SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
April 02, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

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

For the month of April, 2019

Commission File Number: 001-31994

Semiconductor Manufacturing International Corporation

(Translation of registrant's name into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People's Republic of China

(Address of principal executive office)

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

x Form 20-F o Form 40-F

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

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

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

o Yes x No

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Semiconductor Manufacturing International Corporation	
Date: April 1, 2019	By:	/s/ Dr. Gao Yonggang
	Name:	Dr. Gao Yonggang
	Title:	Executive Director, Chief Financial Officer and Joint Company Secretary

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

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(Incorporated in the Cayman Islands with limited liability)

(STOCK CODE: 0981)

ANNOUNCEMENT OF 2018 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

- Revenue was US$3,360.0 million in 2018, an increase of 8.3% from US$3,101.2 million in 2017. Excluding the recognition of technology licensing revenue, revenue increased by 3.1% from US$3,101.2 million in 2017 to US$3,196.2 million in 2018.
- Gross profit was US$746.7 million in 2018, compared to US$740.7 million in 2017. Gross margin was 22.2% in 2018, compared to 23.9% in 2017. Excluding the recognition of technology licensing revenue, gross margin was 18.2% in 2018, compared to 23.9% in 2017.
- Earnings before interest, tax, depreciation and amortization was a record high of US$1,164.4 million in 2018, compared to US$1,117.7 million in 2017, representing an increase of 4.2%.
- Revenue from China-region customers grew to 57.0% of total revenue excluding technology licensing in 2018, compared to 47.3% in 2017, representing a revenue growth of 24.3%.
- The net debt to equity ratio remained low at –4.5% as of December 31, 2018.

The board of directors (the "Director(s)") (the "Board") of Semiconductor Manufacturing International Corporation ("SMIC" or the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended December 31, 2018 as follows:

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

This announcement may contain, in addition to historical information, “forward-looking statements” within the meaning of the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995 and Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. These forward- looking statements are based on SMIC’s current assumptions, expectations and projections about future events. SMIC uses words like “believe”, “anticipate”, “intend”, “estimate”, “expect”, “project” and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting judgment of SMIC’s senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC’s actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicality and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC’s customers, bad debt risk, timely introduction of new technologies, SMIC’s ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity and financial stability in end markets.

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

ABOUT NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“NON-GAAP”) FINANCIAL MEASURE

This announcement includes EBITDA, which is a non-GAAP financial measure. Such non-GAAP financial measure is not calculated or presented in accordance with, and are not alternatives or substitutes for financial measures prepared in accordance with IFRS, and should be read only in conjunction with the Group’s financial measures prepared in accordance with IFRS. The Group’s non-GAAP financial measures may be different from similarly-titled non-GAAP financial measures used by other companies. The presentation of non-GAAP financial measure is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS. SMIC believes that use of these non-GAAP financial measures facilitates investors’ and management’s comparisons to SMIC’s historical performance. The Group’s management regularly uses these non-GAAP financial measures to understand, manage and evaluate the Group’s business and make financial and operational decisions.

For more information and reconciliations of the non-GAAP financial measure to its most directly comparable GAAP financial measure, please see the disclosure on page 12.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

In 2018, the global political and economic environment was complex with many uncertainties. Influenced by the saturation of the smart phone markets and global trade frictions, the growth of the IC industry slowed down and the pressure of price competition increased. The industry is facing great challenges, and yet, with this environment, the Company managed to make remarkable progress, thanks to the dedication and teamwork of all SMIC's employees. The Company recorded historic high revenue of US$3.36 billion for the year of 2018, representing a year-on-year increase of 8.3%. Earnings before interest, tax, depreciation and amortization amounted to US$1.16 billion, representing a year-on-year increase of 4.2%. For the year of 2018, revenue from PRC-based customers excluding technology licensing revenue increased 24.3% as compared to that of the previous year.

2018 was a year of accelerated research and development("R&D"). We invested over US$0.6 billion in R&D activities, far exceeding the industry average of R&D expenses in terms of revenue. We would like to express our heartfelt gratitude to all the members of our R&D team for their round-the-clock hard-work, enabling us to achieve significant breakthroughs in the research and development of advanced technology, demonstrating noteworthy improvement in the efficiency of our R&D efforts. We have completed the development of 28nm HKC+ and 14nm FinFET technology, and have begun customer engagement. It is expected that the mass production will commence in 2019. We also successfully developed the PRC's first 14nm masks. With the most advanced mask production capacity in the PRC, we can provide 14nm mask services for our customers this year.

2018 was the sixth year in which we have sponsored the "SMIC Liver Transplant Program for Children." The Company announced in June 2018 that it had donated RMB2.40 million to China Soong Ching Ling Foundation for the project. For the past six years, the Company has donated over RMB13.50 million and our business partners in the industry have donated RMB7.50 million to this program, accumulating a total donation of RMB21 million; through which, 350 afflicted and impoverished children from across the country have successfully received treatment and are able to enjoy their new lives.

In 2019, SMIC will operate under the dual pressures of uncertainties surrounding the external environment and the adjustment of the Company in this critical year of transition. We shall continue to focus on advancing our technology, building up platforms and developing business partnerships in order to fulfill our commitments to providing competitive services to our customers. Bearing in mind the saying that good honing gives a sharp edge to a sword and bitter cold adds keen fragrance to plum blossom, we will continue to work together and forge ahead, investing in R&D and providing enhanced customer service to strengthen the Company's overall competitive edge in order to lead SMIC to become a leading world-class semiconductor foundry in the near future. We remain committed to diligently and carefully execute our business plan for the best interests of all of our shareholders. We would like to again express our sincere gratitude to our shareholders, customers, suppliers, and employees for their continued care and support of SMIC.

Zhou Zixue	**Zhao Haijun, Liang Mong Song**
Chairman of the Board and Executive Director	Co-Chief Executive Officers and Executive Directors

Shanghai, China
March 29, 2019

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BUSINESS REVIEW

In 2018, the Group continued to successfully execute its long-term strategy with sustained profitability and at the same time advancing its technology capabilities on leading edge and value-added differentiated processes. The Group's technology portfolio and proximity to the China market, coupled with the management team's proven track record in operations, technology development and customer service, has positioned the Group well for long term growth. 2018 was a milestone year for SMIC in many aspects. It was the second year since the Group appointed Dr. Zhao Haijun and Dr. Liang Mong Song as Co-Chief Executive Officers, during which the Group generated record annual revenue of US$3.36 billion, the highest in the Group's 18-year history. In 2018, the Group also continued to foster partnerships with leading industry players on 14nm Fin Field Effect Transistor ("FinFET") process technology development, and is ready for business engagement and IP validation, with expect to risk production expected to commence in 2019. In 2018, there was significant progress on 14nm FinFET process with customers. Our FinFET technology targets to address for mobile, wireless, and computing, AI, IoT and automotive applications to expand our product and service offerings. In addition to 28nm PolySiON and 28nm HKC, our 28nm HKC+ technology development is now completed and will be in mass production in 2019. The Group, together with China Integrated Circuit Industry Investment Fund Co., Ltd ("China IC Fund") and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd ("Shanghai IC Fund"), built up a majority-owned subsidiary, Semiconductor Manufacturing South China Corporation, to speed up the introduction of advanced FinFET technology and products.

We believe the Group was the first pure-play foundry in China to enter into mass production with 28nm wafer process technology for mobile computing applications, the first pure-play foundry worldwide to offer 55nm embedded Flash ("eFlash") and RF wafer solutions for SIM Card and IoT related wireless connectivity applications, and the first pure-play foundry worldwide to offer 38nm NAND Flash memory wafer process technology. The Group also continued to drive its value-added wafer manufacturing process technologies for specialty products, such as Power Management IC ("PMIC"), Battery Management IC ("BMIC"), embedded Electrically Erasable Programmable Read-Only Memory ("eEEPROM"), eFlash, Microprocessor ("MCU"), Ultra-Low-Power technologies ("ULP"), Radio Frequencies IC ("RF") and wireless connectivity, Touch Controller IC ("TCIC"), Biometric Sensors, CMOS Image Sensors ("CIS"), and Micro-Electrical-Mechanical System ("MEMS") sensors. These applications are the essential building blocks for the mobile computing market, the growing automotive electronics market, and Internet-of-Things ("IoT") market.

