is determined on the basis of the basic salary and the performance of the Group and the individual.

In 2015, 2014 and 2013, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	<b>Number of employees</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
HK\$3,500,001 (US\$451,605) to HK\$4,000,000 (US\$516,119)	—	—	1
HK\$4,500,001 (US\$580,635) to HK\$5,000,000 (US\$645,150)	1	—	—
HK\$5,000,001 (US\$645,151) to HK\$5,500,000 (US\$709,665)	—	1	1
HK\$5,500,001 (US\$709,666) to HK\$6,000,000 (US\$774,180)	1	1	1
HK\$6,000,001 (US\$774,181) to HK\$6,500,000 (US\$838,695)	1	—	—
	3	2	3

## 14. Earnings per share

	<b>Year ended 12/31/15 USD</b>	<b>Year ended 12/31/14 USD</b>	<b>Year ended 12/31/13 USD</b>
Basic earnings per share	0.01	0.00	0.01
Diluted earnings per share	0.01	0.00	0.01

## Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Profit for the year attributable to owners of the Company	253,411	152,969	173,177
Earnings used in the calculation of basic earnings per share	253,411	152,969	173,177
Weighted average number of ordinary shares for the purposes of basic earnings per share	38,960,416,674	33,819,162,742	32,063,137,846

F-46

Table of Contents14. Earnings per share (*continued*)

## Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Earnings used in the calculation of basic earnings per share	253,411	152,969	173,177
Interest expense from convertible bonds	13,238	9,614	1,173
Earnings used in the calculation of diluted earnings per share	266,649	162,583	174,350

The weighted average number of ordinary shares used in the calculation of basic earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of diluted earnings per share as follows:

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	38,960,416,674	33,819,162,742	32,063,137,846
Employee option and restricted share units	369,448,306	343,030,318	237,913,672
Convertible bonds	3,932,570,996	2,931,293,510	288,027,267
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	43,262,435,976	37,093,486,570	32,589,078,785

During the year ended December 31, 2015, the Group had 403,670,171 weighted average outstanding employee stock options 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.

During the year ended December 31, 2014, the Group had 528,860,129 weighted average outstanding employee stock options 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.

During the year ended December 31, 2013, the Group had 785,159,938 weighted average outstanding employee stock options 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.

15.Dividend

The Board did not recommend the payment of any dividend for the year ended December 31, 2015 (December 31, 2014: Nil and December 31, 2013: Nil).

F-47



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 16. Assets classified as held for sale

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Assets related to employee's living quarters	72,197	44	3,265

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. The Group is committing to sell these self-constructed living quarters to its employees in the following year.

## 17. Property, plant and equipment

	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Office equipment</b>	<b>Construction in progress (CIP)</b>	<b>Total</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Cost					
Balance at December 31, 2012	335,542	7,577,375	103,954	410,067	8,426,938
Transfer from (out) CIP	7,238	553,162	9,610	(570,010)	—
Addition	—	—	—	670,853	670,853
Disposals	(20,698)	(1,163)	(5,531)	(10,000)	(37,392)
Reclassified as held for sale	(2,999)	—	(2)	—	(3,001)
Balance at December 31, 2013	319,083	8,129,374	108,031	500,910	9,057,398
Transfer from (out) CIP	6,896	366,298	13,652	(386,846)	—
Addition	—	—	—	977,487	977,487
Disposals	(635)	(23,486)	(1,611)	(3,471)	(29,203)
Balance at December 31, 2014	325,344	8,472,186	120,072	1,088,080	10,005,682
Transfer from (out) CIP	263,476	985,820	14,966	(1,264,262)	—
Addition	—	—	—	1,498,201	1,498,201
Disposals	—	(53,550)	(180)	(654)	(54,384)
Reclassified as held for sale	—	—	—	(114,534)	(114,534)
Balance at December 31, 2015	588,820	9,404,456	134,858	1,206,831	11,334,965

Table of Contents17. Property, plant and equipment (*continued*)

	Buildings USD'000	Plant and equipment USD'000	Office equipment USD'000	Construction in progress (CIP) USD'000	Total USD'000
Accumulated depreciation and impairment					
Balance at December 31, 2012	99,205	5,827,519	82,091	32,688	6,041,503
Disposal	(3,030 )	(1,405 )	(5,073 )	(4,490 )	(13,998 )
Depreciation expense	13,160	477,600	11,163		501,923
Reclassified as held for sale	(862 )	—	(2 )	—	(864 )
Balance at December 31, 2013	108,473	6,303,714	88,179	28,198	6,528,564
Disposal	(170 )	(21,687 )	(1,610 )	(867 )	(24,334 )
Depreciation expense	13,377	476,044	16,945	—	506,366
Balance at December 31, 2014	121,680	6,758,071	103,514	27,331	7,010,596
Disposal		(51,840 )	(180 )	(437 )	(52,457 )
Depreciation expense	13,858	451,027	8,123	—	473,008
Balance at December 31, 2015	135,538	7,157,258	111,457	26,894	7,431,147

	Buildings USD'000	Plant and equipment USD'000	Office equipment USD'000	Construction in progress (CIP) USD'000	Total USD'000
Balance at December 31, 2013	210,610	1,825,660	19,852	472,712	2,528,834
Balance at December 31, 2014	203,664	1,714,115	16,558	1,060,749	2,995,086
Balance at December 31, 2015	453,282	2,247,198	23,401	1,179,937	3,903,818

**Construction in progress**

The construction in progress balance of approximately US\$1,180 million as of December 31, 2015, primarily consisted of US\$274 million and US\$392 million of the manufacturing equipment acquired to further expand the production capacity at our two 12" fabs in Beijing and one 12" fab in Shanghai, respectively, and US\$136 million of the manufacturing equipment acquired to further expand the production capacity at the 8" fab in Shenzhen. The amount of US\$59 million was for acquiring the manufacturing equipment in relation to bumping services in Jiangyin. In addition, the amount of US\$77 million was related to the headquarter building in Shanghai and other US\$242 million was in relation to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the second half of 2016.

Impairment losses recognized in the year

In 2015, 2014 and 2013, the Group didn't record any impairment loss of property, plant and equipment.

F-49

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

17. Property, plant and equipment (*continued*)

Assets pledged as security

Property, plant and equipment with carrying amount of approximately US\$324 million (2014: approximately US\$306 million and 2013: approximately US\$1,000 million) have been pledged to secure borrowings of the Group (see Note 31). The plant and equipment have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

## 18. Intangible assets

	<b>Acquired intangible assets USD'000</b>
Cost	
Balance at December 31, 2012	341,909
Additions	23,139
Expired and disposal	(16,627 )
Balance at December 31, 2013	348,421
Additions	37,595
Expired and disposal	(15,295 )
Balance at December 31, 2014	370,721
Additions	65,269
Expired and disposal	(44,813 )
Balance at December 31, 2015	391,177
Accumulated amortization and impairment	
Balance at December 31, 2012	106,531
Amortization expense for the year	40,796
Expired and disposal	(14,171 )
Balance at December 31, 2013	133,156
Amortization expense for the year	41,046
Expired and disposal	(11,303 )

Balance at December 31, 2014	162,899
Amortization expense for the year	48,812
Expired and disposal	(44,813 )
Balance at December 31, 2015	166,898
Balance at December 31, 2013	215,265
Balance at December 31, 2014	207,822
Balance at December 31, 2015	224,279

F-50

Table of Contents

19.

## Subsidiaries

Details of the Company's subsidiaries at the end of the reporting period are as follows:

Name of company	Place of establishment and operation	Class of shares held	<b>Paid up registered capital</b>	Proportion of ownership interest held by the Company	Proportion of voting power held by the Company	Principal activities
Better Way Enterprises Limited ("Better Way")#	Samoa	Ordinary	US\$ 1,000,000	Directly 100 %	100 %	Provision of marketing related activities
Semiconductor Manufacturing International Corporation (Shanghai) ("SMIS" or "SMIC Shanghai")#	People's Republic of China (the "PRC")	Ordinary	US\$ 1,740,000,000	Directly 100 %	100 %	Manufacturing trading of semiconductor products
SMIC, Americas	United States of America	Ordinary	US\$ 500,000	Directly 100 %	100 %	Provision of marketing related activities
Semiconductor Manufacturing International Corporation (Beijing) ("SMIB" or "SMIC Beijing")#	PRC	Ordinary	US\$ 1,000,000,000	Directly 100 %	100 %	Manufacturing trading of semiconductor products
SMIC Japan	Japan	Ordinary	JPY 10,000,000	Directly 100 %	100 %	Provision of marketing related activities
SMIC Europe S.R.L	Italy	Ordinary	Euros 100,000	Directly 100 %	100 %	Provision of marketing related activities
Semiconductor Manufacturing International Corporation (Solar Cell)	Cayman Islands	Ordinary	US\$ 11,000	Directly 100 %	100 %	Investment holding
	PRC	Ordinary	US\$ 800,000	Directly 100 %	100 %	

Edgar Filing: SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP - Form 20-F/A

SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation) Semiconductor Manufacturing International (Tianjin) Corporation (“SMIT” or “SMIC Tianjin”)#	PRC	Ordinary	US\$	690,000,000	Directly	100	%	100	%	Provision of marketing related activities  Manufacturing trading of semiconductor products
SMIC Development (Chengdu) Corporation (“SMICD”)#	PRC	Ordinary	US\$	5,000,000	Directly	100	%	100	%	Construction, operation, and management of SMICD’s living quarters, schools and supermarkets
Semiconductor Manufacturing International (BVI) Corporation (“SMIC (BVI)”)#	British Virgin Islands	Ordinary	US\$	10	Directly	100	%	100	%	Provision of marketing related activities
Admiral Investment Holdings Limited	British Virgin Islands	Ordinary	US\$	10	Directly	100	%	100	%	Investment holding
SMIC Shanghai Corporation	Cayman Islands	Ordinary	US\$	50,000	Directly	100	%	100	%	Investment holding
SMIC Beijing Corporation	Cayman Islands	Ordinary	US\$	50,000	Directly	100	%	100	%	Investment holding
SMIC Tianjin Corporation	Cayman Islands	Ordinary	US\$	50,000	Directly	100	%	100	%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands	Ordinary	US\$	10,000	Directly	100	%	100	%	Investment holding
SMIC Shenzhen Corporation	Cayman Islands	Ordinary	US\$	50,000	Directly	100	%	100	%	Investment holding
SMIC Advanced Technology Research & Development (Shanghai) Corporation	PRC	Ordinary	US\$	99,000,000	Directly	89.697%		89.697%		Manufacturing trading of semiconductor products
SMIC Holdings Corporation	PRC	Ordinary	US\$	50,000,000	Directly	100	%	100	%	Investment holding
	Cayman Islands		US\$	3,335	Directly	55.277%		55.277%		

Edgar Filing: SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP - Form 20-F/A

