

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:

Form 20-F  Form 40-F

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

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

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

Yes  No

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

**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

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## **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:

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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 cyclical 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**

Chairman of the Board and Executive Director

**Zhao Haijun, Liang Mong Song**

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 ("EEPROM"), 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.

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## 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 0.15/0.18 $\mu$ m 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 0.18 $\mu$ m, 0.11/0.13 $\mu$ m, 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.

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## 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

	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	
<b>Earnings per share<sup>(1)</sup></b>										
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 <sup>(1)</sup>	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 <sup>(2)</sup>	1,996,808	—	—	—	—
Other financial assets <sup>(2)</sup>	—	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, in compliance with IFRS 9. For details, please refer to Note 2 to the Consolidated Financial Statements.

## 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:

Contractual obligations	Total	Payments due by period			
		Less than 1 year (consolidated, in US\$ thousands)	1–2 years	2–5 years	Over 5
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](http://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:

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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.

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## 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	—
Liabilities directly associated with assets classified as held-for-sale	25	2,715,781	1,906,779	1,980,900
Total current liabilities		143,447	—	—
		2,859,228	1,906,779	1,980,900

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

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**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
	(Note 26)	(Note 26)	(Note 27)	(Note 27)	(Note 27)	(Note 27)	(Note 27)	(Note 27)	(Note 27)	(Note 27)
Balance at December 31, 2015	16,830	4,903,861	70,459	(3,956 )	447	29,564	—	—	—	130
Profit for the year	—	—	—	—	—	—	—	—	—	—
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
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	—	—	—	—	—	—	—	—	—	—

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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	—	—	—	—	—	—	—	—	—	—
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)
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 )	—	—	—	—	—	—	—	—
Non-controlling interest on transfer of business operation	—	—	—	—	—	—	—	—	—	—
Subtotal	2,652	(123,329 )	(725 )	—	—	(29,625)	—	—	—	—
Balance at December 31, 2017	19,664	4,827,619	64,978	(497 )	(1,111)	52,053	1,084	516	17,646	—
Adoption of IFRS 9	—	—	—	—	1,111	—	—	—	(17,646)	—
Restated total equity at January 1, 2018	19,664	4,827,619	64,978	(497 )	—	52,053	1,084	516	—	—
Profit for the year	—	—	—	—	—	—	—	—	—	—
Other comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—
Total comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—
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)

## 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	<b>(1,808,253)</b>	(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 <sup>(1)</sup>	(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	<b>2,376,922</b>	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

<sup>(1)</sup> 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.

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## 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)

	Impact on			Impact on		
	12/31/16	IFRS 15	12/31/16	12/31/17	IFRS 15	12/31/17
	As			As		
Consolidated statement of financial position (extract)	<b>originally presented</b>	<b>Contract liabilities</b>	<b>Restated</b>	<b>originally presented</b>	<b>Contract liabilities</b>	<b>Restated</b>
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)

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

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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,

## 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.

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### 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 United States dollar ("US dollar"), which is the Company's functional and the Group's presentation currency.

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

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

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

### **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), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

#### **BORROWING COSTS**

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

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

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

#### **GOVERNMENT FUNDING**

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

Government funding that is receivable as compensation for expenses or losses already incurred is recorded as a liability upon receipt and recognized as reduction of expenses or losses until the requirements (if any) specified in the terms of the funding have been reached.

#### **RETIREMENT BENEFITS**

The Group's local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Group is required to make contributions to the state-managed retirement plan at a rate equal to 19.0% to 20.0% (the standard in Shenzhen site ranges from 13% to 14% according to Shenzhen government regulation) of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid. The costs are recognized in profit or loss when incurred.

Besides, LFoundry S.r.l.'s ("LFoundry", the Company's majority-owned subsidiary in Avezzano, Italy) employees are entitled to a retirement plan and a defined benefit plan. The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated quarterly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related defined benefit obligation.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### SHARE-BASED PAYMENT ARRANGEMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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

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

#### TAXATION

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

##### Current tax

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

##### Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### TAXATION (continued)

##### Deferred tax (continued)

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

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

#### PROPERTY, PLANT AND EQUIPMENT

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

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

assets are ready for their intended use.