With an expanded manufacturing base, well-balanced technology portfolio and one-stop shop service offerings, the Group is well positioned with its global operations to serve both domestic and worldwide customers.

FINANCIAL OVERVIEW

Despite a challenging environment in 2018, the Group's sales totaled US$3,360.0 million, compared to US$3,101.2 million in 2017. The Group recorded a profit of US$77.2 million in 2018, compared to US$126.4 million in 2017.

During the year, we generated US$799.4 million in cash from operating activities, compared to US$1,080.7 million in 2017. Capital expenditures in 2018 totaled US$1,813.4 million, compared to US$2,487.9 million in 2017. Looking ahead, our objective is to continue sustained profitability over the long term. To achieve this, we intend to focus on precision execution, efficiency improvement, customer service excellence while fostering innovation.

CUSTOMERS AND MARKETS

The Group continues to serve a broad global customer base comprising leading integrated device manufacturers, fabless semiconductor companies and system companies. Geographically, customers from the North America contributed 31.6% of the overall revenue in 2018, compared to 40.0% in 2017. Leveraging on the Group's strategic position in China, our China revenue contributed 59.1% of the overall revenue in 2018, compared to 47.3% in 2017. Eurasia contributed 9.3% of the overall revenue in 2018, compared to 12.7% in 2017.

In terms of applications, revenue contribution from communication applications represented 41.2% to the Group's overall revenue in 2018 as compared to 44.3% in 2017. Consumer applications contributed 34.4% to the Group's overall revenue in 2018 as compared to 37.4% in 2017. While the Group has very limited exposure to the PC market, it has grown its business in computer applications from US$192.3 million in 2017 to US$221.0 million in 2018, representing a 14.9% increase on annual growth in the computer segment. The Group has also increased its revenue in automotive and industrial applications from US$244.8 million in 2017 to US$263.0 million in 2018, representing a 7.4% increase on annual growth. Furthermore, other related applications revenue increase from US$132.5 million in 2017 to US$171.7 million (excluding the recognized technology licensing revenue of US$163.8 million authorized to an associate of Group) in 2018, representing a 29.6% increase on annual growth.

In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below represented 49.9% in 2018 as compare to 50.7% in 2017, in particular, the revenue contribution percentage from 65/55nm technology increased from 20.4% in 2017 to 22.3% in 2018. In addition, the Group continued to have steady revenue growth from 90nm and 0.15/0.18μm related business in 2018.

We believe the Group is also well positioned with its continuous business growth in China. According to IHS Markit, China continues to be the number one region of the world in terms of semiconductor IC consumptions, mainly due to its high volume electronics manufacturing and mass consumer market. IHS estimates that US$240 billion worth of semiconductors were shipped to China in 2018, representing 48.6% of worldwide semiconductor value. In addition, we believe the overall local China's IC design market is still growing healthily and strongly. Local analyst, IHS Markit, estimated that the China's IC design market reached approximately US$33 billion in 2018, a 26.9% year to year increase from 2017 and projected that it might experience a compound annual growth rate of 20.0% till year 2022, which would bring the worth of the China IC design market to US$82 billion by 2022. Global pure-play foundry market revenue year-on-year growth rate was 4.55% in 2018 according to IHS Markit, relatively SMIC total revenue year-on-year growth rate was 8.3% in 2018. While global pure-play foundry market is expected to grow by a compound annual growth rate of 4.62% during 2018 to 2022, our business revenue growth target is in line with foundry industry growth rate.

Notably, as indicative of future revenue growth, we continued to see new designs using both specialty technology and advanced technology, in particular on 0.18μm, 0.11/0.13μm, 55/65nm, 40/45nm, 28nm and 14nm FinFET process technologies. The Group has, in each of its sales regions, customers utilizing its most competitive specialty technology and advanced node technology. We believe China is rapidly closing the gap with the rest of the world in terms of innovation and design capabilities. To fully leverage the market growth potential in China, the Group plans to continue to deepen its collaboration with Chinese customers while broadening relationships with its global customers and enable their success in China and various emerging markets, such as mobile computing, automotive electronics, IoT, high performance computing, 5G, industrial, security and surveillance, Artificial Intelligence ("AI"), and edge computing related applications.

LONG-TERM BUSINESS MODEL AND STRATEGY FOR GENERATING AND PRESERVING VALUE

SMIC's long-term goal is to focus on generating value for the benefit of all stakeholders. SMIC's long-term business model is to function as the foundry service provider of choice in mainland China, while targeting to be a world- class service provider. SMIC's strategy to generate sustainable growth and long-term profitability is three-fold. First, SMIC aims to accelerate advanced technology development, and expanding product portfolios with various applications, in order to capture the market opportunities. Second, we are dedicated to offer our customers a total solution with a full product portfolio including masks, IP manufacturing, testing and packaging, to enable long-term commitment and customer relations. Third, we aim to capture the advanced technology node and increased semiconductor market share, through strategic partnerships with key customers. We continue to evaluate the potential long-term value-addition of opportunities in our decision-making processes, and our management team is committed to building value in the long-term for the benefit of our employees and shareholders.

RESEARCH AND DEVELOPMENT

SMIC primarily focuses its research and development ("R&D") efforts on advanced logic and value-added specialty technologies. SMIC aims to accelerate advanced technology development with an emphasis on FinFET technology.

In 2018, SMIC successfully established its 14 nanometer technology platform, received customer recognition and moved into customer engagement and development verification. Our 14 nanometer technology will enter production in 2019. Meanwhile, 12 nanometer technology development also achieved breakthrough.

In 2018, SMIC launched the second generation 28HKMG platform, 28HKC+, for both Base Band and RF applications, with 15% performance improvement and 25% power reduction as compared with first generation 28HKMG technology 28HKC. Our 28HKC+ will enter production in 2019.

SMIC has also worked to enhance its R&D organizational structure in 2018, resulting in expanded capability, high efficiency, and increased resource allocation for accelerating technology developments, including advanced and specialty technologies.

In 2018, SMIC made over 600 patent filings as a result of its technology R&D activities.

OUTLOOK FOR 2019

Looking forward, we believe that 2019 is a year of uncertainty, and also a year of opportunity for SMIC. With uncertainties in the macro environment, we are actively seeking growth opportunities through steady progress in expanding our customer base, enriching mature and specialty technology product mix and applications, and exploring value-added opportunities. We continue to strive to be fundamentally strong, as we tighten customer partnerships and further expand our technology development.

For the year of 2019, we target core business revenue to be in line with the foundry industry revenue growth forecast. We continue to target a balanced strategy to maintain growth and profitability.

In 2019, our planned capital expenditure is $2.2 billion, which will be mainly used to build up the new majority-owned subsidiary's advanced fab in Shanghai, targeting to have a mini-line ready in the second half of the year. As we expand capacity to support the needs of our customers, we continue to utilize a joint-venture model for our advanced node facilities.

We continue to refine and build up our various mature node platforms. Mature technology is still a key growth driver for SMIC, as we plan to have multiple products ramping this year, including power management, memory, high-voltage LCD driver, CMOS image sensors, and fingerprint sensors.

In 2019, we are conservatively optimistic, as we see an abundance of opportunities knocking at our door. We expect China business to continue to be strong and maintain our commitment to serving a diverse range of global customers. SMIC's aim is to be a fundamentally strong company, and in the near to mid-term we must withstand the growing pains of developing and laying a strong foundation for our strategies and business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION

CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as of and for the years ended December 31, 2014, 2015, 2016, 2017 and 2018 are derived from, and should be read in conjunction with, the audited consolidated financial statements, including the related notes, found elsewhere in this announcement. The summary consolidated financial data presented below have been prepared in accordance with IFRS.