SJ Semiconductor Corporation		Ordinary and preferred								Investment holding
SMIC Energy Technology (Shanghai) Corporation (“Energy Science”)#	PRC	Ordinary	US\$	10,400,000	Indirectly	100	%	100	%	Manufacturing trading of solar cell related semiconductor products
Magnificent Tower Limited	British Virgin Islands	Ordinary	US\$	50,000	Indirectly	100	%	100	%	Investment holding
SMIC Shanghai (HK) Company Limited	Hong Kong	Ordinary	HK\$	1,000	Indirectly	100	%	100	%	Investment holding
SMIC Beijing (HK) Company Limited	Hong Kong	Ordinary	HK\$	1,000	Indirectly	100	%	100	%	Investment holding
SMIC Tianjin (HK) Company Limited	Hong Kong	Ordinary	HK\$	1,000	Indirectly	100	%	100	%	Investment holding
SMIC Solar Cell (HK) Company Limited	Hong Kong	Ordinary	HK\$	10,000	Indirectly	100	%	100	%	Investment holding
SMIC Shenzhen (HK) Company Limited	Hong Kong	Ordinary	HK\$	1,000	Indirectly	100	%	100	%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong	Ordinary	HK\$	1,000	Indirectly	100	%	100	%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation	PRC	Ordinary	US\$	127,000,000	Indirectly	100	%	100	%	Manufacturing trading of semiconductor products
SilTech Semiconductor (Shanghai) Corporation Limited	PRC	Ordinary	US\$	12,000,000	Indirectly	100	%	100	%	Manufacturing trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”)#	PRC	Ordinary	US\$	937,500,000	Directly and indirectly	55	%	55	%	Manufacturing trading of semiconductor products
China IC Capital Co., Ltd	PRC	Ordinary	RMB	500,000,000	Indirectly	100	%	100	%	Investment holding
Shanghai Hexin Investment Management	PRC	Ordinary	RMB	15,900,000	Indirectly	99	%	99	%	Investment holding



Limited Partnership Shanghai Rongxin Investment Management Limited Partnership	PRC	Ordinary	—	Indirectly	99 %	99 %	Investment holding
SJ Semiconductor (HK) Limited Partnership	Hong Kong	Ordinary	HK\$ 1,000	Indirectly	55.277%	55.277%	Investment holding
SJ Semiconductor (Jiangyin) Corp. (“SJ Jiangyin”)#	PRC	Ordinary	US\$ 179,500,000	Indirectly	55.277%	55.277%	Bumping and circuit probe testing activities

# Abbreviation for identification purposes.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 19. Subsidiaries (continued)

During this year, the Company lost control of Shanghai Xinxin Investment Centre (Limited Partnership) (“Shanghai Xinxin”) and Shanghai Chengxin Investment Center (Limited Partnership) (“Shanghai Chengxin”), but still has significant influence over both of them. The Company recorded its ownership of Shanghai Xinxin and Shanghai Chengxin as investment in joint ventures. Please refer to Note 21 for details.

Details of non-wholly owned subsidiaries that have material non-controlling interests (“NCI”)

The table below shows details of a non-wholly owned subsidiary of the Company that have material non-controlling interests:

Name of company	Place of establishment and operation	Proportion of ownership interests and voting rights held by non-controlling interests			Profit (loss) allocated to non-controlling interests			Accumulated non-controlling interests		
		12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
					USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Semiconductor Manufacturing North China(Beijing) Corporation (“SMNC”)	Beijing, PRC	45.0%	45.0%	45.0%	(25,596)	(26,353)	1,410	371,446	335,057	109,410
SJ Semiconductor Corporation	Cayman Islands	44.7%	49.0%	N/A	(5,077)	(424)	N/A	79,621	24,076	N/A
Total					(30,673)	(26,777)	1,410	451,067	359,133	109,410

Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”, the Company’s majority owned subsidiary in Beijing) shared part of Group’s advance-technology R&D expenses in 2014 and had the start-up cost in 2015, which also caused the change in loss of year attributable to non-controlling interests.

According to the joint venture agreements entered into by the Group and the NCI of SMNC, additional capital injection into SMNC was completed in 2015 and 2014. The additional capital injection from NCI amounted to US\$61.9 million in 2015 and US\$252 million in 2014 respectively.

According to the joint venture agreements entered into by the Company and the NCI of SJ Semiconductor Corporation, additional capital injection into SJ Semiconductor Corporation was completed in 2015 and 2014. The additional capital injection from NCI amounted to US\$60.0 million in 2015 and US\$24.5 million in 2014 respectively.

Summarized financial information in respect of the Company's subsidiary that has material non- controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

F-52

Table of Contents19. Subsidiaries (*continued*)

## SMNC

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Current assets	381,640	659,596	243,719
Non-current assets	917,719	550,859	—
Current liabilities	(350,298)	(347,217)	(586 )
Non-current liabilities	(123,626)	(118,667)	—
Net assets	825,435	744,571	243,133
Equity attributable to owners of the Company	453,989	409,514	133,723
Non-controlling interests	371,446	335,057	109,410

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Revenue	4,721	—	—
Expense	(64,032 )	(65,058 )	(709 )
Other income	2,430	6,496	3,843
Profit (loss) for the year	(56,881 )	(58,562 )	3,134
Profit (loss) attributable to owners of the Company	(31,285 )	(32,209 )	1,724
Profit (loss) attributable to the non-controlling interests	(25,596 )	(26,353 )	1,410
Profit (loss) for the year	(56,881 )	(58,562 )	3,134
Other comprehensive income attributable to owners of the Company	—	—	—
Other comprehensive income attributable to the non-controlling interests	—	—	—
Other comprehensive income for the year	—	—	—
Total comprehensive income (loss) attributable to owners of the Company	(31,285 )	(32,209 )	1,724
Total comprehensive income (loss) attributable to the non-controlling interests	(25,596 )	(26,353 )	1,410
Total comprehensive income (loss) for the year	(56,881 )	(58,562 )	3,134
Dividends paid to non-controlling interests	—	—	—
Net cash (outflow) inflow from operating activities	(71,817 )	7,758	1,959
Net cash outflow from investing activities	(173,535 )	(436,449 )	(164,810 )
Net cash inflow from financing activities	137,500	560,000	240,000
Net cash (outflow) inflow	(107,852 )	131,309	77,149

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

19. Subsidiaries (*continued*)

SJ Semiconductor Corporation and its subsidiaries

	<b>12/31/15</b>	<b>12/31/14</b>		
	<b>USD'000</b>	<b>USD'000</b>		
Current assets	164,495	49,901		
Non-current assets	66,772	59		
Current liabilities	(18,904 )	(825 )		
Non-current liabilities	(34,331 )	—		
Net assets	178,032	49,135		
Equity attributable to owners of the Company	98,411	25,059		
Non-controlling interests	79,621	24,076		
			Year ended	Year ended
			12/31/15	12/31/14
			USD'000	USD'000
Revenue			1,543	
Expense			(9,621 )	(175 )
Other expense			(3,274 )	(690 )
Loss for the year			(11,352 )	(865 )
Loss attributable to owners of the Company			(6,275 )	(441 )
Loss attributable to the non-controlling interests			(5,077 )	(424 )
Loss for the year			(11,352 )	(865 )
Other comprehensive income attributable to owners of the Company			—	—
Other comprehensive income attributable to the non-controlling interests			—	—
Other comprehensive income for the year			—	—
Total comprehensive loss attributable to owners of the Company			(6,275 )	(441 )
Total comprehensive loss attributable to the non-controlling interests			(5,077 )	(424 )
Total comprehensive loss for the year			(11,352 )	(865 )
Dividends paid to non-controlling interests			—	—
Net cash outflow from operating activities			(9,841 )	(38 )
Net cash outflow from investing activities			(60,336 )	(67 )
Net cash inflow from financing activities			175,211	50,000
Net cash inflow			105,034	49,895



Table of Contents

## 20. Investments in associates

Details of the Group's associates, which are all unlisted companies, at the end of the reporting period are as follows:

Name of company	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group					
			12/31/15	12/31/14	12/31/13			
Toppan SMIC Electronic (Shanghai) Co., Ltd. ("Toppan")	Shanghai, PRC	Ordinary	30.0 %	30.0 %	30.0 %			
Zhongxin Xiecheng Investment (Beijing) Co., Ltd. ("Zhongxin Xiecheng")	Beijing, PRC	Ordinary	49.0 %	49.0 %	49.0 %			
Brite Semiconductor Corporation	Cayman Island	Ordinary	47.8 %	47.8 %	48.7 %			
Suzhou Changjiang Electric Xinke Investment Co., Ltd. ("Changjiang Xinke")	Jiangsu, PRC	Ordinary	19.6 %	NA	NA			
Sino IC Leasing Co., Ltd. ("Sino IC Leasing")	Shanghai, PRC	Ordinary	8.8 %*	NA	NA			
China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech")	Shanghai, PRC	Ordinary	45.0 %	45.0 %	NA			
Beijing Wu Jin Venture Investment Center (Limited Partnership) ("WuJin")**	Beijing, PRC	Ordinary	32.6 %	32.6 %	NA			
Shanghai Fortune-Tech Qitai Invest Center (Limited Partnership) ("Fortune- Tech Qitai")**	Shanghai, PRC	Ordinary	33.0 %	NA	NA			
Shanghai Fortune-Tech Zaixing Invest Center (Limited Partnership) ("Fortune-Tech Zaixing")**	Shanghai, PRC	Ordinary	66.2 %*	NA	NA			
Suzhou Fortune-Tech Oriental Invest Fund Center (Limited Partnership) ("Fortune-Tech Oriental")**	Jiangsu, PRC	Ordinary	44.8 %	NA	NA			

\* In accordance with investment agreements, the Group has significant influence over Fortune-Tech Zaixing and Sino IC Leasing.

\*\* The Group invested in these associates indirectly through China IC Capital Co., Ltd (the "Fund"), a wholly-owned investment fund company of the Group, as set out in Note 19. The Fund is intended to invest primarily in integrated circuits related fund products and investment projects. The Group's joint ventures and available-for-sale investments invested indirectly through the Fund are disclosed in Note 21 and Note 23, respectively.

All of these associates are accounted for using the equity method in these consolidated financial statements.

F-55



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

20. Investments in associates (*continued*)

In December 2014, the Company entered into an investment agreement through SilTech Shanghai with Jiangsu Changjiang Electronics Technology Co., Ltd (“JCET”) and China Integrated Circuit Industry Investment Fund Co., Ltd., (“China IC Fund”) to set up Changjiang Xinke. The Group paid US\$102 million to obtain 19.6% of total shares and 1 of 7 board seats. Changjiang Xinke and China IC Fund set up Suzhou Changdian Xinpeng Investment Ltd., Co. (“Changdian Xinpeng”) which acquired Stats ChipPAC Limited (“Stats ChipPAC”), a public company listed in Singapore capital market before acquired by Changdian Xinpeng. The investment was made in 2015 and the acquisition was completed in the same year.

Furthermore, JCET granted the Company an option to sell the shares of Changjiang Xinke to JCET at an exercise price equivalent to the Company’s initial investment plus an annual return rate at any time after Stats ChipPAC was acquired. Please refer to note 22.

Summarized financial information in respect of the Group’s material associates are set out below.