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

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

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

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

Buildings	25 years
Plant and equipment	5–10 years
Office equipment	3–5 years
Leasehold equipment under finance leases	Over the lease terms

#### LAND USE RIGHT

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

### 3.SIGNIFICANT ACCOUNTING POLICIES (continued)

#### INTANGIBLE ASSETS

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

#### BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

#### GOODWILL

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.



After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit ("CGU") to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the CGU retained.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized as income.

#### LEASES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss and other comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

#### CASH AND CASH EQUIVALENTS

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

#### RESTRICTED CASH

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

### **3.SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **INVENTORIES**

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

#### **PROVISIONS**

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

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

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

#### **INVESTMENTS AND OTHER FINANCIAL ASSETS**

##### **Classification**

From January 1, 2018 the Group classifies its financial assets in the following measurement categories:

those to be measured subsequently at fair value (through profit or loss), and

those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded in profit or loss.

#### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three below measurement categories and the Group recognizes its debt instruments as amortized cost and FVPL only:

**Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains or losses, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

##### Debt instruments (continued)

**FVPL:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

**FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. The Group subsequently measures all equity investments at fair value through profit or loss. Changes in the fair value of financial assets at FVPL are recognized in other gains or losses in the statement of profit or loss as applicable.

##### Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

##### Derivatives and hedging

The Group has made the accounting policy choice to continue applying hedge accounting under IAS 39.

Accounting policies applied until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

#### Classification

Until December 31, 2017 the group classifies its financial assets in the following categories:

• financial assets at fair value through profit or loss,

• loans and receivables, and

• available-for-sale financial assets.

### 3.SIGNIFICANT ACCOUNTING POLICIES (continued)

#### INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

##### Accounting policies applied until December 31, 2017 (continued)

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

##### Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9.

Subsequent to the initial, recognition loans and receivables were subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

for 'financial assets at FVPL' — in profit or loss within other gains/(loss)

for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortized cost of the security were recognized in profit or loss and other changes in the carrying amount were recognized in other comprehensive income

for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognized in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.



## Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a Group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

### **3.SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **INVESTMENTS AND OTHER FINANCIAL ASSETS** (continued)

##### **Accounting policies applied until December 31, 2017** (continued)

###### Assets carried at amortized cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognized in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss was recognized in profit or loss.

###### Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — was removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss was reversed through profit or loss.

#### **CONVERTIBLE BONDS**

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

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

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

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

### 3.SIGNIFICANT ACCOUNTING POLICIES (continued)

#### CONVERTIBLE BONDS (continued)

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

#### FINANCIAL LIABILITIES

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

##### Financial liabilities at FVPL

Financial liabilities are classified as at FVPL (including foreign currency forward contracts, cross currency swap contracts and contingent consideration) when the financial liability is held for trading.

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

##### Other financial liabilities

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

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

#### Derecognition of financial liabilities

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

#### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACCOUNTING

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including a put option, foreign exchange forward contracts and cross currency swap contracts. Further details of derivative financial instruments are disclosed in Note 21 and Note 38.

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of gain or loss on cash flow hedges.

The effective portion of the gain or loss on cash flow hedges is recognized directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognized immediately in the statement of profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACCOUNTING (continued)

Amounts recognized in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### CRITICAL ACCOUNTING JUDGMENTS

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

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

#### KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Inventories

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

#### Long-lived assets

The Group assesses the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of asset or cash-generating unit (“CGU”) may not be recoverable. Factors that the Group considers in deciding when to perform an impairment review include, but are not limited to significant under- performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets.

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

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**  
(continued)

**KEY SOURCES OF ESTIMATION UNCERTAINTY** (continued)

**Long-lived assets** (continued)

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

In order to remain technologically competitive in the semiconductor industry, the Group has entered into technology transfer and technology license arrangements with third parties in an attempt to advance the Group's process technologies. The payments made for such technology licenses are recorded as an intangible asset or as a deferred cost and amortized on a straight-line basis over the estimated useful life of the asset. The Group routinely reviews the remaining estimated useful lives of these intangible assets and deferred costs. The Group also evaluates these intangible assets and deferred costs for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When the carrying amounts of such assets are determined to exceed their recoverable amounts, the Group will impair such assets and write down their carrying amounts to recoverable amount in the year when such determination was made.