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME DATA

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(in US$ thousands, except per share, shares, percentages and units)				
Revenue	3,359,984	3,101,175	2,914,180	2,236,415	1,969,966
Cost of sales	(2,613,307)	(2,360,431)	(2,064,499)	(1,553,795)	(1,486,514)
Gross profit	746,677	740,744	849,681	682,620	483,452
Research and development expenses, net	(558,110)	(427,111)	(318,247)	(237,157)	(189,733)
Sales and marketing expenses	(30,455)	(35,796)	(35,034)	(41,876)	(38,252)
General and administration expenses	(199,818)	(198,036)	(167,582)	(213,190)	(137,871)
Net impairment losses (recognized) reversal on financial assets	(937)	137	10,211	13	(1,557)
Other operating income, net	57,283	44,957	177	31,594	14,206
Profit from operations	14,640	124,895	339,206	222,004	130,245
Interest income	64,339	27,090	11,243	5,199	14,230
Finance costs	(24,278)	(18,021)	(23,037)	(12,218)	(20,715)
Foreign exchange losses	(8,499)	(12,694)	(1,640)	(26,349)	(5,993)
Other gains (losses), net	24,282	16,499	(2,113)	55,611	18,210
Share of gain (loss) of investment accounted for using equity method	21,203	(9,500)	(13,777)	(13,383)	2,073
Profit before tax	91,687	128,269	309,882	230,864	138,050
Income tax (expense) benefit	(14,476)	(1,846)	6,552	(8,541)	(11,789)
Profit for the year	77,211	126,423	316,434	222,323	126,261
Other comprehensive income (loss)					
Item that may be reclassified subsequently to profit or loss					
	(35,919)	23,213	(19,031)	(8,185)	(324)

Exchange differences on translating foreign operations					
Change in value of available-for-sale financial assets	—	(2,381)	807	452	—
Cash flow hedges	35,931	35,143	(34,627)	—	—
Share of other comprehensive income of joint ventures accounted for using equity method	—	17,646	—	—	—
Others	—	(131)	1	130	—
Items that will not be reclassified to profit or loss					
Actuarial gains or losses on defined benefit plans	129	(436)	1,520	—	—
Total comprehensive income for the year	77,352	199,477	265,104	214,720	125,937

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	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(in US$ thousands, except per share, shares, percentages and units)				
Profit (loss) for the year attributable to:					
Owners of the Company	134,055	179,679	376,630	253,411	152,969
Non-controlling interest	(56,844)	(53,256)	(60,196)	(31,088)	(26,708)
	77,211	126,423	316,434	222,323	126,261
Total comprehensive income (loss) for the year attributable to:					
Owners of the Company	133,977	251,135	326,191	245,803	152,645
Non-controlling interest	(56,625)	(51,658)	(61,087)	(31,083)	(26,708)
	77,352	199,477	265,104	214,720	125,937
Earnings per share[1]					
Basic	$0.03	$0.04	$0.09	$0.07	$0.05
Diluted	$0.03	$0.04	$0.08	$0.06	$0.04
Shares issued and outstanding[1]	5,039,819,199	4,916,106,889	4,252,922,259	4,207,374,896	3,585,609,617
Financial Ratio					
Gross margin	22.2%	23.9%	29.2%	30.5%	24.5%
Net margin	2.3%	4.1%	10.9%	9.9%	6.4%
Operating Data					
Wafers shipped (in unit)	4,874,663	4,310,779	3,957,685	3,015,966	2,559,245

MAIN FINANCIAL POSITION DATA

	As of December 31,				
	2018	2017	2016	2015	2014
	(in US$ thousands)				
Total assets	14,424,320	11,918,451	10,115,278	7,115,347	5,769,379
Total non-current assets	8,274,729	7,749,467	6,431,525	4,525,297	3,471,120
Property, plant and equipment	6,777,970	6,523,403	5,687,357	3,903,818	2,995,086
Investments in associates	1,135,442	758,241	240,136	181,331	57,631
Total current assets	6,149,591	4,168,984	3,683,753	2,590,050	2,298,259
Inventories	593,009	622,679	464,216	387,326	316,041
Trade and other receivables	837,828	616,308	645,822	499,846	456,388
Financial assets at amortized cost[2]	1,996,808	—	—	—	—
Other financial assets[2]	—	683,812	31,543	282,880	644,071

Restricted cash — current	592,290	336,043	337,699	302,416	238,051
Cash and cash equivalent	1,786,420	1,838,300	2,126,011	1,005,201	603,036
Total liabilities	5,500,740	5,197,116	4,712,051	2,925,092	2,461,657
Total non-current liabilities	2,641,512	3,290,337	2,731,151	1,157,901	1,311,416
Total current liabilities	2,859,228	1,906,779	1,980,900	1,767,191	1,150,241
Total equity	8,923,580	6,721,335	5,403,227	4,190,255	3,307,722
Non-controlling interests	2,905,766	1,488,302	1,252,553	460,399	359,307

(1) The basic and diluted earnings per share and the number of shares for 2014, 2015 and 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US$0.0004 each consolidated into one ordinary share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

(2) Other financial assets were mainly reclassified to financial assets at amortized cost as of January 1, 2018, compliment with IFRS 9. For details, please refer to Note 2 to the Consolidated Financial Statements.

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MAIN CASH FLOW DATA

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(in US$ thousands)				
Net cash generated from operating activities	799,426	1,080,686	977,202	669,197	608,102
Profit for the year	77,211	126,423	316,434	222,323	126,261
Depreciation and amortization	1,048,410	971,382	729,866	523,549	549,468
Net cash used in investing activities	(3,197,261)	(2,662,139)	(2,443,333)	(789,556)	(1,144,123)
Payments for property, plant and equipment	(1,808,253)	(2,287,205)	(2,757,202)	(1,230,812)	(653,134)
Net cash from financing activities	2,376,922	1,271,591	2,614,778	537,078	676,683
Net (decrease) increase in cash and cash equivalent	(20,913)	(309,862)	1,148,647	416,719	140,662

YEAR ENDED DECEMBER 31, 2018 COMPARED TO YEAR ENDED DECEMBER 31, 2017

REVENUE

Revenue increased by 8.3% from US$3,101.2 million for 2017 to US$3,360.0 million for 2018. Excluding the recognition of technology licensing revenue, revenue increased by 3.1% from US$3,101.2 million for 2017 to US$3,196.2 million for 2018, primarily due to the net impact of an increase in wafer shipments and decrease in average selling price in 2018. The number of wafer shipments increased by 13.1% from 4,310,779 8-inch wafer equivalents for 2017 to 4,874,663 8-inch wafer equivalents for 2018. The average selling price* of the wafers the Group shipped decreased from US$719 per wafer in 2017 to US$656 in 2018. The technology licensing revenue of US$163.8 million internally developed and not capitalized was authorized to Semiconductor Manufacturing Electronics (Shaoxing) Corporation (an associate of the Group) with no related cost of sales recognized by the Group.

COST OF SALES

Cost of sales increased by 10.7% from US$2,360.4 million for 2017 to US$2,613.3 million for 2018, primarily due to the increase in depreciation and in wafer shipment and product-mix change in 2018. Out of the total cost of sales, US$774.3 million and US$831.4 million were attributable to depreciation and amortization for the year ended December 31, 2017 and 2018, respectively.

GROSS PROFIT

The Group’s gross profit was US$746.7 million for 2018 compared to US$740.7 million for 2017. Gross margin was 22.2% in 2018 compared to 23.9% in 2017. Excluding the recognition of technology licensing revenue, gross margin decreased to 18.2% in 2018 from 23.9% in 2017, primarily due to product-mix change and lower average selling price in 2018.

PROFIT FOR THE YEAR FROM OPERATIONS

Profit from operations decreased from US$124.9 million for the year ended December 31, 2017 to US$14.6 million for the year ended December 31, 2018 primarily due to the combined effect of the changes of revenue, cost of sales and gross profit mentioned above, and the below following changes:

Research and development expenses increased by 30.7% from US$427.1 million for the year ended December 31, 2017 to US$558.1 million for the year ended December 31, 2018. The increase was mainly due to the higher level of R&D activities in 2018.