## Toppan

	12/31/15	12/31/14	12/31/13
	USD’000	USD’000	USD’000
Current assets	51,661	44,538	47,554
Non-current assets	22,554	28,789	22,660
Current liabilities	(2,062 )	(311 )	(2,117 )
Non-current liabilities	—	—	—
Net assets	72,153	73,016	68,097

	Year ended	Year ended	Year ended
	12/31/15	12/31/14	12/31/13
	USD’000	USD’000	USD’000
Total revenue	20,782	23,498	23,796

Profit for the year	3,267	5,493	7,364
Other comprehensive income for the year	—	—	—
Total comprehensive income for the year	3,267	5,493	7,364
Dividends received from the associate during the year	—	—	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Net assets of the associate	72,153	73,016	68,097
Proportion of the Group's ownership interest in Toppan	30 %	30 %	30 %
Carrying amount of the Group's interest in Toppan	21,646	21,905	20,429

F-56

Table of Contents20. Investments in associates (*continued*)

## Changjiang Xinke

	12/31/15 USD'000
Current assets	445,709
Non-current assets	1,837,445
Current liabilities	(581,838 )
Non-current liabilities	(1,093,368)
Net assets	607,948
Equity attributable to owners of the associate	455,862
Non-controlling interests	152,086

	Year ended 12/31/15 USD'000
Total revenue	519,582
Loss for the year	(67,135 )
Loss attributable to owners of the associate	(65,589 )
Loss attributable to the non-controlling interests	(1,546 )
Loss for the year	(67,135 )
Other comprehensive income for the year	16,224
Total comprehensive loss for the year	(50,911 )
Total comprehensive loss attributable to owners of the associate	(51,473 )
Total comprehensive income attributable to the non-controlling interests	562
Total comprehensive loss for the year	(50,911 )
Dividends received from the associate during the year	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	12/31/15 USD'000
Equity attributable to owners of the associate	455,862
Proportion of the Group's ownership interest in Changjiang Xinke	19.6 %
Carrying amount of the Group's interest in Changjiang Xinke	89,395

Fortune-Tech Zaixing

	12/31/15
	USD'000
Current assets	15,513
Non-current assets	7,581
Current liabilities	(3 )
Non-current liabilities	—
Net assets	23,091

F-57

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

20. Investments in associates (*continued*)**Fortune-Tech Zaixing** (*continued*)

	Year ended 12/31/15 USD'000
Total revenue	—
Loss for the year	(178 )
Other comprehensive income for the year	—
Total comprehensive loss for the year	(178 )
Dividends received from the associate during the year	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	12/31/15 USD'000
Net assets of the associate	23,091
Proportion of the Group's ownership interest in Fortune-Tech Zaixing	66.2 %
Carrying amount of the Group's interest in Fortune-Tech Zaixing	15,292

**Sino IC Leasing**

	12/31/15 USD'000
Current assets	502,454
Non-current assets	21,374
Current liabilities	(8,679 )
Non-current liabilities	(190,021)
Net assets	325,128

**Year ended**

**12/31/15**

USD'000

Total revenue	2,437
Profit for the year	3,761
Other comprehensive income for the year	—
Total comprehensive income for the year	3,761
Dividends received from the associate during the year	—

F-58

Table of Contents20. Investments in associates (*continued*)**Sino IC Leasing** (*continued*)

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	12/31/15
	USD'000
Net assets of the associate	325,128
Proportion of the Group's ownership interest in Sino IC Leasing	8.8 %
Carrying amount of the Group's interest in Sino IC Leasing	28,736

## 21. Investments in joint ventures

Details of the Group's joint ventures, which are all unlisted companies invested indirectly through China IC Capital Co., Ltd, at the end of the reporting period are as follows:

Name of company	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held			
			by the Group			
			12/31/15	12/31/14	12/31/13	
Shanghai Xinxin Investment Centre (Limited Partnership) ("Shanghai Xinxin")	Shanghai, PRC	Ordinary	49.0 %	NA	NA	
Shanghai Chengxin Investment Center (Limited Partnership) ("Shanghai Chengxin")	Shanghai, PRC	Ordinary	42.0 %	NA	NA	

Summarized financial information in respect of the Group's material joint venture is set out below.

Shanghai Xinxin

	12/31/15
	USD'000
Current assets	4,917
Non-current assets	28,631
Current liabilities	(3,287 )
Non-current liabilities	—
Net assets	30,261

	Year ended
	12/31/15
	USD'000
Total revenue	—
Loss for the year	(609 )
Other comprehensive income for the year	—
Total comprehensive loss for the year	(609 )
Dividends received from the joint venture during the year	—

F-59



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

21. Investments in joint ventures (*continued*)**Shanghai Xinxin** (*continued*)

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	12/31/15
	USD'000
Net assets of the joint venture	30,261
Proportion of the Group's ownership interest in Shanghai Xinxin	49.0 %
Carrying amount of the Group's interest in Shanghai Xinxin	14,829

## 22. Derivative financial instrument

As of December 31, 2015, the amount of the derivative financial instrument was US\$30.2 million (2014: nil and 2013: nil), which is a put option granted by JCET to sell the shares of Changjiang Xinke to JCET, pursuant to an investment exit agreement entered into by SilTech Shanghai (a subsidiary of the Company), JCET and Jiangsu Xinchao Technology Group Co., Ltd (a substantial shareholder of JCET). The fair value change of the derivative financial instrument was US\$30.2 million for the year ended 2015 (2014: nil and 2013: nil). Please refer to note 20 for more details of the put option and refer to note 39 for valuation techniques of the put option.

## 23. Other assets

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Available-for-sale investment	19,750	15,081	1,278
Others	12,328	15,786	4,959
Non-current	32,078	30,867	6,237

Available-for-sale investments are primarily fund companies and investment projects invested indirectly through China IC Capital Co., Ltd in the integrated circuits industry.

24. Other financial assets

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Derivatives			
Foreign currency forward contracts	172	—	—
Short-term investments			
Financial products sold by banks	257,583	616,862	240,311
Bank deposits will mature over 3 months	25,125	27,209	—
	282,880	644,071	240,311

F-60

Table of Contents

## 25. Inventories

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Raw materials	88,134	65,598	56,242
Work in progress	225,475	179,047	180,710
Finished goods	73,717	71,396	49,299
	387,326	316,041	286,251

The cost of inventories recognized as an expense (income) during the year in respect of inventory provision (reversal) was US\$(13.3) million (2014: US\$29.6 million and 2013: US\$(0.1) million).

## 26. Trade and other receivables

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Trade receivables	399,200	424,661	352,872
Allowance for doubtful debts	(41,976 )	(42,014 )	(44,643 )
	357,224	382,647	308,229
Other receivables and refundable deposits	142,622	73,741	71,132
	499,846	456,388	379,361

The Group determines credit terms mostly 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 Group.

The Group determines its allowance for doubtful debts based on the Group's historical experience and the relative aging of receivables as well as individual assessment of certain debtors. The Group provides allowance for doubtful debts based on recoverable amount by making reference to the age category of the remaining receivables and subsequent settlement. The Group's allowance for doubtful debts excludes receivables from a limited number of customers due to their high credit worthiness. The Group recognized US\$0.5 million, US\$1.6 million and US\$0.6 million of allowance for doubtful debts respectively during the year ended December 31, 2015, 2014 and 2013 respectively. The Group reviews, analyzes and adjusts allowance for doubtful debts on a monthly basis.

In evaluating the customers' credit quality, the Group used an internal system based on each customer's operation size, financial performance, listing status, payment history and other qualitative criteria. These criteria are reviewed and updated annually. Based on such evaluation, the Group believes the recoverability of those receivables that are not impaired is reasonably assured.

Trade receivables

Of the trade receivables balance at the end of the year of 2015, 2014 and 2013, US\$125.7 million, US\$131.3 million and US\$129.4 million respectively are due from the Group's two largest customers.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

F-61

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

26. Trade and other receivables (*continued*)**Trade receivables** (*continued*)*Age of receivables*

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Within 30 days	177,542	167,137	166,117
31–60 days	151,377	122,387	110,470
Over 60 days	70,281	135,137	76,285
Total	399,200	424,661	352,872

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Current	312,479	270,220	269,740
Past due but not impaired			
Within 30 days	39,737	55,412	24,480
31–60 days	3,534	20,915	10,068
Over 60 days	1,474	36,100	3,941
Total	357,224	382,647	308,229
Average overdue days	23	74	40

*Movement in the allowance for doubtful debts*

12/31/15 12/31/14 12/31/13

	USD'000	USD'000	USD'000
Balance at beginning of the year	42,014	44,643	45,340
Addition in allowance for doubtful debts	528	1,616	617
Amounts written off during the year as uncollectible	(25 )	(4,186 )	(101 )
Reversal of allowance for doubtful debts	(541 )	(59 )	(1,213 )
Balance at end of the year	41,976	42,014	44,643

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

F-62

Table of Contents26. Trade and other receivables (*continued*)**Trade receivables** (*continued*)*Age of impaired trade receivables*

	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000
Within 30 days	315	306	192
31–60 days	122	338	89
Over 60 days	41,539	41,370	44,362
Total	41,976	42,014	44,643

## 27. Restricted cash

As of December 31, 2015, 2014 and 2013, restricted cash consisted of US\$1.1 million, US\$0.6 million and US\$35.7 million, respectively of bank time deposits pledged against letters of credit and short-term borrowings, and US\$74.0 million, US\$135.4 million and US\$111.9 million, respectively of government funding received mainly for the reimbursement of research and development expenses to be incurred.

As of December 31, 2015 the restricted cash of US\$227.3 million was from a low interest cost entrusted loan granted by CDB Development Fund through China Development Bank, which is designated to be used for future capacity expansion. The Company expects to spend the restricted cash within the next 12 months.

As of December 31, 2014 the restricted cash of US\$102 million was for the co-investment in the proposed acquisition of STATS ChipPAC through Changjiang Xinke. On June 18, 2015, the amount of US\$102 million was applied as a capital contribution for 19.6% equity interest in Changjiang Xinke, which is accounted as an associate of the Group.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 28. Shares and issued capital

## Fully paid ordinary shares

	<b>Number of shares</b>	<b>Share capital USD'000</b>	<b>Share premium USD'000</b>
Balance at December 31, 2012	32,000,139,623	12,800	4,083,588
Issuance of shares under the Company's employee share option plan and RSU (see note 38)	112,167,478	45	6,641
The Company purchased shares of subsidiaries	—	—	(383 )
Balance at December 31, 2013	32,112,307,101	12,845	4,089,846
Issuance of shares under the Company's employee share option plan and RSU (see note 38)	215,677,649	86	18,422
Ordinary shares issued at June 12, 2014	2,590,000,000	1,036	196,161
Ordinary shares issued at November 21, 2014	669,468,952	268	51,523
Ordinary shares issued at November 27, 2014	268,642,465	107	20,678
Balance at December 31, 2014	35,856,096,167	14,342	4,376,630
Issuance of shares under the Company's employee share option plan and RSU (see note 38)	232,284,137	93	20,819
Ordinary shares issued at June 8, 2015	4,700,000,000	1,880	397,580
Ordinary shares issued at September 25, 2015	323,518,848	130	27,392
Ordinary shares issued at October 9, 2015	961,849,809	385	81,440
Balance at December 31, 2015	42,073,748,961	16,830	4,903,861

On February 12, 2015, the Company entered into a share purchase agreement with China IC Fund. Pursuant to the share purchase agreement, the Company proposed to issue 4,700,000,000 new ordinary shares (the "Placing of New Shares") to the China IC Fund at a consideration of approximately HK\$3,098.71 million. On June 8, 2015, the Placing of New Shares was completed and the Company issued 4,700,000,000 new ordinary shares to Xinxin (Hongkong) Capital Co., Limited, a wholly-owned subsidiary of the China IC Fund, at the issue price of HK\$0.6593 per ordinary share. The net proceeds are recorded as share capital of approximately US\$1.9 million and share premium of approximately US\$397.6 million in the statements of financial position. Net proceeds of issue are measured after deducting directly attributable transaction costs of the share issue.