**Share-based compensation expense**

The fair value of options and shares issued pursuant to the Group's option plans at the grant date was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected term of the options, the estimated forfeiture rates and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The Group estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. The Group uses projected volatility rates based upon the Group's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect the Group's calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly. Further details on share-based compensation are disclosed in Note 37.



## Taxes

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

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

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**  
(continued)

**KEY SOURCES OF ESTIMATION UNCERTAINTY** (continued)

**Taxes** (continued)

The realizability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

**Fair value of financial instruments**

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

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 38 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Acting as limited partner, the Group has invested in a number of investment funds. Based on the assessments performed by management, the Group accounted for such investment funds as investments in joint ventures or associate by using equity method. The investment funds measured their investments in portfolio investments at fair value. These investment funds held a number of portfolio investments. The valuation of such portfolio investments is primarily based on a combination of adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.

**Impairment of financial instruments**

The Group recognizes lifetime expected credit losses ("ECL") for trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for

factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instruments has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instruments at an amount equal to 12-month ECL.

#### Sales and lease back

The Group entered into arrangements to sell and leaseback a batch of production equipment with a repurchase option at a pre-determined price. The Group made judgements on whether the arrangements are lease arrangements and whether they are operating lease. The Group estimates the fair value of production equipment based on the price of similar production equipment to judge whether the repurchase option was set at a significant discount to the estimated fair value when it becomes exercisable and whether the repurchase option will be almost certain to be exercised under the scope of IAS 17 Leases and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

## 5.SEGMENT INFORMATION

### DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

The Group deriving revenue from the transfer of goods and services only at a point in time in the three geographical areas — United States, Europe, and Asia Pacific. The Group's operating revenue from customers, based on the location of their headquarters, is detailed below.

	Revenue from external customers		
	Year ended	Year ended	Year ended
	12/31/18	12/31/17	12/31/16
	USD'000	USD'000	USD'000
At a point in time			
United States <sup>(1)</sup>	1,062,134	1,240,906	858,858
Mainland China and Hong Kong	1,985,292	1,465,553	1,447,427
Eurasia <sup>(2)</sup>	312,558	394,716	607,895
	3,359,984	3,101,175	2,914,180

<sup>(1)</sup> Presenting the revenue to those companies whose headquarters are in the United States, but ultimately selling and shipping the products to their global customers.

<sup>(2)</sup> Not including Mainland China and Hong Kong.

The Group's operating revenue transferred by product and service type only at a point in time is detailed below:

	Revenue from external customers		
	Year ended	Year ended	Year ended
	12/31/18	12/31/17	12/31/16
	USD'000	USD'000	USD'000
At a point in time			
Sales of wafers	3,031,770	3,038,947	2,803,819

Mask making, testing and others <sup>(1)</sup>	328,214	62,228	110,361
	3,359,984	3,101,175	2,914,180

Including the recognized technology licensing revenue of US\$163.8 million for the year ended December 31, 2018.

<sup>(1)</sup> The technology licensing internally developed and not capitalized was authorized to Semiconductor Manufacturing Electronics (Shaoxing) Corporation (“SMEC”, an associate of the Group) with no related cost of sales recognized by the Group.

#### LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The group has recognized the liabilities related to contracts with customers as contract liabilities of US\$44.1 million as of December 31, 2018 (December 31, 2017: US\$43.0 million and December 31, 2016: US\$42.9 million). The contract liabilities comprises of the prepayments received from customers, to which wafers have not been transferred. Revenue recognized that was included in the contract liabilities balance at the beginning of the year was US\$43.0 million (2017: US\$42.9 million and 2016: US\$56.7 million).

#### UNSATISFIED PERFORMANCE OBLIGATIONS

The Group selected to choose a practical expedient and omitted disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

**5.SEGMENT INFORMATION** (continued)

## SEGMENT ASSETS

The Group's business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. The Group will continue to incur capital expenditures and depreciation expenses as it equips and ramps-up additional fabs and expand its capacity at the existing fabs. The following table summarizes property, plant and equipment of the Group by geographical location. As of December 31, 2018, 2017 and 2016, substantially all of the non-current assets other than financial instruments, deferred tax assets and property, plant and equipment listed below of the Group were located in Mainland China.