General and administrative expenses increased from US$198.0 million for the year ended December 31, 2017 to US$199.8 million for the year ended December 31, 2018.

* Based on simplified average selling price which is calculated as the revenue (excluding technology licensing revenue) divided by total shipments.

Sales and marketing expenses decreased from US$35.8 million for the year ended December 31, 2017 to US$30.5 million for the year ended December 31, 2018.

Other operating incomes increased from US$45.0 million for the year ended December 31, 2017 to US$57.3 million for the year ended December 31, 2018. The increase was mainly due to increased gain on disposal of property, plant and equipment in 2018.

PROFIT FOR THE YEAR

The Group had a profit of US$77.2 million for 2018 compared to US$126.4 million for 2017 mainly due to the net impact of 1) the factors described above, 2) more interest net income, 3) decreased foreign exchange losses, and 4) more gains on investment in financial instruments and entities accounted for using equity method.

FUNDING SOURCES FOR MATERIAL CAPITAL EXPENDITURE IN THE COMING YEAR

The Group’s planned 2019 capital expenditures for foundry operations are approximately $2.1 billion, which are mainly for the expansion of capacity in our majority-owned Shanghai 300mm fab and our FinFET R&D line.

The Group’s planned 2019 capital expenditures for non-foundry operations are approximately $105.8 million, mainly for the construction of employees’ living quarters.

The Group’s actual expenditures may differ from its planned expenditures for a variety of reasons, including changes in its business plan, market conditions, equipment prices, or customer requirements. The Group will monitor the global economy, the semiconductor industry, the demands of its customers, and its cash flow from operations and will adjust its capital expenditures plans as necessary.

The primary sources of capital resources and liquidity include cash generated from operations, bank borrowings and debt or equity issuances, capital injections from non-controlling interests and other forms of financing. Future acquisitions, mergers, strategic investments, or other developments also may require additional financing. The amount of capital required to meet the Group’s growth and development targets is difficult to predict in the highly cyclical and rapidly changing semiconductor industry.

DEBT ARRANGEMENTS

Set forth in the table below are the aggregate amounts, as of December 31, 2018, of the Group's future cash payment obligations under the Group's existing contractual arrangements on a consolidated basis:

		Payments due by period Less than			
Contractual obligations	Total	1 year	1–2 years	2–5 years	Over 5 years
	(consolidated, in US$ thousands)				
Short-term borrowings	192,198	192,198	—	—	—
Long-term borrowings	2,098,570	337,807	434,998	895,135	430,630
Convertible bonds	418,592	—	—	418,592	—
Bonds payable	498,551	498,551	—	—	—
Medium-term notes	218,247	218,247	—	—	—
Purchase commitments	1,548,278	1,548,278	—	—	—
Lease commitments	352,540	121,588	230,952	—	—
Total contractual obligations	5,326,976	2,916,669	665,950	1,313,727	430,630

As of December 31, 2018, the Group's outstanding long-term loans primarily consisted of secured bank loans of US$524.1 million and unsecured bank loans of US$1,574.5 million which are repayable in installments starting in January 2019, with the last payment due in May 2031. A summary of borrowing arrangements is disclosed in Note 30 to our financial statements for reference.

ASSETS PLEDGED AS SECURITY

Property, plant and equipment with carrying amount of approximately US$207.2 million have been pledged to secure borrowings of the Group under mortgages. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

COMMITMENTS

As of December 31, 2018, the Group had commitments of US$1,548.3 million, of which US$333.2 million for facilities construction obligations in connection with the Group's facilities, US$1,209.3 million to purchase machinery and equipment for its fabs and US$5.7 million to purchase intellectual property.

As of December 31, 2018, the Group had total future minimum lease payments under non-cancellable operating leases amounted to US$352.5 million. For the details, please refer to Note 41 to our consolidated financial statements of this announcement.

GEARING RATIO

As of December 31, 2018, the Group's net debt to equity ratio was approximately –4.5%. Please refer to Note 38 to our financial statements for calculation.

CAPITALIZED INTEREST

Interest, after netting off government funding received, incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful life of the assets. Capitalized interests of US$47.2 million and US$31.1 million in 2018 and 2017, respectively, were added to the cost of the underlying assets and are depreciated over the respective useful life of the assets. In 2018 and 2017, the Group recorded depreciation expenses relating to the capitalized interest of US$27.5 million and US$22.7 million, respectively.

EXCHANGE RATE AND INTEREST RATE RISKS

The Group's revenue, expense, and capital expenditures are primarily transacted in U.S. dollars. The Group also enters into transactions in other currencies that results the Group primarily exposed to changes in exchange rates for the Euro, Japanese Yen, and RMB. Additionally, the Group entered into or issued several RMB denominated loan facility agreements, short-term notes and medium-term notes and several RMB denominated financial assets at amortized cost that results the Group exposed to changes in the exchange rate for the RMB. Foreign-currency forward exchange contracts and cross currency swap contracts is used to minimize these risks.

The Group's exposure to interest rate risks relates primarily to the Group's long-term loans, 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.

Details of the Group's foreign exchange risk and interest rate risk are set out in Note 38 to our consolidated financial statements of this announcement for reference.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION (“EBITDA”)

EBITDA is defined as profit for the period excluding the impact of the finance cost, depreciation and amortization, and income tax benefit and expense. SMIC uses EBITDA as a measure of operating performance; for planning purposes, including the preparation of the Group’s annual operating budget; to allocate resources to enhance the financial performance of the Group’s business; to evaluate the effectiveness of the Group’s business strategies; and in communications with SMIC’s board of directors concerning the Group’s financial performance. Although EBITDA is widely used by investors to measure a company’s operating performance without regard to items, such as net finance cost, income tax benefit and expense and depreciation and amortization that can vary substantially from company to company depending upon their respective financing structures and accounting policies, the book values of their assets, their capital structures and the methods by which their assets were acquired, EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group’s results of operations as reported under IFRS. Some of these limitations are: it does not reflect the Group’s capital expenditures or future requirements for capital expenditures or other contractual commitments; it does not reflect changes in, or cash requirements for, the Group’s working capital needs; it does not reflect finance cost; it does not reflect cash requirements for income taxes; that, although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and these measures do not reflect any cash requirements for these replacements; and that other companies in SMIC’s industry may calculate these measures differently than SMIC does, limiting their usefulness as comparative measures.

The following table sets forth the reconciliation of EBITDA to their most directly comparable financial measures presented in accordance with IFRS, for the periods indicated.

	Year ended 12/31/18 USD’000	Year ended 12/31/17 USD’000	Year ended 12/31/16 USD’000
Profit for the year	77,211	126,423	316,434
Finance costs	24,278	18,021	23,037
Depreciation and amortization	1,048,410	971,382	729,866
Income tax expense (benefit)	14,476	1,846	(6,552)
EBITDA	1,164,375	1,117,672	1,062,785

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

CAPITAL CONTRIBUTION IN SEMICONDUCTOR MANUFACTURING SOUTH CHINA CORPORATION (“SMSC”)

On January 30, 2018, SMIC Holdings Corporation ("SMIC Holdings"), Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai"), China IC Fund and Shanghai IC Fund entered into the joint venture agreement and the capital contribution agreement pursuant to which SMIC Holdings, China IC Fund and Shanghai IC Fund agreed to make cash contribution to the registered capital of SMSC in the amount of US$1.5435 billion, US$946.5 million and US$800.0 million, respectively. As a result of the capital contribution: (i) the registered capital of SMSC will increase from US$210.0 million to US$3.5 billion; (ii) the Company's equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, will decrease from 100% to 50.1%; and (iii) SMSC will be owned as to 27.04% and 22.86% by China IC Fund and Shanghai IC Fund, respectively.