F-64

Table of Contents28. Shares and issued capital *(continued)***Fully paid ordinary shares** *(continued)*

On November 6, 2008 and April 18, 2011, respectively, the Company entered into share purchase agreements with Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Holdings”) and Country Hill Limited (“Country Hill”) which granted each of Datang Holdings (Hongkong) Investment Company Limited (“Datang”) and Country Hill a pre-emptive right to subscribe for additional shares if the Company issues new shares to other investors. On March 2, 2015, the Company received irrevocable notices from both Datang and Country Hill about exercising their pre-emptive right as a result of the Placing of New Shares. On June 11, 2015, Datang and Country Hill entered into agreements with the Company (“2015 Datang Pre-emptive Share Purchase Agreement” and “2015 Country Hill Pre-emptive Share Purchase Agreement”, respectively) to subscribe for 961,849,809 ordinary shares and 323,518,848 ordinary shares of the Company, respectively, at a price of HK\$0.6593 per share. On September 25, 2015, Country Hill subscribed 323,518,848 ordinary shares of the Company. On October 9, 2015, Datang subscribed 961,849,809 ordinary shares of the Company.

Fully paid ordinary shares, which have a par value of US\$0.0004, carry one vote per share and carry a right to dividends.

## Stock incentive plans

The Company has adopted the stock incentive plans under which options to subscribe for the Company’s shares have been granted to certain employees, officers and other service providers (Note 38).

## 29. Reserves

## Equity-settled employee benefits reserve

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD’000</b>	<b>USD’000</b>	<b>USD’000</b>
Balance at beginning of year	64,540	55,177	42,232
Arising on share-based payments	18,088	18,388	16,402
Transfer to share premium	(12,169 )	(9,025 )	(3,457 )
Balance at end of year	70,459	64,540	55,177

The above equity-settled employee benefits reserve related to share options and RSUs granted by the Company to the Group's employees and service providers under stock incentive plans. Items included in equity-settled employee benefits reserve will not be reclassified subsequently to profit or loss. Further information about share-based payments to employees and service providers is set out in Note 38.

F-65

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 29. Reserves (continued)

Foreign currency translation reserve

*Items that may be reclassified subsequently to profit or loss*

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Balance at beginning of year	4,229	4,553	3,916
Exchange differences arising on translating the foreign operations	(8,185 )	(324 )	731
Disposal of subsidiaries	—	—	(94 )
Balance at end of year	(3,956 )	4,229	4,553

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. United States dollars) are recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal/deconsolidation of the foreign operation.

Change in value of available-for-sale financial assets

	<b>12/31/15</b>
	<b>USD'000</b>
Balance at beginning of year	—
Change in value of available-for-sale financial assets during this year	447
Balance at end of year	447

The changes in the carrying amount of available-for-sale financial assets, which were initially recognized at fair value plus transaction costs and subsequently carried at fair value, recognized in other comprehensive income and

accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Convertible bonds equity reserve

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Balance at beginning of year	29,564	15,210	—
Recognition of the equity component of convertible bonds	—	14,354	15,210
Balance at end of year	29,564	29,564	15,210

F-66

Table of Contents

29. Reserves (*continued*)

**Convertible bonds equity reserve** (*continued*)

The conversion option from the issuance of convertible bonds classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument (i.e. convertible bond) as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

30. Accumulated deficit

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required or allowed 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 registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries 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 2015 the Group did not make any appropriation to non-distributable reserves. As of December 31, 2015, 2014 and 2013, the accumulated non-distributable reserve was US\$30 million, US\$30 million and US\$30 million respectively.

In addition, due to restrictions on the distribution of paid-in capital from the Company's PRC subsidiaries, the PRC subsidiaries' paid-in capital of US\$4,939 million at December 31, 2015 is considered restricted.

As a result of these PRC laws and regulations, as of December 31, 2015, reserve and capital of approximately US\$4,969 million was not available for distribution to the Company by its PRC subsidiaries in the form of dividends, loans or advances.

In 2015, 2014 and 2013 the Company did not declare or pay any cash dividends on the ordinary shares.

F-67

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 31. Borrowings

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
At amortized cost			
Short-term commercial bank loans (i)	62,872	115,084	219,727
	62,872	115,084	219,727
Long-term debt by contracts			
2012 USD Loan (SMIC Shanghai) (ii)	—	—	201,000
2013 USD Loan (SMIC Shanghai) (iii)	10,760	221,520	260,000
2015 USD Loan (SMIC Shanghai) (iv)	52,854	—	—
2015 RMB Loan I (SMIC Shanghai) (v)	154,095	—	—
2015 RMB Loan II (SMIC Shanghai) (vi)	73,195	—	—
2015 EXIM RMB Loan (SMIC Shanghai) (vii)	73,966	—	—
2012 USD Loan (SMIC Beijing) (viii)	—	—	260,000
2013 EXIM USD Loan (SMIC Beijing) (ix)	—	40,000	40,000
2013 <u>CIDC</u> RMB Entrust loan (SMIC Beijing) (x)	—	2,450	10,795
2014 EXIM RMB Loan (SMIC Beijing) (xi)	36,983	39,200	—
2015 CDB RMB Loan (SMIC Beijing) (xii)	30,048	—	—
2015 RMB Entrust Loan (SJ Jiangyin) (xiii)	14,331	—	—
2015 CDB USD Loan (SJ Jiangyin) (xiv)	20,000	—	—
	466,232	303,170	771,795
Less: current maturities of long-term debt	50,196	46,970	170,820
Non-current maturities of long-term debt	416,036	256,200	600,975
Borrowing by repayment schedule:			
Within 1 year	113,068	162,054	390,547
Within 1–2 years	15,830	125,200	209,965
Within 2–5 years	172,916	131,000	367,990
Over 5 years	227,290	—	23,020
	529,104	418,254	991,522

## Summary of borrowing arrangements

As of December 31, 2015, the Group had 29 short-term credit agreements that provided total credit facilities up to US\$1,414.6 million on a revolving credit basis. As of December 31, 2015, the Group had drawn down US\$62.9 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate on this loan facility ranged from 0.98% to 4.20% in 2015.



In March 2012, SMIS entered into a loan facility in the aggregate principal amount of US\$268 million from a consortium of international and Chinese banks. This three-year bank facility was used to finance the working (ii) capital for SMIS's 8-inch fab. The facility was secured by the manufacturing equipment located in the SMIS 8-inch fabs, buildings and land use right of SMIS. SMIS had drawn down US\$268 million and repaid the outstanding balance on this loan facility in advance by December 2014.

F-68

Table of Contents

31. Borrowings (*continued*)

**Summary of borrowing arrangements** (*continued*)

In August 2013, SMIS entered into a loan facility in the aggregate principal amount of US\$470 million with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS' 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS' (iii) 12-inch fab. As of December 31, 2015, SMIS had drawn down US\$260 million and repaid US\$249.2 million on this loan facility. The outstanding balance of US\$10.8 million is repayable from February 2018 to August 2018. The interest rate on this loan facility ranged from 4.33% to 4.89% in 2015. SMIS was in compliance with the related financial covenants as of December 31, 2015.

In April 2015, SMIS entered into a loan facility in the aggregate principal amount of US\$66.1 million with US Export-Import Bank. This five-year bank facility was used to finance the planned expansion for SMIS' 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS' 12-inch fab. As of December 31, (iv) 2015, SMIS had drawn down US\$66.1 million and repaid US\$13.2 million on this loan facility. The outstanding balance of US\$52.9 million is repayable from June 2016 to December 2019. The interest rate on this loan facility ranged from 1.21% to 1.75% in 2015. SMIS was in compliance with the related financial covenants as of December 31, 2015.

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000 million with China Development Bank, which is guaranteed by SMIC. This fifteen-year bank facility was used for new SMIS' (v) 12-inch fab. As of December 31, 2015, SMIS had drawn down RMB1,000 million (approximately US\$154.1 million) on this loan facility. The outstanding balance is repayable from November 2021 to November 2030. The interest rate on this loan facility was 1.20% in 2015.

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the (vi) capacity of SMIS' 12-inch fab. As of December 31, 2015, SMIS had drawn down RMB475 million (approximately US\$73.2 million) on this loan facility. The outstanding balance is repayable from December 2018 to December 2025. The interest rate on this loan facility was 1.20% in 2015.

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB480 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital (vii) purposes. As of December 31, 2015, SMIS had drawn down RMB480 million (approximately US\$74.0 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2015.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

31. Borrowings (*continued*)

**Summary of borrowing arrangements** (*continued*)

(viii) In March 2012, SMIB entered into the Beijing USD syndicate loan, a seven-year loan facility in the aggregate principal amount of US\$600 million, with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to expand the capacity of SMIB's 12-inch fabs. The facility was secured by the manufacturing equipment located in the SMIB and SMIT fabs, and 100% equity pledge of SMIB and SMIT. As of December 31, 2014, SMIB had drawn down US\$260 million and repaid the outstanding balance on this loan facility in advance by September 2014.

(ix) In June 2013, SMIB entered into a USD Loan, a twenty-six-month working capital loan facility in the principal amount of US\$60 million with The Export-Import Bank of China, which was unsecured. This twenty-six-month bank facility was used for working capital purposes. As of December 31, 2015, SMIB had drawn down US\$40 million on this loan facility. The principal amount was repaid in August 2015. The interest rate on this loan facility was 3.33% in 2015.

(x) In June 2013, SMIB entered into a RMB Loan, a two-year working capital entrust loan facility in the principal amount of RMB70 million with China Investment Development Corporation through China CITIC Bank, which was unsecured. This two-year entrust loan facility was used for working capital purposes. SMIB drawn down RMB70 million (approximately US\$10.8 million) and had repaid the outstanding balance on this loan facility in advance by May 2015. The interest rate on this loan facility was 12.0% in 2015.

(xi) In December 2014, SMIB entered into the new RMB Loan, a two-year working capital loan facility in the principal amount of RMB240 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2015, SMIB had drawn down RMB240 million (approximately US\$37.0 million) on this loan facility. The principal amount is repayable in December 2016. The interest rate on this loan facility ranged from 3.65% to 3.90% in 2015.

(xii) In December 2015, SMIB entered into the new RMB Loan, a fifteen-year working capital loan facility in the principal amount of RMB195 million with China Development Bank, which is unsecured. As of December 31, 2015, SMIB had drawn down RMB195 million (approximately US\$30.0 million) on this loan facility. The principal amount is repayable from December 2017 to December 2030. The interest rate on this loan facility was 1.20% in 2015.

(xiii) In July 2015, SJ Jiangyin entered into the new RMB Loan of zero-interest rate, a five-year working capital loan facility in the principal amount of RMB93 million with Jiangyin Science and Technology New City Investment Management Company Ltd, which is unsecured. As of December 31, 2015, SJ Jiangyin had drawn down RMB93 million (approximately US\$14.3 million) on this loan facility. The principal amount is repayable in July 2020.