	Property, plant and equipment		
	12/31/18	12/31/17	12/31/16
	USD'000	USD'000	USD'000
United States	15	45	69
Europe	1,603	137,778	125,339
Asia <sup>(1)</sup>	66	117	97
Hong Kong	2,415	2,618	2,839
Mainland China	6,773,871	6,382,845	5,559,013
	6,777,970	6,523,403	5,687,357

(1)Not including Mainland China and Hong Kong.

**6.SIGNIFICANT CUSTOMERS**

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

	Net revenue			Gross accounts receivable			
	Year ended December 31,			December 31,			
	2018	2017	2016	2018	2017	2016	
Customer A	582,349	538,102	609,802	75,510	95,575	129,619	
Customer B	527,633	636,662	382,853	67,734	133,281	78,639	
Customer A	17	% 17	% 21	% 18	% 23	% 26	%
Customer B	16	% 21	% 13	% 16	% 33	% 16	%

**7. OTHER OPERATING INCOME, NET**

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Gain (loss) on disposal of property, plant and equipment and assets classified as held-for-sale <sup>(1)</sup>	30,838	17,513	(1,846 )
Impairment loss recognized on tangible and intangible assets (Note 11)	(9,218 )	—	(7,529 )
Government funding (Note 34)	32,198	27,444	9,542
Others	3,465	—	10
	57,283	44,957	177

<sup>(1)</sup> The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2018 was primarily from the gain arising from the disposal of equipment.

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2017 was primarily due to the gain arising from the disposal of equipment of which US\$6.9 million was related to sale and leaseback transactions as disclosed in Note 40.

The loss on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2016 was primarily due to the loss of the disposal of equipment and the gain arising from the sales of the staff living quarters in Beijing to employees.

**8. FINANCE COSTS**

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Interest on:			
Bank and other borrowings	44,668	25,543	17,793
Finance leases	190	232	62
Convertible bonds	15,263	15,818	16,352
Corporate bonds	22,487	22,405	22,327
Medium-term notes	8,335	8,185	4,625
Short-term notes	—	1,164	1,509
Less: government funding (Note 34)	(19,496 )	(24,182 )	(11,639 )
	71,447	49,165	51,029
Less: amounts capitalized	(47,169 )	(31,144 )	(27,992 )

24,278      18,021      23,037

The weighted average effective interest rate on the above borrowed funds covered by government funding generally is 2.10% per annum (2017: 1.65% per annum and 2016: 2.12% per annum).

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## 9. OTHER GAINS (LOSSES), NET

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Net gain (loss) arising on financial instruments at FVPL			
Cross currency swap contracts — cash flow hedges	2,265	2,150	(14,989 )
Cross currency swap contracts	1,158	—	—
Foreign currency forward contracts	(2,108 )	2,109	—
Financial products sold by banks	6,443	1,087	4,651
Equity securities	2,015	—	—
Other derivative financial instrument <sup>(1)</sup>	—	1,544	2,721
	9,773	6,890	(7,617 )
Others <sup>(2)</sup>	14,509	9,609	5,504
	24,282	16,499	(2,113 )

Other derivative financial instrument was a put option with the right of Siltech Semiconductor (Shanghai)

Corporation Limited (“SilTech Shanghai”, an indirectly wholly-owned subsidiary of the Company) to sell Suzhou  
<sup>(1)</sup> Changjiang Electric Xinke Investment Co., Ltd. (“Changjiang Xinke”) to Jiangsu Changjiang Electronics Technology  
Co., Ltd. (“JCET”), pursuant to an investment exit agreement entered in December 2014 and exercised in June 2017.

In 2017, others included a gain of US\$18.5 million arising from the disposal agreement and the subscription  
agreement entered by SilTech Shanghai and JCET on April 27, 2016, and a loss of potential cash compensation  
<sup>(2)</sup> accrued at US\$12.5 million that may be incurred depending on the profit of Changjiang Xinke during the three  
years of 2017, 2018 and 2019. The potential cash compensation was deemed as the terms of the supplemental  
agreement entered by SilTech Shanghai and JCET on December 9, 2016.