The principal business of SMSC includes wafer manufacturing, wafer probing and bumping, technology development, design service, mask manufacturing, assembly and final testing of integrated circuits and sales of self- manufactured products. SMSC is expected to establish and build up large-scale manufacturing capacity focusing on 14 nanometer and below process and manufacturing technologies and aims to reach a manufacturing capacity of 35,000 wafers per month. The Group believes that the investment in SMSC is attractive and able to generate sustainable and attractive returns in the near future.

EQUITY TRANSFER AND CAPITAL CONTRIBUTION IN NINGBO SEMICONDUCTOR INTERNATIONAL CORPORATION ("NSI")

On March 22, 2018, NSI, SMIC Holdings and China IC Fund entered into the equity transfer agreement, pursuant to which SMIC Holdings has agreed to sell the equity Interest to China IC Fund. Upon the completion of the equity transfer, the shareholding of SMIC Holdings in NSI will decrease from approximately 66.76% to 38.59%, and NSI will cease to be a subsidiary of the Company and its financial results will cease to be consolidated with the Group's results. The equity transfer has been completed in April, 2018 and the Group recorded its ownership interest of NSI as investment in associate.

On March 23, 2018, NSI, SMIC Holdings, China IC Fund, Ningbo Senson Electronics Technology Co., Ltd, Beijing Integrated Circuit Design and Testing Fund, Ningbo Integrated Circuit Industry Fund and Infotech National Emerging Fund entered into the capital increase agreement, pursuant to which (i) SMIC Holdings has agreed to make further cash contribution of RMB565.0 million (approximately US$89.4 million) into the registered capital of NSI. Its shareholding in NSI will decrease from approximately 38.59% to approximately 38.57%; (ii) China IC Fund has agreed to make further cash contribution of RMB500.0 million (approximately US$79.2 million) into the registered capital of NSI. Its shareholding in NSI will increase from approximately 28.17% to approximately 32.97%. The all above parties' performance of the Capital Contribution obligations will lead to an increase in the registered capital from RMB355 million to RMB1.82 billion (approximately US$56.2 million to US$288.1 million).

CAPITAL CONTRIBUTION IN IPV CAPITAL GLOBAL TECHNOLOGY FUND (THE "IPV FUND")

On May 2, 2018, IPV Global Technology Management Limited as the general partner and China IC Fund, China IC Capital Co., Ltd ("China IC Capital", a wholly-owned investment fund company of SMIC) and other investor as the limited partners entered into the partnership agreement in relation to the establishment and management of the IPV Fund. The IPV Fund will be established in the PRC as a limited partnership for the purpose of equity investments, investment management and other activities, in order to maximize the profit of all partners. Pursuant to the partnership agreement, the total capital commitment to the IPV Fund is RMB1,616.2 million (approximately US$244.3 million) of which RMB800.0 million (approximately US$120.9 million) is to be contributed by China IC Fund and RMB165.0 million (approximately US$24.9 million) is to be contributed by China IC Capital. As of the date of this announcement, China IC Capital has contributed to RMB49.5 million (approximately US$7.5 million).

SUBSCRIPTION OF SHARES IN JIANGSU CHANGJIANG ELECTRONICS TECHNOLOGY CO. LTD ("JCET")

On August 30, 2018, the Company has, through its wholly-owned subsidiary Siltech Semiconductor (Shanghai) Corporation Limited, completed a subscription for 34,696,198 shares in JCET in cash by way of private placement (the "Subscription"). The shares were subscribed at a price of RMB14.89 per share, with the total subscription price being RMB516,626,388.22 (approximately US$75.9 million). Immediately before and after completion of the Subscription, the shareholding interest of the Company in JCET is 14.28%. The Company understands that JCET has completed the issue and registration procedures of these shares, including listing of the shares on the Shanghai Stock Exchange. The newly subscribed shares will not be transferrable by the Company for 36 months after completion of the Subscription.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in the below section Issue of Equity Securities and Note 26 to the consolidated financial statement.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution to shareholders as of December 31, 2018 amounted to US$191.4 million (December 31, 2017: US$96.4 million and December 31, 2016: nil).

ISSUE OF EQUITY SECURITIES

ISSUE OF NEW SHARES TO DATANG TELECOM TECHNOLOGY & INDUSTRY HOLDINGS CO., LTD. (“DATANG”)

On June 29, 2018, pursuant to the share subscription agreement between the Company, Datang and Datang Holdings (Hongkong) Investment Company Limited (“Datang HK”), the Company allotted and issued 61,526,473 ordinary shares, representing an aggregate nominal value of approximately US$246,106, at the price of HK$10.65 per share. The net price per share under the issue is HK$10.65. The market price of the shares on the date of the share subscription agreement was HK$10.34.

ISSUE OF PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES (THE “PSCS”) TO DATANG

On June 29, 2018, pursuant to the PSCS subscription agreement between the Company, Datang and Datang HK, the Company completed the issue of the PSCS in the principal amount of US$200.0 million. Assuming full conversion of the PSCS at the initial conversion price of HK$12.78, the PSCS will be convertible into 122,118,935 ordinary shares, representing an aggregate nominal value of approximately US$488,476. The net price per conversion share under the issue is HK$12.77. The market price of the shares on the date of the PSCS subscription agreement was HK$10.34.

ISSUE OF NEW SHARES TO CHINA IC FUND

On August 29, 2018, pursuant to the share subscription agreement between the Company, China IC Fund and Xinxin (Hongkong) Capital Co., Ltd (“Xinxin HK”, wholly-owned by China IC Fund), the Company allotted and issued 57,054,901 ordinary shares, representing an aggregate nominal value of approximately US$228,220, at the price of HK$10.65 per share. The net price per share under the issue is HK$10.65. The market price of the shares on the date of the share subscription agreement was HK$9.11.

ISSUE OF THE PSCS TO CHINA IC FUND

On August 29, 2018, pursuant to the PSCS subscription agreement between the Company, China IC Fund and Xinxin HK, the Company completed the issue of the PSCS in the principal amount of US$300.0 million. Assuming full conversion of the PSCS at the initial conversion price of HK$12.78, the PSCS will be convertible into 183,178,403 ordinary shares, representing an aggregate nominal value of approximately US$732,714. The net price per conversion share under the issue is HK$12.77. The market price of the shares on the date of the PSCS subscription agreement was HK$9.11.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

SHARE BUY-BACK

On September 27, 2018, the company repurchased 7,291,000 ordinary shares on Hong Kong Stock Exchange. The buy-back was approved by shareholders at the annual general meeting on June 22, 2018. The ordinary shares were acquired at an average price of HK$8.32 per share, with prices ranging from HK$8.27 to HK$8.36. The total cost of HK$60.8 million (approximately US$7.8 million) was deducted from the shareholder equity.

On October 4, 2018, the company repurchased 11,650,000 ordinary shares on Hong Kong Stock Exchange. The buy-back was approved by shareholders at the annual general meeting on June 22, 2018. The ordinary shares were acquired at an average price of HK$8.23 per share, with prices ranging from HK$8.11 to HK$8.32. The total cost of HK$96.1 million (approximately US$12.3 million) was deducted from the shareholder equity. On October 25, 2018, the company cancelled 18,941,000 ordinary shares amounted at US$20.0 million, in respect of the repurchase on September 27, 2018 and October 4, 2018.

For details, please refer to Note 26 to the Consolidated Financial Statements.

CONVERSION OF ZERO COUPON CONVERTIBLE BOND

The Company exercised its right to redeem the US$200.0 million zero coupon convertible bonds due 2018, the US$86.8 million zero coupon convertible bonds due 2018, the US$95.0 million zero coupon convertible bonds due 2018 and the US$22.2 million zero coupon convertible bonds due 2018 (the "Bonds") on March 10, 2017 being the option redemption date when all of the Bonds would be redeemed in cash at 100% of the Bonds' principal amount. The conversion price is HK$7.965, approximately US$1.027. On March 3, 2017, the Company received notices from all holders of the Bonds for the full conversion of the outstanding Bonds. As all outstanding Bonds have been fully converted and no Bonds remain outstanding, no redemption of the Bonds will be carried out. The Company delisted the Bonds from the Singapore Exchange Securities Trading Limited. For details, please refer to Note 31 to the Consolidated Financial Statements.