F-70

Table of Contents

31. Borrowings (*continued*)

**Summary of borrowing arrangements** (*continued*)

In September 2015, SJ Jiangyin entered into the new USD Loan, a seven-year working capital loan facility in the principal amount of US\$44.5 million with China Development Bank. This bank facility was used to expand the (xiv) capacity of SJ Jiangyin's 12-inch bumping fab. The facility is guaranteed by SMIB. As of December 31, 2015, SJ Jiangyin had drawn down US\$20 million on this loan facility. The principal amount is repayable from September 2017 to September 2022. The interest rate on this loan facility ranged from 4.20% to 4.23% in 2015.

As of December 31, 2015, property, plant and equipment and land use right with carrying amount of approximately US\$324 million (2014: US\$308 million and 2013: US\$1,007 million) have been pledged to secure borrowings of the Group.

32. Convertible bonds

(i) Issue of US\$200 million zero coupon convertible bonds due 2018

The Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$200,000,000 on November 7, 2013 (the "Original Bonds").

The principal terms of the Original Bonds are as follows:

(1) Denomination of the Original Bonds — The Original Bonds are denominated in USD.

(2) Maturity date — Five years from the date of issuance, which is November 7, 2018 ("Maturity Date").

(3) Interest — The Original Bonds do not bear any cash interest.

(4) Conversion —

Conversion price — The price is HK\$0.7965 per each new share to be issued upon conversion of the Original Bonds (“Conversion Share”), subject to anti-dilutive adjustment in accordance with the terms of the bonds, including

a) subdivision, reclassification or consolidation of shares of the Company, capitalization of profits or reserves, capital distribution, issuance of options or rights, and certain other events.

Conversion period — The Bondholder has the right to convert the Original Bonds into shares at any time on or after December 18, 2013 up to the close of business on the date falling seven days prior to the Maturity Date or if such

b) bonds shall have been called or put for redemption at any time before the Maturity Date, then up to the close of business on a date no later than seven days prior to the date fixed for redemption, which is discussed below.

Number of Conversion Shares issuable — 1,946,817,325 Conversion Shares will be issued upon full conversion of the

c) Original Bonds based on the initial conversion price of HK\$0.7965 (translated at the fixed exchange rate of HK\$7.7532 = US\$1.0 as pre-determined).

F-71

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

32. Convertible bonds (*continued*)

(i) Issue of US\$200 million zero coupon convertible bonds due 2018 (*continued*)

(1) Redemption —

a) At the option of the Company:

(I) Redemption at maturity — The Company will redeem the outstanding Original Bonds at principal amount on the Maturity Date.

(II) Redemption for tax reasons — The Company will redeem all and not only some of the Original Bonds at their principal amount, at its option, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders on the date specified in the Tax Redemption Notice.

(III) Redemption at the Option — The Company may redeem all and not only some of the Original Bonds on the date specified in the Option Redemption Notice at their principal amount at any time after November 7, 2015, provided that the Closing Price of a Share at least 120 percent of the Conversion Price then in effect immediately prior to the date upon which notice of such redemption is given. If at any time the aggregate principal amount of the outstanding Original Bonds is less than 10% of the aggregate principal amount originally issued, the Issuer may redeem all and not only some of such outstanding Original Bonds at their principal amount.

b) At the option of the Bondholder:

(I) Redemption on change of control — Upon the occurrence of a Change of Control, the Bondholder will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's bonds on the Change of Control put date at their principal amount of the Original Bonds.

(II) Redemption at the option — The holders of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of the Original Bonds of such holder on the Optional Put Date (on November 7, 2016) at their principal amount.

(2) Purchase — The Issuer or any of their respective Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase the Original Bonds at any price in the open market or otherwise.

(3) Cancellation — All the Original Bonds which are redeemed, converted or purchased by the Issuer or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all the Original Bonds cancelled will be forwarded to or to the order of the Registrar and such Original Bonds may not be reissued or resold.

F-72



Table of Contents32. Convertible bonds (*continued*)(i) Issue of US\$200 million zero coupon convertible bonds due 2018 (*continued*)

The Original Bonds issued at November 7, 2013 is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Original Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Original Bonds was approximately US\$179.4 million and the equity component was approximately US\$15.2 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	<b>USD'000</b>
Principal amount	200,000
Transaction cost	(5,400 )
Liability component at the date of issue	(179,390)
Equity component	15,210

Subsequent to the initial recognition, the liability component of the Original Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Bonds was 3.69% per annum. The movement of the liability component and equity component of the Original Bonds for the year ended December 31, 2015 is set out below:

	<b>Liability Component</b>	<b>Equity Component</b>	<b>Total</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
As at November 7, 2013	179,390	15,210	194,600
Interest charged during 2013	1,173	—	1,173
As at December 31, 2013	180,563	15,210	195,773
Interest charged during 2014	6,593	—	6,593
As at December 31, 2014	187,156	15,210	202,366
Interest charged during 2015	6,910	—	6,910
As at December 31, 2015	194,066	15,210	209,276

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the Original Bonds mature.



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

32. Convertible bonds (*continued*)

(ii) Issue of US\$86.8 million zero coupon convertible bonds due 2018

On May 29, 2014, the Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$54,600,000 to Datang and an aggregate principal amount of US\$32,200,000 to Country Hill (collectively, the “Original Pre-emptive Bonds”). The issue price was 100% of the aggregate principal amount of the Original Pre-emptive Bonds and the terms and conditions of the Original Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 32(i)). The Original Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Original Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Original Pre-emptive Bonds was approximately US\$81.2 million and the equity component was approximately US\$5.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	<b>USD'000</b>
Principal amount	86,800
Transaction cost	—
Liability component at the date of issue	(81,235)
Equity component	5,565

Subsequent to the initial recognition, the liability component of the Original Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Pre-emptive Bonds was 2.78% per annum. The movement of the liability component and equity component of the Original Pre-emptive Bonds for the year ended December 31, 2015 is set out below:

	<b>Liability Component USD'000</b>	<b>Equity Component USD'000</b>	<b>Total USD'000</b>
As at May 29, 2014	81,235	5,565	86,800
Interest charged during 2014	1,315	—	1,315
As at December 31, 2014	82,550	5,565	88,115

Interest charged during 2015	2,292	—	2,292
As at December 31, 2015	84,842	5,565	90,407

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the Original Pre-emptive Bonds mature.

The Original Pre-emptive Bonds have been consolidated and have formed a single series with the Original Bonds from the date of their issue.

F-74

Table of Contents32. Convertible bonds (*continued*)

## (iii) Issue of US\$95 million zero coupon convertible bonds due 2018

On June 24, 2014, the Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$95,000,000 (the “Further Bonds”). The issue price was 101.5% of the aggregate principal amount of the Further Bonds and the terms and conditions of the Further Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 32(i)). The Further Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Bonds was approximately US\$87.1 million and the equity component was approximately US\$7.1 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	<b>USD'000</b>
Principal amount	95,000
Premium of convertible bonds	1,425
Transaction cost	(2,187 )
Liability component at the date of issue	(87,090)
Equity component	7,148

Subsequent to the initial recognition, the liability component of the Further Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Bonds was 3.79% per annum. The liability component and equity component of the Further Bonds for the year ended December 31, 2015 is set out below:

	<b>Liability Component</b>	<b>Equity Component</b>	<b>Total</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
As at June 24, 2014	87,090	7,148	94,238
Interest charged during 2014	1,650	—	1,650
As at December 31, 2014	88,740	7,148	95,888
Interest charged during 2015	3,362	—	3,362
As at December 31, 2015	92,102	7,148	99,250

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the Further Bonds mature.

The Further Bonds have been consolidated and have formed a single series with the Original Bonds from the date of their issue.

F-75

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

32. Convertible bonds (*continued*)

(iv) Issue of US\$22.2 million zero coupon convertible bonds due 2018

On December 4, 2014, the Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$22,200,000 to Datang (the “Further Pre-emptive Bonds”). The issue price was 101.5% of the aggregate principal amount of the Further Pre-emptive Bonds and the terms and conditions of the Further Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 32(i)). The Further Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Pre-emptive Bonds was approximately US\$20.9 million and the equity component was approximately US\$1.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	<b>USD'000</b>
Principal amount	22,200
Premium of convertible bonds	333
Liability component at the date of issue	(20,892)
Equity component	1,641

Subsequent to the initial recognition, the liability component of the Further Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Pre-emptive Bonds was 3.22% per annum. The liability component and equity component of the Further Pre-emptive Bonds for the year ended December 31, 2015 is set out below:

	<b>Liability Component</b>	<b>Equity Component</b>	<b>Total</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
As at December 4, 2014	20,892	1,641	22,533
Interest charged during 2014	56	—	56
As at December 31, 2014	20,948	1,641	22,589
Interest charged during 2015	674	—	674

As at December 31, 2015	21,622	1,641	23,263
-------------------------	--------	-------	--------

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the Further Pre-emptive Bonds mature.

The Further Pre-emptive Bonds have been consolidated and have formed a single series with the Original Bonds from the date of their issue.

The holders of each convertible bond may require the Company to redeem all or some only of the convertible bonds at their principal amount on November 7, 2016. Accordingly, all the convertible bonds disclosed above were classified as current liabilities at December 31, 2015.

F-76



Table of Contents

## 33. Bonds payable

On October 7, 2014, the Company issued 5-year unsecured corporate bonds for a total amount of US\$500 million. The corporate bonds carry a coupon interest rate of 4.125% with bond interest payable semi-annually on March 31 and September 30. As at the issue date, the net book value of the liabilities amounted to US\$491.2 million after the deduction of (1) a discount of US\$5.2 million and (2) issue expenses of US\$3.6 million.

	<b>USD'000</b>
Principal amount	500,000
Discount of bonds payable	(5,185 )
Transaction cost	(3,634 )
Bonds payable	491,181

The movement of the corporate bonds for the year ended December 31, 2015 is set out below:

	<b>USD'000</b>
As at October 7, 2014	491,181
Interest charged during 2014	5,554
Interest payable recognized during 2014	(5,156 )
As at December 31, 2014	491,579
Interest charged during 2015	22,253
Interest payable recognized during 2015	(20,625 )
As at December 31, 2015	493,207

## 34. Other liabilities

The amounts of other liabilities as of December 31, 2015 were US\$65.8 million (2014: nil and 2013: nil), US\$48.0 million (2014: nil and 2013: nil) of which were accrued bonus to be paid later than one year.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 35. Trade and other payables

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Trade payables	885,438	645,414	285,967
Advance receipts from customers	72,865	54,724	41,164
Deposit received	47,468	77,296	48,976
Other payable	41,995	16,927	17,783
	1,047,766	794,361	393,890

Trade payables are non-interest bearing and are normally settled on 30-day to 60-day terms.

As of December 31, 2015, 2014 and 2013, trade payables were US\$885.4 million, US\$645.4 million and US\$286.0 million, within which the payables for property, plant and equipment were US\$660.7 million, US\$425.1 million and US\$117.6 million, respectively.

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period.

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Within 30 days	788,936	555,556	214,219
Between 31 to 60 days	36,596	25,729	20,295
Over 60 days	59,906	64,129	51,453
	885,438	645,414	285,967

An aged analysis of the accounts payable is as follows:

<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>

Current	814,553	599,584	237,337
Overdue:			
Within 30 days	24,554	12,520	9,493
Between 31 to 60 days	10,458	4,954	12,299
Over 60 days	35,873	28,356	26,838
	885,438	645,414	285,967

### 36. Accrued liabilities

The amounts of accrued liabilities as of December 31, 2015, 2014 and 2013 were US\$132.5 million, US\$131.1 million and US\$127.6 million, within which the amounts of accrued payroll expenses were US\$71.5 million, US\$62.5 million and US\$55.5 million, respectively.