## 10. INCOME TAXES

## INCOME TAX EXPENSE (BENEFIT)

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Current tax — Land Appreciation Tax	(172 )	179	731
Current tax — Enterprise Income Tax	15,598	(469 )	1,306
Deferred tax	(950 )	2,136	(8,589 )
	14,476	1,846	(6,552 )

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

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Profit before tax	91,687	128,269	309,882
Income tax expense calculated at 15% (2017: 15% and 2016: 15%)	13,753	19,240	46,482
Effect of tax holiday	(69,581 )	(50,258 )	(41,484 )
Additional deduction for research and development expenditures	(47,541 )	(25,260 )	(13,107 )
Tax losses for which no deferred tax assets were recognized <sup>(1)</sup>	127,686	70,341	39,777
Reversal (utilization) of previously unrecognized tax losses and temporary differences	—	5,687	(43,440 )
Effect of different tax rates of subsidiaries operating in other jurisdictions	(9,669 )	(18,082 )	4,517
Others	(172 )	178	703
	14,476	1,846	(6,552 )

The tax losses were calculated from the profit or loss of some subsidiaries after adjusting the additional deduction <sup>(1)</sup>for research and development expenditures and the effect of different tax rates and cannot be carried forward from prior years to offset future profits in five years.

The tax rate used for the 2018, 2017 and 2016 reconciliation above is the corporate tax rate of 15% payable by most of the Group's entities in Mainland China under tax law in that jurisdiction.

**CURRENT TAX LIABILITIES**

	12/31/18	12/31/17	12/31/16
	USD'000	USD'000	USD'000
Income tax payable	2,607	270	460

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## 10. INCOME TAXES (continued)

## DEFERRED TAX BALANCES

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

	12/31/18	12/31/17	12/31/16
	USD'000	USD'000	USD'000
Deferred tax assets			
Property, plant and equipment	42,613	41,271	45,981
Intangible assets	1,688	1,844	—
Others	1,125	1,760	—
	45,426	44,875	45,981
Deferred tax liabilities			
Property, plant and equipment	(1,588 )	(16,412 )	(15,382 )
Others	(51 )	—	—
	(1,639 )	(16,412 )	(15,382 )
	43,787	28,463	30,599

	Opening balance	Deconsolidation of subsidiary	Reclassified as held-for-sale	Recognize in profit or loss	Closing balance
	USD'000	USD'000	USD'000	USD'000	USD'000
December 31, 2018					
Net deferred tax assets in relation to					
Property, plant and equipment	24,859	—	14,437	1,729	41,025
Intangible assets	1,844	—	—	(156 )	1,688
Others	1,760	(63 )	—	(623 )	1,074
	28,463	(63 )	14,437	950	43,787

	Opening balance	Recognize in profit or loss	Closing balance
	USD'000	USD'000	USD'000
December 31, 2017			
Net deferred tax assets in relation to			
Property, plant and equipment	30,599	(5,740 )	24,859
Intangible assets	—	1,844	1,844
Others	—	1,760	1,760
	30,599	(2,136 )	28,463

	Opening balance	Business Combination	Recognize in profit or loss	Closing balance
	USD'000	USD'000	USD'000	USD'000
December 31, 2016				

Net deferred tax assets in relation to

Property, plant and equipment	37,233	(15,639 )	9,005	30,599
Capitalized interest	(3 )	—	3	—
Others	419	—	(419 )	—
	37,649	(15,639 )	8,589	30,599

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation. According to the law of Italy on enterprise income tax, LFoundry income tax rate is 24%.

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10. INCOME TAXES (continued)

**DEFERRED TAX BALANCES** (continued)

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

**Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”)**

Pursuant to the relevant tax regulations, SMIS is qualified as an integrated circuit enterprise and enjoyed a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2004 after utilizing all prior years' tax losses. The income tax rate for SMIS was 15% in 2018 (2017: 15% and 2016: 15%).

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

In accordance with Caishui Circular [2013] No. 43 (“Circular No. 43”) and Caishui Circular [2008] No. 1 (“Circular No. 1”), SMIT is qualified as an integrated circuit enterprise and enjoying a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2013 after utilizing all prior years' tax losses. The income tax rate for SMIT was 0% from 2013 to 2017 and 12.5% from 2018 to 2022.