CORPORATE GOVERNANCE PRACTICES

The HKSE's Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules contains code provisions (the "Code Provisions") to which an issuer, such as the Company, is expected to comply or advise as to reasons for deviations and recommends best practices which an issuer is encouraged to implement (the "Recommended Practices"). The Company has adopted a set of Corporate Governance Policy (the "CG Policy") since January 25, 2005 as its own code of corporate governance, which was amended from time to time to comply with the CG Code. The CG Policy, a copy of which can be obtained on the Company's website at www.smics.com under "Investor Relations > Corporate Governance > Policy and Procedures", incorporates all of the Code Provisions of the CG Code except for Code Provision E.1.3, which relates to the notice period of general meetings of the Company, and many of the Recommended Practices. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

During the year ended December 31, 2018, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

Code Provision A.4.2 of the CG Code requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. According to Article 126 of the Articles of Association of the Company, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following annual general meeting of the Company after appointment and shall then be eligible for re-election at that meeting.

Save as the aforesaid and in the opinion of the Directors, the Company had complied with all Code Provisions set out in the CG Code during the year ended December 31, 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted an Insider Trading Compliance Program (the “Insider Trading Policy”) which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules (the “Model Code”). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Insider Trading Policy and the Model Code throughout the year ended December 31, 2018. The senior management of the Company as well as all officers, Directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management of the Company, the accounting principles and practices accepted by the Company and has discussed with the Directors matters concerning internal controls and financial reporting of the Company, including a review of the audited financial statements of the Group for the year ended December 31, 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018, 2017 and 2016

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

	Notes	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16
Revenue	5	3,359,984	3,101,175	2,914,180
Cost of sales		(2,613,307)	(2,360,431)	(2,064,499)
Gross profit		746,677	740,744	849,681
Research and development expenses, net		(558,110)	(427,111)	(318,247)
Sales and marketing expenses		(30,455)	(35,796)	(35,034)
General and administration expenses		(199,818)	(198,036)	(167,582)
Net impairment losses (recognized) reversal on financial assets	38	(937)	137	10,211
Other operating income, net	7	57,283	44,957	177
Profit from operations		14,640	124,895	339,206
Interest income		64,339	27,090	11,243
Finance costs	8	(24,278)	(18,021)	(23,037)
Foreign exchange losses		(8,499)	(12,694)	(1,640)
Other gains (losses), net	9	24,282	16,499	(2,113)
Share of gain (loss) of investment accounted for using equity method		21,203	(9,500)	(13,777)
Profit before tax		91,687	128,269	309,882
Income tax (expense) benefit	10	(14,476)	(1,846)	6,552
Profit for the year	11	77,211	126,423	316,434
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		(35,919)	23,213	(19,031)
Change in value of available-for-sale financial assets		—	(2,381)	807
Cash flow hedges	27	35,931	35,143	(34,627)
Share of other comprehensive income of investment accounted for using the equity method	27	—	17,646	—
Others		—	(131)	1
Items that will not be reclassified to profit or loss				
Actuarial gains or losses on defined benefit plans	27	129	(436)	1,520
Total comprehensive income for the year		77,352	199,477	265,104
Profit (loss) for the year attributable to:				
Owners of the Company		134,055	179,679	376,630
Non-controlling interests		(56,844)	(53,256)	(60,196)
		77,211	126,423	316,434

Total comprehensive income (loss) for the year attributable to:

Owners of the Company		133,977	251,135	326,191
Non-controlling interests		(56,625)	(51,658)	(61,087)
		77,352	199,477	265,104
Earnings per share*				
Basic	14	$0.03	$0.04	$0.09
Diluted	14	$0.03	$0.04	$0.08

* The basic and diluted earnings per share for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US$0.0004 each consolidated into one ordinary share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016 ("Share Consolidation"). Please refer to Note 14 for more details.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2018, 2017 and 2016

(In USD'000)

	Notes	12/31/18	12/31/17	12/31/16
Assets				
Non-current assets				
Property, plant and equipment	16	6,777,970	6,523,403	5,687,357
Land use right		105,436	97,477	99,267
Intangible assets	17	122,854	219,944	248,581
Investments in associates	19	1,135,442	758,241	240,136
Investments in joint ventures	20	15,687	31,681	14,359
Deferred tax assets	10	45,426	44,875	45,981
Financial assets at fair value through profit or loss	21	55,472	—	—
Derivative financial instruments	21	5,266	—	32,894
Other financial assets	21	—	17,598	—
Restricted cash	22	—	13,438	20,080
Other assets	21	11,176	42,810	42,870
Total non-current assets		8,274,729	7,749,467	6,431,525
Current assets				
Inventories	23	593,009	622,679	464,216
Prepayment and prepaid operating expenses		28,161	34,371	27,649
Trade and other receivables	24	837,828	616,308	645,822
Financial assets at fair value through profit or loss	21	41,685	—	—
Financial assets at amortized cost	21	1,996,808	—	—
Derivative financial instruments	21	2,583	—	—
Other financial assets	21	—	683,812	31,543
Restricted cash	22	592,290	336,043	337,699
Cash and cash equivalent	39	1,786,420	1,838,300	2,126,011
		5,878,784	4,131,513	3,632,940
Assets classified as held-for-sale	25	270,807	37,471	50,813
Total current assets		6,149,591	4,168,984	3,683,753
Total assets		14,424,320	11,918,451	10,115,278

(In USD'000)

	Notes	12/31/18	12/31/17	12/31/16
Equity and liabilities				
Capital and reserves				
Ordinary shares, $0.004 par value, 10,000,000,000 shares authorized, 5,039,819,199, 4,916,106,889 and 4,252,922,259 shares issued and outstanding at December 31, 2018, 2017 and 2016, respectively	26	20,159	19,664	17,012
Share premium	26	4,993,163	4,827,619	4,950,948
Reserves	27	109,346	134,669	93,563
Retained earnings (accumulated deficit)	28	331,298	187,008	(910,849)
Equity attributable to owners of the Company		5,453,966	5,168,960	4,150,674
Perpetual subordinated convertible Securities	29	563,848	64,073	—
Non-controlling interests		2,905,766	1,488,302	1,252,553
Total equity		8,923,580	6,721,335	5,403,227
Non-current liabilities				
Borrowings	30	1,760,763	1,743,939	1,233,594
Convertible bonds	31	418,592	403,329	395,210
Bonds payable	32	—	496,689	494,909
Medium-term notes	33	—	228,483	214,502
Deferred tax liabilities	10	1,639	16,412	15,382
Deferred government funding	34	393,902	299,749	265,887
Derivative financial instruments	21	15,540	—	—
Other financial liabilities	21	11,948	1,919	74,170
Other liabilities	21	39,128	99,817	37,497
Total non-current liabilities		2,641,512	3,290,337	2,731,151
Current liabilities				
Trade and other payables	35	964,860	1,007,424	897,606
Contract liabilities	5	44,130	43,036	42,947
Borrowings	30	530,005	440,608	209,174
Convertible bonds	31	—	—	391,401
Bonds payable	32	498,551	—	—
Short-term notes		—	—	86,493
Medium-term notes	33	218,247	—	—
Deferred government funding	34	244,708	193,158	116,021
Accrued liabilities	36	164,604	180,912	230,450
Derivative financial instruments	21	15,806	—	—
Other financial liabilities	21	—	744	6,348
Current tax liabilities	10	2,607	270	460
Other liabilities	21	32,263	40,627	—
		2,715,781	1,906,779	1,980,900
Liabilities directly associated with assets classified as held-for-sale	25	143,447	—	—
Total current liabilities		2,859,228	1,906,779	1,980,900

Total liabilities	5,500,740	5,197,116	4,712,051
Total equity and liabilities	14,424,320	11,918,451	10,115,278

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2018, 2017 and 2016

(In USD'000)