F-78

Table of Contents

## 37. Other financial liabilities

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Derivatives carried at fair value through profit or loss (FVTPL)			
Cross currency swap contracts	1,459	—	—
	1,459	—	—

## 38. Share-based payments

## Stock incentive plans

The Company's stock incentive plans allow the Company to offer a variety of incentive awards to employees, consultants or external service advisors of the Group.

*Stock option plan*

The 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.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

*Restricted share units ("RSUs")*

The Company adopted the Equity Incentive Plan ("EIP") whereby the Company provides additional incentives to the Group's employees, directors and external consultants through the issuance of restricted shares, RSUs and stock appreciation rights to the participants at the discretion of the Board of Directors. The RSUs vest over a requisite service period of 4 years and expire 10 years from the date of grant.

The fair value of each RSU granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted.

*Share option plan for subsidiaries (“Subsidiary Plan”)*

The options granted under the Subsidiary Plan shall entitle a participant of the Subsidiary Plan to purchase a specified number of subsidiary shares during a specified period at the price fixed by the relevant subsidiary committee at the time of grant or by a method specified by the relevant subsidiary committee at the time of grant and expire 10 years from the date of grant. The options vest over a requisite service period of four years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

The expense recognized for employee services received during the year is shown in the following table:

	<b>Year ended 12/31/15 USD’000</b>	<b>Year ended 12/31/14 USD’000</b>	<b>Year ended 12/31/13 USD’000</b>
Expense arising from equity-settled share-based payment transactions	18,329	18,388	16,402

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

38. Share-based payments (*continued*)

## Movements during the year

(i) The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options during the year (excluding RSUs and Subsidiary Plan):

	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>Number</b>	<b>WAEP</b>	<b>Number</b>	<b>WAEP</b>	<b>Number</b>	<b>WAEP</b>
Outstanding at January 1	1,163,627,269	<b>US\$0.08</b>	1,320,383,853	US\$0.09	1,285,367,372	US\$0.09
Granted during the year	56,565,258	<b>US\$0.10</b>	153,998,051	US\$0.10	270,695,247	US\$0.08
Forfeited and expired during the year	(87,928,903 )	<b>US\$0.14</b>	(161,539,854 )	US\$0.15	(158,907,830 )	US\$0.11
Exercised during the year	(129,307,845 )	<b>US\$0.07</b>	(149,214,781 )	US\$0.06	(76,770,936 )	US\$0.04
Outstanding at December 31	1,002,955,779	<b>US\$0.08</b>	1,163,627,269	US\$0.08	1,320,383,853	US\$0.09
Exercisable at December 31	513,197,994	<b>US\$0.08</b>	489,477,234	US\$0.09	483,679,899	US\$0.11

The weighted average remaining contractual life for the share options outstanding as at December 31, 2015 was 6.04 years (2014: 6.59 years and 2013: 6.58 years).

The range of exercise prices for options outstanding at the end of the year was from US\$0.02 to US\$0.15 (2014: from US\$0.02 to US\$0.22 and 2013: from US\$0.02 to US\$0.35).

The weighted average closing price of the Company’s shares immediately before the dates on which the share options were exercised was US\$0.11 (2014: US\$0.10 and 2013: US\$0.07).

During the year ended December 31, 2015, share options were granted on February 24, 2015 May 20, 2015 and September 11, 2015. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04, US\$0.04 and US\$0.05, respectively.

During the year ended December 31, 2014, share options were granted on June 12, 2014 and November 17, 2014. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04 and US\$0.05, respectively.

During the year ended December 31, 2013, share options were granted on May 7, 2013, June 11, 2013, June 17, 2013, September 6, 2013 and November 4, 2013. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04, US\$0.04, US\$0.04, US\$0.04 and US\$0.03, respectively.

The following table list the inputs to the Black Scholes Pricing models used for the option granted during the years ended 31 December 2015, 2014 and 2013 respectively:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Dividend yield (%)	—	—	—
Expected volatility	46.13 %	50.93 %	62.18 %
Risk-free interest rate	1.61 %	1.67 %	1.23 %
Expected life of share options	<b>6 years</b>	5 years	5 years

Table of Contents38. Share-based payments (*continued*)**Movements during the year** (*continued*)

(i) The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options during the year (excluding RSUs and Subsidiary Plan): (*continued*)

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 the Company’s 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.

The valuation of the options are based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these options.

(ii) The following table illustrates the number and weighted average fair value (“WAFV”) of, and movements in, RSUs during the year (excluding stock option plan and Subsidiary Plan):

	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>Number</b>	<b>WAFV</b>	<b>Number</b>	<b>WAFV</b>	<b>Number</b>	<b>WAFV</b>
Outstanding at January 1	274,057,667	<b>US\$0.09</b>	233,158,731	US\$0.07	125,358,288	US\$0.06
Granted during the year	146,852,985	<b>US\$0.11</b>	114,726,892	US\$0.11	151,336,161	US\$0.08
Forfeited during the year	(13,421,683 )	<b>US\$0.10</b>	(7,365,088 )	US\$0.09	(8,139,176 )	US\$0.07
Exercised during the year	(102,976,292)	<b>US\$0.08</b>	(66,462,868 )	US\$0.07	(35,396,542 )	US\$0.06
Outstanding at December 31	304,512,677	<b>US\$0.10</b>	274,057,667	US\$0.09	233,158,731	US\$0.07

The weighted average remaining contractual life for the RSUs outstanding as at December 31, 2015 was 8.69 years (2014: 8.75 years and 2013: 8.88 years).

The weighted average closing price of the Company’s shares immediately before the dates on which the RSUs were exercised was US\$0.09 (2014: US\$0.08 and 2013: US\$0.08).



During the year ended December 31, 2015, RSUs were granted on May 20, 2015, September 11, 2015 and November 23, 2015. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.11, US\$0.09 and US\$0.11.

During the year ended December 31, 2014, RSUs were granted on November 17, 2014. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.11.

During the year ended December 31, 2013, RSUs were granted on June 11, 2013. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.08.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

38. Share-based payments (*continued*)**Movements during the year** (*continued*)

- (ii) The following table illustrates the number and weighted average fair value (“WAFV”) of, and movements in, RSUs during the year (excluding stock option plan and Subsidiary Plan): (*continued*)

The following table list the inputs to the models used for the plans for the years ended December 31, 2015, 2014 and 2013, respectively:

	<b>2015</b>		<b>2014</b>		<b>2013</b>	
Dividend yield (%)	—		—		—	
Expected volatility	37.07	%	38.49	%	47.03	%
Risk-free interest rate	0.60	%	0.54	%	0.34	%
Expected life of <u>RSUs</u>	<b>2 years</b>		2 years		2 years	

The risk-free rate for periods within the contractual life of the RSUs is based on the yield of the US Treasury Bond. The expected term of RSUs granted represents the period of time that RSUs granted are expected to be outstanding. Expected volatilities are based on the average volatility of the Company’s stock prices with the time period commensurate with the expected term of the RSUs. The dividend yield is based on the Company’s intended future dividend plan.

The valuation of the RSUs is based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these RSUs.

- (iii) The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options of the Subsidiary Plan during the year (excluding stock option plan and RSUs):

	<b>2015</b>	<b>2015</b>
	<b>Number</b>	<b>WAEP</b>

Outstanding at January 1	—	—
Granted during the year	8,330,000	<b>US\$0.06</b>
Forfeited and expired during the year	(1,192,500)	<b>US\$0.06</b>
Exercised during the year	(137,500 )	<b>US\$0.05</b>
Outstanding at December 31	7,000,000	<b>US\$0.06</b>
Exercisable at December 31	689,479	<b>US\$0.05</b>

The weighted average remaining contractual life for the share options outstanding as at December 31, 2015 was 9.1 years.

The range of exercise prices for options outstanding at the end of the year was from US\$0.05 to US\$0.08.

During the year ended December 31, 2015, share options of the Subsidiary Plan were granted on January 1, 2015, May 4, 2015 and September 15, 2015. The fair values of the options of the Subsidiary Plan determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.069, US\$0.069 and US\$0.099, respectively.

Table of Contents

38. Share-based payments (*continued*)

**Movements during the year** (*continued*)

(iii) The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options of the Subsidiary Plan during the year (excluding stock option plan and RSUs): (*continued*)

The following table list the inputs to the Black Scholes Pricing models used for the option of the Subsidiary Plan granted during the years ended 31 December 2015:

	<b>2015</b>
Dividend yield (%)	—
Expected volatility	36.0 %
Risk-free interest rate	1.01 %
Expected life of share options	<b>3 years</b>

The risk-free rate for periods within the contractual life of the option of the Subsidiary Plan is based on the yield of the US Treasury Bond. The expected term of options of the Subsidiary Plan granted represents the period of time that options of the Subsidiary Plan granted are expected to be outstanding. Expected volatilities are based on the average volatility of the relevant subsidiary’s set of public comparables with the time period commensurate with the expected term of the options. The dividend yield is based on the relevant subsidiary’s intended future dividend plan.

The valuation of the options of the Subsidiary Plan are based on the best estimates from the relevant subsidiary by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these options.

39. Financial instruments

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the capital structure.

The capital structure of the Group consists of net debt (debt as detailed in Note 31, Note 32 and Note 33 offset by cash and cash equivalent) and equity of the Group.

Where the entity manages its capital through issuing/repurchasing shares and raising/repayment of debts. The Group reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

F-83

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

39. Financial instruments (*continued*)

## Gearing ratio

The gearing ratio at end of the reporting period was as follows.

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Debt (i)	<b>1,414,943</b>	1,289,227	1,172,085
Cash and cash equivalent	<b>(1,005,201)</b>	(603,036 )	(462,483 )
Other financial assets	<b>(282,880 )</b>	(644,071 )	(240,311 )
Net debt	<b>126,862</b>	42,120	469,291
Equity	<b>4,190,255</b>	3,307,722	2,593,182
Net debt to equity ratio	<b>3.0</b>	% 1.3	% 18.1

(i) Debt is defined as long-and short-term borrowings (excluding derivatives), convertible bonds, and bonds payables as described in Note 31, Note 32 and Note 33.

## Financial risk management objectives

The Group's corporate treasury function co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk including currency risk, interest rate risk and other price risk, credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the import from suppliers;
- interest rate swaps to mitigate the risk of rising interest rates; and

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.

Market risk exposures are measured using the sensitivity analysis and the analysis in the following sections relate to the position as at December 31, 2015, 2014 and 2013.

Table of Contents39. Financial instruments (*continued*)**Market risk** (*continued*)

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

## Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period were as follows:

	<b>Liabilities</b>			<b>Assets</b>		
	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
EUR	76,462	2,488	3,037	33,968	480	2,595
JPY	5,553	7,560	7,925	2,986	606	1,499
RMB	586,931	221,336	133,177	909,497	1,148,146	766,960
Others	14,127	4,684	8,226	2,529	1,100	7,323

**Foreign currency sensitivity analysis**

The Group is mainly exposed to the currency of RMB, Japanese Yen ("JPY") and Euros ("EUR").