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

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

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

In accordance with Circular No. 43, Circular No. 1 and Caishui Circular [2012] No. 27 (“Circular No. 27”), SMIC Shenzhen, SMNC and SJ Jiangyin are entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to its first profit-making year after utilizing all prior tax losses on or before December 31, 2018. SMIC Shenzhen, SMNC and SJ Jiangyin were in accumulative loss positions as of December 31, 2018 and the tax holiday has not begun to take effect.

Other PRC entities

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

UNUSED TAX LOSSES

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US\$457.3 million (December 31, 2017: US\$235.1 million and December 31, 2016: US\$444.0 million) due to the unpredictability of future profit streams, of which US\$20.5 million, US\$33.0 million, US\$90.1 million, US\$62.0 million and US\$251.7 million will expire in 2019, 2020, 2021, 2022 and 2023, respectively.

## 11. PROFIT FOR THE YEAR

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

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Impairment losses on assets			
Bad debt allowance on trade receivables (Note 38)	964	301	201
Reversal of bad debt allowance on doubtful trade receivables (Note 38)	(27 )	(438 )	(1,603 )
Reversal of bad debt allowance on doubtful other receivables	—	—	(8,809 )
Impairment losses on inventory (Note 23)	6,412	46,857	3,706
Impairment losses on tangible assets (Note 16)	990	—	7,529
Impairment losses on intangible assets (Note 17)	8,228	—	—
	16,567	46,720	1,024
Depreciation and amortization expense			
Depreciation of property, plant and equipment (Note 16)	994,642	906,034	673,161
Amortization of intangible assets (Note 17)	51,595	63,098	55,080
Amortization of land use right	2,173	2,250	1,625
	1,048,410	971,382	729,866
Employee benefits expense			
Wages, salaries and social security contributions	550,060	499,238	378,709
Bonus	64,130	57,289	123,313
Non-monetary benefits	48,837	47,204	31,686
Equity-settled share-based payments (Note 37)	11,661	18,214	14,210
	674,688	621,945	547,918
Royalties expense	30,678	37,466	37,023
Government funding			
For specific R&D projects (Note 34)	105,258	82,245	52,517
For specific intended use (Note 34)	51,695	51,626	21,181
	156,953	133,871	73,698
Auditors' remuneration			
Audit services	1,372	1,413	1,529
Non-audit services	1,255	85	587
	2,627	1,498	2,116



## 12. DIRECTORS' REMUNERATION

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Salaries, bonus and benefits	3,353	4,490	2,367
Equity-settled share-based payments	2,390	8,158	2,214
	5,743	12,648	4,581

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

During the year ended December 31, 2018, 712,500 stock options were granted to the directors (2017: 5,726,477 and 2016: 1,068,955\*), 6,050,202 stock options were exercised (2017: 1,949,229 and 2016: 1,800,000\*) and 4,758,542 stock options were expired (2017: nil and 2016: 732,820\*).

During the year ended December 31, 2018, 712,500 RSUs were granted to the directors (2017: 5,726,477 and 2016: 1,068,955\*), 2,367,859 RSUs automatically vested (2017: 3,774,432 and 2016: 1,411,851\*) and 188,125 RSUs were forfeited (2017: nil and 2016: nil).

In 2018, 2017 and 2016 no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the waiver of all salaries and wages since Lu Jun was appointed as non-executive director subject to his request in 2017 and all options previously granted to Ren Kai subject to his request in 2016, no other directors waived any emoluments in 2018, 2017 and 2016.

The number of share option and RSUs for 2016 have been adjusted to reflect the impact of the Share Consolidation, \* on the basis that every ten ordinary shares and preferred shares of US\$0.0004 each consolidated into one ordinary share and preferred share of US\$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

2018	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
William Tudor Brown	90	188	278
Chiang Shang-yi	65	100	165
Cong Jingsheng Jason	58	119	177
Lau Lawrence Juen-Yee	32	110	142
Fan Ren Da Anthony	34	110	144
Lip-Bu Tan*	51	269	320
Carmen I-Hua Chang*	39	14	53
	369	910	1,279

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## 12. DIRECTORS' REMUNERATION (continued)

## INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
2017			
Lip-Bu Tan*	91	128	219
William Tudor Brown	89	8	97
Carmen I-Hua Chang*	70	40	110
Chiang Shang-yi	47	250	297
Cong Jingsheng Jason	35	217	252
	332	643	975

	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
2016			
Lip-Bu Tan*	100	156	256
William Tudor Brown	85	24	109
Sean Maloney	72	23	95
Carmen I-Hua Chang*	68	78	146
Chiang Shang-yi	—	—	—
	325	281	606

There were no other emoluments payable to the independent non-executive directors during the year (2017: nil and 2016: nil).

**EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR**

	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
2018			
Executive directors:			
Zhou Zixue	695	129	824
Zhao Haijun**	714	824	1,538

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Liang Mong Song**	478	—	478
Gao Yonggang	607	1	608
	2,494	954	3,448
Non-executive directors:			
Chen Shanzhi	70	269	339
Zhou Jie	—	—	—
Ren Kai	65	—	65
Lu Jun	—	—	—
Tong Guohua	63	119	182
Tzu-Yin Chiu***	292	138	430
	490	526	1,016

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**12. DIRECTORS' REMUNERATION** (continued)**EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR** (continued)

	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
2017			
Executive directors:			
Zhou Zixue	765	311	1,076
Zhao Haijun**	726	1,514	2,240
Liang Mong Song**	65	—	65
Gao Yonggang	634	24	658
	2,190	1,849	4,039
Non-executive directors:			
Tzu-Yin Chiu***	1,783	5,321	7,104
Chen Shanzhi	75	128	203
Zhou Jie	—	—	—
Ren Kai	70	—	70
Lu Jun	—	—	—
Tong Guohua	40	217	257
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
	1,968	5,666	7,634

	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
2016			
Executive directors:			
Zhou Zixue	527	655	1,182
Tzu-Yin Chiu***	920	1,038	1,958
Gao Yonggang	413	82	495
	1,860	1,775	3,635
Non-executive directors:			
Chen Shanzhi	80	136	216
Zhou Jie	—	—	—
Ren Kai	63	22	85
Lu Jun	39	—	39
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
	182	158	340

\*

Lip-Bu Tan and Carmen I-Hua Chang did not offer themselves for re-election to independent non-executive directors and their term as independent non-executive directors expired on June 22, 2018.

\*\*Zhao Haijun and Liang Mong Song are also the Co-Chief Executive Officers of the Company.

\*\*\*Tzu-Yin Chiu resigned as non-executive director with effect from June 30, 2018.

There was no other arrangement under which a director waived or agreed to waive any remuneration in 2018.

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**13. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid individuals during the year included three (2017: three and 2016: two) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining two (2017: two and 2016: three) non-directors, highest paid individuals for the year are as follows:

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Salaries and benefits	954	630	692
Bonus	325	746	611
Equity-settled share-based payment	—	338	412
	1,279	1,714	1,715

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

In 2018, 2017 and 2016, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

	Number of employees		
	2018	2017	2016
HK\$4,000,001 (US\$510,761) to HK\$4,500,000 (US\$574,605)	—	—	2
HK\$4,500,001 (US\$574,606) to HK\$5,000,000 (US\$630,450)	1	—	—
HK\$5,000,001 (US\$630,451) to HK\$5,500,000 (US\$702,295)	1	—	1
HK\$6,500,001 (US\$829,986) to HK\$7,000,000 (US\$893,830)	—	2	—
	2	2	3

**14. EARNINGS PER SHARE****BASIC EARNINGS PER SHARE**

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

	(In USD'000, except share and per share data)		
	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16*
Profit for the year attributable to owners of the Company	134,055	179,679	376,630
Distribution to perpetual subordinated convertible securities holders	(6,300	) —	—
Earnings used in the calculation of basic earnings per share	127,755	179,679	376,630
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,976,275,431	4,628,850,686	4,221,765,945
Basic earnings per share	\$0.03	\$0.04	\$0.09

The basic earnings per share and weighted average number of ordinary shares 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.



**14. EARNINGS PER SHARE** (continued)**DILUTED EARNINGS PER SHARE**

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

	(In USD'000, except share and per share data)		
	Year ended	Year ended	Year ended
	12/31/18	12/31/17	12/31/16*
Earnings used in the calculation of basic earnings per share	127,755	179,679	376,630
Interest expense from convertible bonds	—	905	16,352
Earnings used in the calculation of diluted earnings per share	127,755	180,584	392,982
Weighted average number of ordinary shares used in the calculation of basic earnings per share	4,976,275,431	4,628,850,686	