	Ordinary shares	Share premium	Equity-settle employee benefits reserve	Foreign currency translation reserve	Change in value of available-for-sale financial assets	Convertible bonds equity reserve	Defined benefit pension reserve	Cash flow hedges	Share of other comprehensive income of joint venture accounted for using equity method	Others	R ea (a d
	(Note 26)	(Note 26)	(Note 27)	(Note 27)	(Note 27)	(Note 27)	(Note 27)	(Note 27)	(Note 27)		(N
Balance at December 31, 2015	16,830	4,903,861	70,459	(3,956)	447	29,564	—	—	—	130	(
Profit for the year	—	—	—	—	—	—	—	—	—	—	3
Other comprehensive income (losses) for the year	—	—	—	(18,131)	798	—	1,520	(34,627)	—	1	-
Total comprehensive income (losses) for the year	—	—	—	(18,131)	798	—	1,520	(34,627)	—	1	3
Exercise of stock options	140	36,064	(18,594)	—	—	—	—	—	—	—	-
Share-based compensation	—	—	13,838	—	—	—	—	—	—	—	-
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	-
Conversion options of convertible bonds exercised during the year	42	11,023	—	—	—	(821)	—	—	—	—	-
Recognition of equity component of convertible bonds	—	—	—	—	—	52,935	—	—	—	—	-
Business combination	—	—	—	—	—	—	—	—	—	—	-

Subtotal	182	47,087	(4,756)	—	—	52,114	—	—	—	—	-
Balance at December 31, 2016	17,012	4,950,948	65,703	(22,087)	1,245	81,678	1,520	(34,627)	—	131	(
Profit for the year	—	—	—	—	—	—	—	—	—	—	1
Other comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—	(436)	35,143	17,646	(131)	-
Total comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—	(436)	35,143	17,646	(131)	1
Issuance of ordinary shares	966	325,174	—	—	—	—	—	—	—	—	-
Exercise of stock options	130	35,178	(18,220)	—	—	—	—	—	—	—	-
Share-based compensation	—	—	17,495	—	—	—	—	—	—	—	-
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	
Conversion options of convertible bonds exercised during the year	1,556	427,168	—	—	—	(29,625)	—	—	—	—	-
Perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	
Share premium reduction	—	(910,849)	—	—	—	—	—	—	—	—	9
Non-controlling interest on transfer of business operation	—	—	—	—	—	—	—	—	—	—	7
Subtotal	2,652	(123,329)	(725)	—	—	(29,625)	—	—	—	—	9
Balance at December 31, 2017	19,664	4,827,619	64,978	(497)	(1,111)	52,053	1,084	516	17,646	—	1
Adoption of IFRS 9	—	—	—	—	1,111	—	—	—	(17,646)	—	1
Restated total equity at January 1, 2018	19,664	4,827,619	64,978	(497)	—	52,053	1,084	516	—	—	2
Profit for the year	—	—	—	—	—	—	—	—	—	—	1
Other comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—	-
Total comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—	1
Issuance of ordinary shares	474	160,404	—	—	—	—	—	—	—	—	-
Cancellation of treasury stock	(76)	(19,981)	—	—	—	—	—	—	—	—	-
Exercise of stock options	97	25,121	(17,211)	—	—	—	—	—	—	—	-
	—	—	10,912	—	—	—	—	—	—	—	-

Share-based compensation											
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	-
Perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	-
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	(
Deconsolidation of subsidiaries due to loss of control	—	—	—	(1,774)	—	—	—	—	—	—	-
Share of other capital reserve of associates accounted for using equity method	—	—	—	—	—	—	—	—	—	(637)	-
Subtotal	495	165,544	(6,299)	(1,774)	—	—	—	—	—	(637)	(
Balance at December 31, 2018	20,159	4,993,163	58,679	(38,409)	—	52,053	1,213	36,447	—	(637)	3

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018, 2017 and 2016

(In USD'000)

	Notes	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16
Operating activities				
Profit for the year		77,211	126,423	316,434
Adjustments for:				
Income tax expense (benefit)	10	14,476	1,846	(6,552)
Depreciation and amortization expense	11	1,048,410	971,382	729,866
Expense recognized in respect of equity-settled share-based payments	11	11,661	18,214	14,210
Interest income		(64,339)	(27,090)	(11,243)
Finance costs	8	24,278	18,021	23,037
(Gain) loss on disposal of property, plant and equipment and assets classified as held-for-sale	7	(30,838)	(17,513)	1,846
Gain on deconsolidation of subsidiaries		(3,466)	—	—
Gain on disposal of associates		—	(18,884)	—
Impairment losses on assets	11	16,567	46,720	1,024
Net (gain) loss arising on financial instruments at fair value through profit or loss	9	(9,773)	(6,890)	7,617
Net loss (gain) on foreign exchange		8,632	26,101	(26,236)
Share of (gain) loss of investment accounted for using equity method		(21,203)	9,500	13,777
Other non-cash loss		—	—	175
		1,071,616	1,147,830	1,063,955
Operating cash flows before movements in working capital:				
(Increase) decrease in trade and other receivables		(106,404)	59,084	(100,980)
Increase in inventories		(31,063)	(205,320)	(51,344)
Increase in restricted cash relating to operating activities		(325,512)	(81,795)	(147,834)
Decrease (increase) in prepayment and prepaid operating expense		2,000	(6,722)	17,615
Decrease in other operating assets		6,660	2,938	1,576
Increase in trade and other payables		56,598	109,285	72,836
Increase (decrease) in contract liabilities		1,094	89	(13,790)
Increase in deferred government funding		143,485	110,999	126,845
Increase (decrease) in other operating liabilities		17,866	(40,604)	25,031
Cash generated from operations		836,340	1,095,784	993,910
Interest paid		(47,850)	(34,086)	(27,497)
Interest received		34,840	19,425	12,464
Income taxes paid		(23,904)	(437)	(1,675)

Net cash generated from operating activities	799,426	1,080,686	977,202

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(In USD'000)

	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16
Investing activities			
Payments to acquire financial assets at fair value through profit or loss	(447,717)	—	—
Proceeds from sale of financial assets at fair value through profit or loss	540,166	—	—
Payments to acquire financial assets at amortized cost	(4,407,790)	—	—
Proceeds from maturity of financial assets at amortized cost	2,954,346	—	—
Payments to acquire financial assets	—	(829,371)	(917,272)
Proceeds on sale of financial assets	—	186,509	1,175,768
Payments for property, plant and equipment	**(1,808,253)**	(2,287,205)	(2,757,202)
Proceeds from disposal of property, plant and equipment and assets classified as held-for-sale	398,162	688,192	259,799
Payments for joint ventures, associates and other financial assets	(427,197)	(467,885)	(87,645)
Proceeds from disposal of joint ventures and other financial assets	9,251	1,028	5,523
Distributions received from joint ventures and associates	12,322	255	2,027
Payments for intangible assets	(9,817)	(43,755)	(85,729)
Payments for land use right	(14,425)	—	—
Payments for deposit of investing activities	(45,503)	—	—
Proceeds from release of restricted cash relating to investing activities	54,743	90,093	34,614
Net cash outflow from deconsolidation of subsidiaries(1)	(5,549)	—	—
Payment for business combination	—	—	(73,216)
Net cash used in investing activities	(3,197,261)	(2,662,139)	(2,443,333)
Financing activities			
Proceeds from borrowings	782,402	1,194,659	1,239,265
Repayment of borrowings	(536,752)	(537,016)	(228,928)
Proceeds from issuance of new shares	160,878	326,351	—
Proceeds from issuance of convertible bonds	—	—	441,155
Proceeds from issuance of short-term and medium-term notes	—	—	314,422
Repayment of short-term notes	—	(87,858)	—
Proceeds from issuance of perpetual subordinated convertible securities	499,775	64,350	—
Distribution paid to perpetual subordinated convertible securities holders	(6,300)	—	—
Proceeds from exercise of employee stock options	8,076	17,105	17,610
Payments to acquire treasury shares	(20,057)	—	—
Proceeds from non-controlling interests — capital contribution	1,488,900	294,000	831,254
Net cash from financing activities	**2,376,922**	1,271,591	2,614,778
Net (decrease) increase in cash and cash equivalent	(20,913)	(309,862)	1,148,647
Cash and cash equivalent at the beginning of the year	1,838,300	2,126,011	1,005,201
Effects of exchange rate changes on the balance of cash held in foreign currencies	(16,413)	22,151	(27,837)
	1,800,974	1,838,300	2,126,011
Cash and cash equivalent of disposal group as held-for-sale	(14,554)	—	—
Cash and cash equivalent at the end of the year	1,786,420	1,838,300	2,126,011

(1) The net cash outflow was from deconsolidation of subsidiaries due to the Company lost control of Ningbo Semiconductor International Corporation on April 13, 2018. Please refer to Note 19 for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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 P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands. Semiconductor Manufacturing International Corporation is an investment holding company.