The following table details the Group's sensitivity to a 5% increase in the foreign currencies against USD. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. For a 5% decrease of the foreign currency against USD, there would be an equal and opposite impact on the profit or equity below predicted.

**EUR****JPY****RMB****Others**



	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Profit or loss	(2,125)	(100 )	(22 )	(128)	(366 )	(338 )	16,128	48,780	33,357	(580)	(190 )	(1 )
Equity	(2,125)	(100 )	(22 )	(128)	(366 )	(338 )	16,128	48,780	33,357	(580)	(190 )	(1 )

***Forward foreign exchange contracts***

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within the exposure generated. The Group also enters into forward foreign exchange contracts to manage the foreign currency exposure from purchases/sales and financing activities.

F-85

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 39. Financial instruments (continued)

**Foreign currency risk management** (continued)**Forward foreign exchange contracts** (continued)

The following table details the forward foreign currency (FC) contracts outstanding at the end of the reporting period:

*Outstanding contracts*

	Average exchange rate			Foreign currency			Notional value			Fair value assets/(liabilities)		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
				FC'000	FC'000	FC'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Buy EUR												
Less than 3 months	1.0895	—	—	39,192	—	—	42,872	—	—	172	—	—

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

**Cross currency swap contracts**

It is the policy of the Group to enter into cross-currency swap agreements to protect against volatility of future cash flows caused by the changes in exchange rates associated with outstanding long-term debt denominated in a currency other than the US dollar.

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

*Outstanding contracts*

	Average exchange rate		Foreign currency		Notional value		Fair value assets/(liabilities)					
	12/31/15	12/31/14	12/31/15	12/31/14	12/31/15	12/31/14	12/31/15	12/31/14	12/31/13	12/31/13		
			FC'000	FC'000	FC'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	
Buy RMB 1 year to 5 years	6.4360	—	—	480,000	—	—	73,966	—	—	(1,459 )	—	—

The Group does not enter into cross currency swap contracts for speculative purposes.

#### Interest rate risk management

The Group is exposed to interest rate risk relates primarily to the Group's long-term debt obligations, which the Group generally assumes to fund capital expenditures and working capital requirements. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and cross currency swap contracts.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Table of Contents

39. Financial instruments (*continued*)

**Interest rate risk management** (*continued*)

***Interest rate sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

A 10 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 10 basis points higher and all other variables were held constant, the Group's profit for the year ended December 31, 2015 would decrease by US\$0.4 million (2014: profit decrease by US\$0.2 million and 2013: profit decrease by US\$0.6 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly exposed to credit risk from trade and other receivables and deposits with banks and financial institutions.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and is offered credit terms only with the approval from Finance and Sales Division. Credit quality of a customer is assessed using publicly available financial information and its own trading records to rate its major customers. The Group's exposure and credit ratings of its counterparties are continuously monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Apart from Customers A, B, C and D, four largest customers of the Group, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Customers A, B, C and D did not exceed 5%, 4%, 3% and 3% respectively of gross monetary assets at the end of

current year. Concentration of credit risk to any other counterparty did not exceed 3% of gross monetary assets at the end of current year.

Net revenue and accounts receivable for customers which accounted for 10% or more of the Group's net sales and gross accounts receivable is disclosed in Note 6.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings.

F-87

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

39. Financial instruments (*continued*)

## Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

***Liquidity and interest risk tables***

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

		<b>Weighted average effective interest rate</b>		<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1–5 years</b>	<b>5+ years</b>	<b>Total</b>
		<b>%</b>		<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
December 31, 2015								
Interest-bearing bank and other borrowings	Fixed	1.69	%	42,963	—	149,253	238,831	431,047
	Floating	4.98	%	—	71,944	158,744	—	230,688
Convertible bonds		<b>2.78%–3.79</b>	<b>%</b>	—	404,000	—	—	404,000
Bonds payable		4.52	%	—	—	500,000	—	500,000
Trade and other payables				920,426	28,508	5,350	93,482	1,047,766
				963,389	504,452	813,347	332,313	2,613,501

		<b>Weighted average effective interest rate</b>		<b>Less than 3 months USD'000</b>	<b>3 months to 1 year USD'000</b>	<b>1-5 years USD'000</b>	<b>5+ years USD'000</b>	<b>Total USD'000</b>
		<b>%</b>						
December 31, 2014								
Interest-bearing bank and other borrowings	Fixed	2.54	%	39,075	77,099	—	—	116,174
	Floating	6.13	%	—	48,408	287,596	—	336,004
Convertible bonds		2.78%-3.79	%	—	—	404,000	—	404,000
Bonds payable		4.52	%	—	—	500,000	—	500,000
Trade and other payables				727,589	744	3,492	62,536	794,361
				766,664	126,251	1,195,088	62,536	2,150,539

		<b>Weighted average effective interest rate</b>		<b>Less than 3 months USD'000</b>	<b>3 months to 1 year USD'000</b>	<b>1-5 years USD'000</b>	<b>5+ years USD'000</b>	<b>Total USD'000</b>
		<b>%</b>						
December 31, 2013								
Interest-bearing bank and other borrowings	Fixed	3.72	%	102,800	119,588	—	—	222,388
	Floating	5.66	%	82,741	91,169	643,369	26,928	844,207
Convertible bonds		3.69	%	—	—	200,000	—	200,000
Trade and other payables				334,622	56,383	2,885	—	393,890
				520,163	267,140	846,254	26,928	1,660,485

Table of Contents

## 39. Financial instruments (continued)

**Liquidity risk management (continued)****Liquidity and interest risk tables (continued)**

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate		Less than	3 months	1-5	5+ years	Total
			3 months	to 1 year	years		USD'000
	%		USD'000	USD'000	USD'000	USD'000	USD'000
December 31, 2015							
Trade and other receivables			499,846	—	—	—	499,846
Cash and cash equivalent, restricted cash & short-term investments	2.12	%	1,549,692	45,038	—	—	1,594,730
Available for sale financial assets			—	—	—	19,750	19,750
			2,049,538	45,038	—	19,750	2,114,326

	Weighted average effective interest rate		Less than 3	3	1-5	5+	Total
			months	months	years	years	USD'000
	%		USD'000	to 1 year USD'000	USD'000	USD'000	USD'000
December 31, 2014							
Trade and other receivables			456,388	—	—	—	456,388
Cash and cash equivalent, restricted cash & short-term investments	2.60	%	1,309,979	45,484	—	—	1,355,463
Available for sale financial assets			—	—	—	15,081	15,081
			1,766,367	45,484	—	15,081	1,826,932

**Weighted  
average**



	<b>effective interest rate</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>5+ years</b>	<b>Total</b>
	<b>%</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
December 31, 2013						
Trade and other receivables		379,361	—	—	—	379,361
Cash and cash equivalent, restricted cash & short-term investments	1.34	% 680,525	59,437	—	—	739,962
Available for sale financial assets		—	—	—	1,278	1,278
		1,059,886	59,437	—	1,278	1,120,601

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 39. Financial instruments (continued)

**Liquidity risk management** (continued)**Liquidity and interest risk tables** (continued)

The Group has access to short-term financing facilities as described in below section, of which US\$1,351.7 million were unused at the end of the reporting period (2014: US\$767.4 million and 2013: US\$927.5 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	<b>1 month</b>	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>5+ years</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
December 31, 2015						
Net settled:						
— foreign exchange forward contracts	—	42,872	—	—	—	—
— cross currency swap contracts	—	—	—	—	73,966	—
	—	42,872	—	—	73,966	—

Fair value of financial instruments

**Fair value of financial instruments carried at amortized cost**

The Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

*Valuation techniques and assumptions applied for the purposes of measuring fair value*

The fair values of financial assets and financial liabilities are determined as follows:

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 that the Group 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 Group 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 Group's evaluation of those factors changes.

F-90

Table of Contents39. Financial instruments (*continued*)**Fair value of financial instruments** (*continued*)***Fair value measurements recognized in the consolidated statement of financial position***

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer within different levels of the fair value hierarchy in the year ended December 31, 2015, 2014 and 2013:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Valuation technique(s) and key input	12/31/15			
		Level 1	Level 2	Level 3	Total
		USD'000	USD'000	USD'000	USD'000
<b>Financial assets at FVTPL</b>					
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates <u>and</u> discounted.	—	257,583	—	257,583
Foreign currency forward contracts classified as other financial assets in the statement of financial position	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates <u>and</u> discounted.	—	172	—	172
Available-for-sale investment	Quoted prices in active markets	3,300	—	—	3,300
Available-for-sale investment	Recent transaction price	—	—	15,173	15,173
Derivative financial instrument	Measured by Binomial Model with key assumptions including exercise multiple (75%), risk free rate of	—	—	30,173	30,173

interest (1.2%), expected volatility (46.8%) and rate of return (10%).

<b>Total</b>		<b>3,300</b>	<b>257,755</b>	<b>45,346</b>	<b>306,401</b>
<b>Financial liabilities at FVTPL</b>					
Cross currency swap contracts classified as other financial liabilities in the statement of financial position	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted.	—	<b>1,459</b>	—	<b>1,459</b>
<b>Total</b>		<b>—</b>	<b>1,459</b>	<b>—</b>	<b>1,459</b>

F-91

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

## 39. Financial instruments (continued)

**Fair value of financial instruments (continued)*****Fair value measurements recognized in the consolidated statement of financial position (continued)***

		<b>12/31/14</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
<b>Valuation technique(s) and key input</b>					
Financial assets at FVTPL					
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates and discounted.	—	616,862	—	616,862
Available-for-sale investment	Recent transaction price.	—	—	13,803	13,803
Total		—	616,862	13,803	630,665

		<b>12/31/13</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
<b>Valuation technique(s) and key input</b>					
Financial assets at FVTPL					
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates <u>and</u> discounted.	—	240,311	—	240,311
Total		—	240,311	—	240,311

## 40. Related party transactions

The names of the related parties which had transactions with the Group for the year ended December 31, 2015 and the relationships with the Group are disclosed below:

<b>Related party name</b>	<b>Relationship with the Group</b>
China Academy of Telecommunication Technology	A member of Datang Telecom Technology & Industry Group (“Datang Group”), which owns Datang Holdings
Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Holdings”)	A substantial shareholder of the Company
Datang Microelectronics Technology Co., Ltd.	A member of Datang Group
Datang Semiconductor Co., Ltd.	A member of Datang Group
Leadcore Technology Co., Ltd and Leadcore Technology (Hong Kong) Co., Ltd (“Leadcore”)	A member of Datang Group
Datang Telecom Group Finance Co., Ltd. (“Datang Finance”)	A member of Datang Group
China IC Fund	A substantial shareholder of the Company
China Investment Corporation (“CIC”)	A substantial shareholder of the Company in the middle of 2015, which was interested in less than 5% of the share capital of the Company as at December 31, 2015
Country Hill	A wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by CIC
Toppan	An associate of the Group
Brite Semiconductor Corporation and its subsidiaries (“Brite”)	An associate of the Group
China Fortune-Tech	An associate of the Group
Zhongxin Xiecheng	An associate of the Group

Table of Contents40. Related party transactions (*continued*)

## Trading transactions

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group:

	Sale of goods			Sale of services		
	Year ended			Year ended		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Datang Microelectronics Technology Co., Ltd	12,885	12,340	14,821	—	—	—
Datang Semiconductor Co., Ltd	865	—	—	—	—	—
Leadcore	8,881	2,173	1,905	—	—	—
Toppan	—	—	—	3,699	4,486	4,317
Brite	31,379	31,444	NA	—	—	NA
China Fortune-Tech	—	—	NA	60	41	NA

  

	Purchase of goods			Purchase of services		
	Year ended			Year ended		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
China Academy of Telecommunication Technology	—	—	—	—	1,163	—
Toppan	7,996	1,345	7	3,516	22,726	22,854
Zhongxin Xiecheng	—	—	—	1,199	2,673	1,930
Brite	—	—	NA	2,582	3,201	NA
China Fortune-Tech	—	—	NA	938	116	NA



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

40. Related party transactions (*continued*)**Trading transactions** (*continued*)

The following balances were outstanding at the end of the reporting period:

	Amounts due from related parties			Amounts due to related parties		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
China Academy of Telecommunication Technology	—	360	—	—	—	—
Datang Semiconductor Co., Ltd	61	—	—	—	—	—
Datang Microelectronics Technology Co., Ltd	5,338	5,642	6,124	—	—	—
Datang Finance	—	—	—	—	—	65,884
Leadcore	1,948	619	405	3,667	7	140
Toppan	317	387	370	1,148	2,739	2,397
Zhongxin Xiecheng	—	—	6	—	—	—
Brite	5,661	3,772	683	141	700	645
China Fortune-Tech	40	41	—	—	—	—

On February 18, 2014, the Company entered into a framework agreement with Datang Holdings (the “Framework Agreement”). Pursuant to the agreement, the Group and Datang Holdings (including its associates) will engage in business collaboration including but not limited to foundry service. The effective period of the Framework Agreement is two years. The pricing for the transactions contemplated under the agreement will be determined by reference to reasonable market price.

On June 8, 2015, the Company issued 4,700,000,000 new ordinary shares to Xinxin (Hongkong) Capital Co., Limited, a wholly-owned subsidiary of the China IC Fund. Please refer to Note 28 for details.

On September 25, 2015, Country Hill subscribed 323,518,848 ordinary shares of the Company. Please refer to Note 28 for details.

On October 9, 2015, Datang subscribed 961,849,809 ordinary shares of the Company. Please refer to Note 28 for details.

On December 18, 2015, the Company and Datang Finance entered into a financial services agreement with a three year term commencing on January 1, 2016 and ending on December 31, 2018, pursuant to which Datang Finance has agreed to provide the Company and its subsidiaries, including its associated companies and companies under its management with a range of financial services (including deposit services, loan services, foreign exchange services and other financial services).

On December 28, 2015, the Company entered into a new framework agreement (the “Renewed Framework Agreement”) with Datang Holdings, pursuant to which the Group and Datang Holdings (including its associates) would engage in business collaboration including but not limited to foundry service. The term of the Renewed Framework Agreement is three years commencing from January 1, 2016. The pricing for the transactions contemplated under the Renewed Framework Agreement is determined based on the same as the Framework Agreement.

Table of Contents40. Related party transactions (*continued*)**Compensation of key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Company.

The remuneration of key management personnel during the year are as follows:

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Short-term benefit	4,731	4,593	4,318
Share-based payments	2,618	2,535	3,028
	7,349	7,128	7,346

The remuneration of key management personnel is determined by the Compensation Committee having regard to the performance of individuals and market trends.

**Arrangements/contracts for sale of self-developed living quarter unit**

In 2015, the Group entered into arrangement/contracts with 4 of the Company's directors and key management for sale of self-developed living quarter units and the amount of the considerations was approximately US\$3.6 million. The transactions were not completed as of the date of this annual report.

In 2013, amount of sale of self-developed living quarter units to one of directors of the Company and one of the key management, which were approved by the Board, were US\$1.1 million and US\$0.8 million.

## 41. Commitments for expenditure

**Purchase commitments**

As of December 31, 2015, 2014 and 2013, the Group had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Group's

facility by December 31, 2016.

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Commitments for the facility construction	165,274	211,696	114,878
Commitments for the acquisition of property, plant and equipment	1,146,275	292,867	178,382
Commitments for the acquisition of intangible assets	29,392	14,109	10,147
	1,340,941	518,672	303,407

#### 42. Approval of financial statements

The financial statements were approved and authorized for issue by the board of directors of the Company on March 30, 2016.

F-95

Table of Contents

## Additional Information - Financial statement Schedule I

For the year ended December 31, 2015

## Financial information of parent company

## (i) Statement of profit or loss

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Continuing operations			
Revenue	-	-	-
General and administration expenses	(51,682 )	(54,544 )	(59,771 )
Loss from operations	(51,682 )	(54,544 )	(59,771 )
Interest income	474	1,077	1,050
Finance costs	(12,477 )	(12,405 )	(2,972 )
Foreign exchange gains or losses	(2,848 )	(21,791 )	558
Other gains or losses, net	(1,577 )	852	(916 )
Loss before tax	(68,110 )	(86,811 )	(62,051 )
Income tax expense	-	-	-
Loss for the year	(68,110 )	(86,811 )	(62,051 )

F-96

Table of ContentsFinancial information of parent company (*continued*)

(ii) Statement of financial position

	<b>12/31/15</b>	<b>12/31/14</b>	<b>12/31/13</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment	<b>30,123</b>	10,244	7,301
Intangible assets	<b>108,897</b>	133,117	154,682
Investment in subsidiaries	<b>3,153,887</b>	2,888,658	2,689,158
Investments in associates	<b>42,553</b>	14,205	12,301
Other assets	<b>118,989</b>	166,500	1,000
Total non-current assets	<b>3,454,449</b>	3,212,724	2,864,442
<i>Current assets</i>			
Prepayment and prepaid operating expenses	<b>633</b>	641	626
Trade and other receivables	<b>450,224</b>	312,760	201,352
Other financial assets	<b>15,000</b>	12,000	—
Restricted cash	—	—	29,130
Cash and cash equivalent	<b>115,726</b>	55,600	162,360
Total current assets	<b>581,583</b>	381,001	393,468
<b>Total assets</b>	<b>4,036,032</b>	3,593,725	3,257,910
<b>Equity and liabilities</b>			
<i>Capital and reserves</i>			
Ordinary shares \$0.0004 par value, 50,000,000,000 shares authorized, 42,073,748,961, 35,856,096,167 and 32,112,307,101 shares issued and outstanding at December 31, 2015, 2014 and 2013, respectively	<b>16,830</b>	14,342	12,845
Share premium	<b>4,904,244</b>	4,377,013	4,090,229
Reserves	<b>98,931</b>	93,012	69,295
Accumulated deficit	<b>(1,918,402)</b>	(1,850,292)	(1,763,481)
Total equity	<b>3,101,603</b>	2,634,075	2,408,888
<i>Non-current liabilities</i>			
Convertible bonds	—	379,394	180,563
Bonds payable	<b>493,207</b>	491,579	—
Other long-term liabilities	<b>2,080</b>	—	—
Total non-current liabilities	<b>495,287</b>	870,973	180,563
<i>Current liabilities</i>			
Trade and other payables	33,445	18,391	527,035
Borrowings	—	61,221	133,803
Convertible bonds	<b>392,632</b>	—	—
Accrued liabilities	<b>11,606</b>	9,065	7,615
Other financial liabilities	<b>1,459</b>	—	—
Current tax liabilities	—	—	6
Total current liabilities	<b>439,142</b>	88,677	668,459

Total liabilities	<b>934,429</b>	959,650	849,022
Total equity and liabilities	<b>4,036,032</b>	3,593,725	3,257,910

F-97

Table of ContentsFinancial information of parent company (*continued*)

(iii) Statement of cash flow

	<b>Year ended 12/31/15 USD'000</b>	<b>Year ended 12/31/14 USD'000</b>	<b>Year ended 12/31/13 USD'000</b>
Operating activities			
Loss for the year	(68,110 )	(86,811 )	(62,051 )
Adjustments for:			
Amortization of intangible assets and land use right	30,780	29,566	28,946
Depreciation of property, plant and equipment	4,046	2,225	1,806
Loss from investment in associates	-	-	750
Impairment loss of available-for-sale investment	-	-	279
Expense recognized in respect of equity-settled share-based payments	5,169	18,388	16,402
Finance costs	12,477	12,405	2,972
Interest income recognized in profit or loss	(474 )	(1,077 )	(1,050 )
Net loss arising on financial assets at fair value through profit or loss	-	-	64
Net loss (gain) arising on financial liabilities at fair value through profit or loss	1,459	-	(25 )
	(14,653 )	(25,304 )	(11,907 )
Operating cash flows before movements in working capital:			
Decrease (increase) in trade and other receivables	465	(111 )	476
Decrease in inventories	-	-	168
Decrease (increase) in prepaid operating expenses	8	(2,514 )	(91 )
Increase (decrease) in other payables	7,550	(11,356 )	(53,194 )
Increase (decrease) in accrued liabilities	2,541	(5,410 )	74
Decrease in other liabilities	-	(6 )	-
Cash used in operations	(4,089 )	(44,701 )	(64,474 )
Interest paid	(21,536 )	(2,406 )	(3,072 )
Interest received	474	1,077	1,050
Net cash used in operating activities	(25,151 )	(46,030 )	(66,496 )
Investing activities			
Payments to acquire financial assets	(12,000 )	(12,000 )	(4,000 )
Proceeds on sale of financial assets	9,000	-	21,020
Investment in subsidiaries	(280,658)	(204,103)	(129,010)
Cash from disposal of investment	-	2,699	-
Payments for intangible assets	(4,480 )	(10,000 )	(24,858 )
Payment to a proposed to associates	-	-	(387 )
Change in restricted cash relating to investing activities	-	29,130	18,376
Cash (paid for) received from subsidiaries	(137,929)	(274,327)	10,112
Net cash used in investing activities	(426,067)	(468,601)	(108,747)



Financing activities			
Proceeds from borrowings	21,912	103,684	241,775
Repayment of borrowings	(83,133 )	(176,266)	(288,007)
Proceeds from issuance of convertible bonds.	-	203,763	195,800
Proceeds from issuance of corporate bonds	-	492,315	-
Proceeds from issuance of new shares	508,807	270,180	-
Proceeds from exercise of employee stock options	8,743	9,483	3,229
Repayment of promissory notes	-	-	(30,000 )
Prepayment for bank financing management fee	-	-	(370 )
Cash received (paid for) from subsidiaries	55,015	(495,288)	137,307
Net cash from financing activities	511,344	407,871	259,734
Net increase (decrease ) in cash and cash equivalent	60,126	(106,760)	84,491
Cash and cash equivalent at the beginning of the year	55,600	162,360	77,869
Cash and cash equivalent at the end of the year	115,726	55,600	162,360

## NOTES TO FINANCIAL STATEMENT SCHEDULE I

Schedule 1 has been provided pursuant to the requirements of Rules 12-04(a) and 4-08(e)(3) of SEC Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

## Basic of Presentation

For the purpose of the presentation of the parent company only financial information, the Company records its investment in subsidiaries under the cost method of accounting. Such investment is presented on the statements of financial position as "Investment in subsidiaries" at cost less any identified impairment loss.