Semiconductor Manufacturing International Corporation 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 18.

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

NEW AND REVISED IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

On January 1, 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

(i) Classification and measurement

(1) Reclassification from available-for-sale to fair value through profit or loss ("FVPL")

The group elected to present in profit or loss changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of US$24.8 million were reclassified from available-for-sale financial assets to financial assets at FVPL on January 1, 2018.

Related gains of US$16.5 million were transferred from reserves to retained earnings on January 1, 2018. For the year ended December 31, 2018, net fair value gains of US$2.0 million relating to these investments were recognized in profit or loss.

(2) Reclassification from other financial assets to FVPL

Certain investments in financial products sold by banks were reclassified from other financial assets to financial assets at FVPL (US$117.9 million as at January 1, 2018). They do not meet the IFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest.

(3) Reclassification from other financial assets to amortized cost

Certain investments in over 3 months bank deposits were reclassified from other financial assets to amortized cost (US$559.0 million as at January 1, 2018). At the date of initial application the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount. There was no impact on retained earnings at January 1, 2018.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

NEW AND REVISED IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

IFRS 9 Financial Instruments (continued)

(ii) Impairment of financial assets

The Group has the following types of financial assets subject to IFRS 9 new expected credit loss model:

- Trade receivables; and

- Other financial assets at amortized cost.

For trade receivable, the Group applies the simplified approach for expected credit losses prescribed by IFRS 9. Based on the assessments performed by management, the changes in the loss allowance for trade receivables are insignificant.

Impairment on other financial assets at amortized cost is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the changes in the loss allowance for other financial assets at amortized cost are insignificant.

IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to each performance obligation

- Step 5: Recognize revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The standard permits either a full retrospective method to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Group has performed a detailed assessment on the impact of the adoption of IFRS 15 and decided to adopt a full retrospective approach. The adoption of IFRS 15 did not have any significant impact on the Group's financial statements.

The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. Contract liabilities has been presented in the balance sheet to reflect the terminology of IFRS 15, in relation to advance payment received from customers were previously included in trade and other payables (US$43.0 million as at January 1, 2018). Based on the assessment, the timing of revenue recognition on sale of goods is nearly unchanged.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

NEW AND REVISED IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018 (continued)

Impact on the financial statements

The following tables show the adjustments as the impact of the adoption of IFRS 15 and IFRS 9 on the Group’s financial statements and also disclose the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

The Group has adopted IFRS 15 retrospectively with restating comparatives for the 2016 and 2017 financial years.

(In USD’000)

Consolidated statement of financial position (extract)	12/31/16 As **originally presented**	Impact on IFRS 15 **Contract liabilities**	12/31/16 **Restated**	12/31/17 As **originally presented**	Impact on IFRS 15 **Contract liabilities**	12/31/17 **Restated**
Trade and other payables	940,553	(42,947)	897,606	1,050,460	(43,036)	1,007,424
Contract liabilities	—	42,947	42,947	—	43,036	43,036
	940,553	—	940,553	1,050,460	—	1,050,460

The Group has adopted IFRS 9 without restating comparative information as at December 31, 2017.

(In USD’000)

Consolidated statement of financial position (extract)	12/31/17 As **originally presented**	Impact on IFRS 9 Cross currency **swap contracts**	Foreign currency **forward contracts**	Financial products **sold by banks**	Over 3 months **bank deposits**	**Equity securities**	**Contingent consideration**	01/0 **Res**
Non-current assets								

Other assets	42,810	—	—	—	—	(24,844)	—	17,9
Financial assets at fair value through profit or loss	—	—	—	—	—	24,844	—	24,8
Derivative financial instruments	—	17,598	—	—	—	—	—	17,5
Other financial assets	17,598	(17,598)	—	—	—	—	—	—
Current assets								
Financial assets at fair value through profit or loss	—	—	—	117,928	—	—	—	117,
Financial assets at amortized cost	—	—	—	—	559,034	—	—	559,
Derivative financial instruments	—	4,739	2,111	—	—	—	—	6,85
Other financial assets	683,812	(4,739)	(2,111)	(117,928)	(559,034)	—	—	—
	744,220	—	—	—	—	—	—	744,
Non-current liabilities								
Derivative financial instruments	—	1,919	—	—	—	—	—	1,91
Other financial liabilities	1,919	(1,919)	—	—	—	—	12.549	12,5
Other Liabilities	99,817	—	—	—	—	—	(12,549)	87,2
Current liabilities								
Derivative financial instruments	—	742	2	—	—	—	—	744
Other financial liabilities	744	(742)	(2)	—	—	—	—	—
	102,480	—	—	—	—	—	—	102,
Equity								
Reserves	134,669	—	—	—	—	(16,535)	—	118,
Retained earnings	187,008	—	—	—	—	16,535	—	203,
	321,677	—	—	—	—	—	—	321,

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2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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:

New or revised IFRS	Effective date
IFRS 16 — Lease	On or after January 1, 2019
IFRS 17 — Insurance Contracts	On or after January 1, 2022
IFRIC 23 — Uncertainty over Income Tax Treatments	On or after January 1, 2019
Amendments to IFRS 9 — Prepayment Features with Negative Compensation	On or after January 1, 2019
Amendments to IAS 28 — Long-term Interests in Associates and Joint Ventures	On or after January 1, 2019
Amendments to IFRS 3 — Definition of Business	On or after January 1, 2020
Amendments to IAS 1 and IAS 8 — Definition of material	On or after January 1, 2020
Annual Improvements to IFRS Standards 2015–2017 Cycle	On or after January 1, 2019
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its association or joint venture	Not yet determined

The new IFRS 16 standard will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short- term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases and sales and leaseback transaction.

As at the reporting date, the Group has lease expense of US$303.5 million on non-cancellable operating lease commitments (see note 41).

The Group expects to recognize right-of-use assets and lease liabilities of approximately US$279.7 million on January 1, 2019.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 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);

- 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF CONSOLIDATION (continued)

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.

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 IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

SEPARATE PRINCIPAL STATEMENT

Investments in subsidiaries are accounted for at the equity method in accordance with IAS 27 and IAS 28. Under the equity method, the investments are initially recognized at cost and adjusted thereafter to recognize the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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.

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 28 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 IFRS 9. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS IN ASSOCIATES (continued)

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.

In accordance with IAS 28, when the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the Group, adjustments are made by the Group for the effects of significant transactions or events. In no circumstances can the difference between the reporting date of the associate and that of the Group be more than three months and the length of the reporting periods and any difference in the reporting dates are the same from period to period.

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.

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.

Revenues are recognized when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer.

Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as contract assets and subsequently amortized when the related revenue is recognized.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or the a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

Sale of goods (continued)

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.

Transfer of intellectual property

The group transferred certain pieces of intellectual property to customers. If the license to a customer is to provide the customer a right to access the Group’s intellectual property as it exists throughout the license period, revenues from licensing are recognized over time when the control of the license is transferred to the customer. If the license to a customer is to provide the customer a right to use the Group’s intellectual property as it exists at the point in time at which the license is granted, revenues from licensing are recognized at a point in time as the control of the technology license is transferred to the customer.

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) the legal title has passed to the buyers, 4) and the control over the property has been transferred 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.

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 Untied 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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

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), a